Financial Statements of

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.

YEAR ENDED MARCH 31, 2017

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Financial Statements
Year ended March 31, 2017

Contents

Anthony J. Smith
Chartered Professional Accountant

P.O. Box 299
Bay Roberts, NL
A0A 1G0
Telephone: 709-786-1470
Facsimile: 709-786-7999
Email: tony.smith@nf.sympatico.ca

INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the Celtic Business Development Corporation Inc., which comprise the statement of financial position as at March 31, 2017 and the statement of operations, statement of changes in net assets and cash flow statement 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 generally accepted accounting principles for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

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 an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 the Celtic Business Development Corporation Inc. as at March 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Bay Roberts, Newfoundland and Labrador

Anthony Smith

June 15, 2017

Chartered Professional Accountant

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Statement of Financial Position
As at March 31, 2017

	Operating Fund	Investment Fund	FRAM-ED Fund	2017 Total	2016 Total
ASSETS					
Current					
Cash	$ 34,519	$ 638,416	$ 9,625	$ 682,560	$ 450,680
HST rebate receivable	2,566	640	-	3,206	3,074
Receivable from ACOA	64,518	4,106	-	68,624	65,783
Receivable from Province	5,986	-	-	5,986	3,795
Other receivables	1,972	99	74	2,145	9,186
Due from Operating fund	-	98,267	-	98,267	83,626
Due from Fram-Ed Fund	-	415,900	-	415,900	563,978
Prepaid expenses	-	154	-	154	2,512
Current portion of loans receivable	-	634,449	116,848	751,297	474,542
	109,561	1,792,031	126,547	2,028,139	1,657,176
Capital assets (note 2)	17,264	-	-	17,264	15,421
Investments (note 3)	-	37,500	-	37,500	37,500
Loans receivable (notes 4 and 5)	-	2,671,543	1,448,997	4,120,540	4,041,402
	$ 126,825	$ 4,501,074	$ 1,575,544	$ 6,203,443	$ 5,751,499
LIABILITIES					
Current					
Payables and accrued liabilities	$ 9,954	$ 5,063	$ -	$ 15,017	$ 13,703
Statutory payroll remittances	1,340	-	-	1,340	1,200
Due to Investment Fund	98,267	-	415,900	514,167	647,604
Current portion of long-term debt	-	387,099	-	387,099	337,000
	109,561	392,162	415,900	917,623	999,507
Long-term debt (note 6)	-	1,881,068	-	1,881,068	1,469,500
	109,561	2,273,230	415,900	2,798,691	2,469,007
Contingencies (note 8) Commitment (note 9)					
FUND BALANCES					
Invested in Capital Assets	17,264	-	-	17,264	15,421
Restricted surplus (notes 4 and 5)	-	1,089,093	309,644	1,398,737	1,278,320
Contributed surplus (notes 4 and 5)	-	1,138,751	850,000	1,988,751	1,988,751
	17,264	2,227,844	1,159,644	3,404,752	3,282,492
	$ 126,825	$ 4,501,074	$ 1,575,544	$ 6,203,443	$ 5,751,499

See accompanying notes to the financial statements

On Behalf of the Board:

Judy L. ___ Director   Mary Raymond Director

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Statement of Operations and Changes in Fund Balances
For the Year Ended March 31, 2017

	Operating Fund	Investment Fund	FRAM-ED Fund	2017 Total	2016 Total
REVENUE					
ACOA - operating grant	$ 197,919	$ -	$ -	$ 197,919	$ 184,989
Investment income – loan portfolio	-	199,464	95,900	295,364	277,018
Investment income – other interest	90	738	101	929	1,944
SEA program	70,235	-	-	70,235	70,189
Youth Ventures program	14,000	-	-	14,000	14,000
Entrepreneurial Training fund	-	12,785	-	12,785	18,411
Recovery of loan written off	-	18,000	-	18,000	-
Other income	11,932	-	-	11,932	12,557
	294,176	230,987	96,001	621,164	579,108
EXPENDITURE					
Advertising	18,906	-	-	18,906	15,191
Amortization	4,742	-	-	4,742	4,040
Bank charges and interest	564	1,117	150	1,831	2,019
Entrepreneurial training	-	12,785	-	12,785	18,411
Insurance	3,214	-	-	3,214	2,938
Interest on long-term debt	-	27,169	-	27,169	23,181
Loan loss provision (recovery)	-	76,992	(9,788)	67,204	133,949
Meeting costs	5,747	-	-	5,747	5,099
Membership and fees	2,598	-	-	2,598	3,145
Office expenses	11,256	201	-	11,457	9,868
Professional fees	5,053	2,424	-	7,477	15,213
Rent	23,336	-	-	23,336	23,172
Salaries and employee benefits	279,295	-	-	279,295	253,467
Seminars and conferences	7,036	-	-	7,036	7,483
Special events	2,707	-	-	2,707	1,300
Telephone	7,682	-	-	7,682	7,769
Training – Clients	302	-	-	302	643
Travel	15,416	-	-	15,416	24,290
	387,854	120,688	(9,638)	498,904	551,178
Excess of revenue over (under) expenditure	(93,678)	110,299	105,639	122,260	27,930
Fund balance, beginning of year	15,421	2,213,066	1,054,005	3,282,492	3,254,562
Inter-fund transfers	95,521	(95,521)	-	-	-
Fund balance, end of year	$ 17,264	$ 2,227,844	$ 1,159,644	$ 3,404,752	$ 3,282,492

See accompanying notes to the financial statements

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Cash Flow Statement
As at March 31, 2017

	Operating Fund	Investment Fund	FRAM-ED Fund	2017 Total	2016 Total
Operating activities:					
Excess of revenue over expenditure (expenditure over revenue)	$ (93,678)	$ 110,299	$ 105,639	$ 122,260	$ 27,930
Items which do not involve cash:					
Amortization	4,742	-	-	4,742	4,040
Loan loss provision (recovery)	-	76,992	(9,788)	67,204	133,949
	(88,936)	187,291	95,851	194,206	165,919
Changes in non-cash working capital:					
Accounts receivable	1,931	20	(74)	1,877	(42,138)
Due to/from other funds	14,641	133,437	(148,078)	-	-
Prepaid expenses	2,049	309	-	2,358	142
Payables and accrued liabilities	(1,148)	2,602	-	1,454	4,963
Cash provided by (used in) operating activities	(71,463)	323,659	(52,301)	199,895	128,886
Investing activities:					
Purchase of capital assets	(6,585)	-	-	(6,585)	(6,292)
Loans receivable - advances	-	(858,671)	(225,074)	(1,083,745)	(2,022,647)
Loans receivable - repayments	-	387,511	268,123	655,634	467,067
Decrease (increase) in accrued interest	-	128	4,886	5,014	(14,667)
Cash provided by (used in) investing activities	(6,585)	(471,032)	47,935	(429,682)	(1,576,539)
Financing activities:					
Inter-fund transfers	95,521	(95,521)	-	-	-
Proceeds from long-term debt	-	811,500	-	811,500	806,500
Repayment of long-term debt	-	(349,833)	-	(349,833)	-
Cash provided by (used in) financing activities	95,521	366,146	-	461,667	806,500
Increase (decrease) in cash and cash equivalents	17,473	218,773	(4,366)	231,880	(641,153)
Cash and cash equivalents, beginning of year	17,046	419,643	13,991	450,680	1,091,833
Cash and cash equivalents, end of year	$ 34,519	$ 638,416	$ 9,625	$ 682,560	$ 450,680

Cash equivalents are comprised of cash in bank.

See accompanying notes to the financial statements

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Notes to the Financial Statements
For the Year Ended March 31, 2017

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

1. Significant Accounting Policies

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

Capital Assets
Capital assets are recorded at cost and amortized on the diminishing balance method for furniture and equipment at the rates indicated in note 2 and on the straight-line basis for leasehold improvements over 4 years. Funding agencies may, in some cases, direct the disposition of capital assets which were financed through their contributions to the Corporation.

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

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

Fund Accounting
The Corporation follows the restricted fund method of accounting for the Investment fund and the FRAM-ED Fund. These Funds report all restricted resources of the Funds as well as the investment income resulting from investing activities utilizing the fund assets. The Operating Fund accounts for program delivery and administrative activities. This Fund reports unrestricted resources and operating contributions. Expenses of the Operating Fund are limited to those agreed upon in the contribution agreement between the Atlantic Canada Opportunities Agency (ACOA), or other funding partners and the Corporation.

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

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Notes to the Financial Statements (Continued)
For the Year Ended March 31, 2017

1. Significant Accounting Policies (Continued)

Revenue Recognition

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

Use of Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the period in which they become known. A significant estimate included in these financial statements is the provision for doubtful loans as stated in notes 4 and 5.

2. Capital Assets

	Rate	Cost	Accumulated Amortization	2017 Net Book Value	2016 Net Book Value
Furniture & equipment	20%	$ 55,681	$ 45,083	$ 10,598	$ 6,838
Computer hardware	30%	26,910	20,244	6,666	8,583
Leasehold improvements		12,780	12,780	-	-
		$ 95,371	$ 78,107	$ 17,264	$ 15,421

3. Investments

Investment Fund

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

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Notes to the Financial Statements (Continued)
For the Year Ended March 31, 2017

4. Loans Receivable - Investment Fund

	2017	2016
Loans receivable, beginning of year	$ 3,204,701	$ 2,314,193
Loans advanced during the year	858,671	1,260,681
Loans repaid during the year	(387,639)	(370,173)
Loans written off during the year	(125,109)	-
Loans receivable, end of year	3,550,624	3,204,701
Allowance for impaired loans	(244,632)	(292,749)
	3,305,992	2,911,952
Current portion of loans receivable	(634,449)	(363,536)
	$ 2,671,543	$ 2,548,416

Loans receivable includes accrued interest receivable in the amount of $41,343 (2016 - $41,471). There are three impaired loans as of March 31, 2017 totalling $153,709 (2016 - six impaired loans totalling $146,817). The current portion of loans receivable assumes required loan payments will be received during the year. There were 19 loans approved during the year and 59 loans under management as of March 31, 2017.

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

	2017	2016
Allowance, beginning of year	$ 292,749	$ 192,424
Loans written off during the year	(125,109)	-
Current year's loan loss provision	76,992	100,325
	$ 244,632	$ 292,749

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

	2017	2016
Loan capital contributed	$ 1,138,751	$ 1,138,751
Accumulated surplus	1,089,093	1,074,315
	$ 2,227,844	$ 2,213,066

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

Investment funds may be transferred to the operating fund to cover an annual operating deficit provided certain conditions have been met, as set out by ACOA.

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Notes to the Financial Statements (Continued)
For the Year Ended March 31, 2017

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

	2017	2016
Loans receivable, beginning of year	$ 1,758,545	$ 1,096,005
Loans advanced during the year	225,074	776,608
Loans repaid during the year	(273,009)	(96,894)
Loans written off during the year	(63,744)	(17,174)
Loans receivable, end of year	1,646,866	1,758,545
Allowance for impaired loans	(81,021)	(154,553)
	1,565,845	1,603,992
Current portion of loans receivable	(116,848)	(111,006)
	$ 1,448,997	$ 1,492,986

Loans receivable includes accrued interest receivable in the amount of $26,448 (2016 - $31,334). There are no impaired loans as of March 31, 2017 (2016 - one impaired loan totalling $71,782). The current portion of loans receivable assumes required loan payments will be received during the year. There were 5 loans approved during the year and 15 loans under management as of March 31, 2017.

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

	2017	2016
Allowance, beginning of year	$ 154,553	$ 138,103
Loans written off during the year	(63,744)	(17,174)
Current year's loan loss provision (recovery)	(9,788)	33,624
	$ 81,021	$ 154,553

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

	2017	2016
Loan capital contributed	$ 850,000	$ 850,000
Accumulated surplus	309,644	204,005
	$ 1,159,644	$ 1,054,005

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

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Notes to the Financial Statements (Continued)
For the Year Ended March 31, 2017

6. Long-term Debt

	2017	2016
Atlantic Canada Community Business Investment Fund Loan for investment purposes, with interest at 1.6%, repayable in blended monthly instalments of $35,000, maturing in November, 2022 and secured by a promissory note and a negative pledge	$ 2,256,912	$ 1,800,000
Newfoundland and Labrador Association of Community Business Development Corporations – Kickstart Program Loans Loans for investment purposes, unsecured and non-interest bearing, with principal collections from clients repayable semi-annually and interest receipts to be retained by the Corporation	11,255	6,500
	2,268,167	1,806,500
Less: Estimated portion due next twelve months	387,099	337,000
	$ 1,881,068	$ 1,469,500

Estimated required principal payments over the next five years are as follows: 2018 - $387,099; 2019 - $392,937; 2020 - $399,234; 2021 - $405,737; 2022 - $412,245.

7. Allowance for Impaired Loans

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

8. Contingencies

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

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Notes to the Financial Statements (Continued)
For the Year Ended March 31, 2017

9. Commitment

The Corporation leases office space at an annual rate of $21,758 plus HST. The lease expires on March 31, 2020.

10. Economic Dependence

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

11. Financial Risk Management

Financial risk factors
The Corporation has exposure to credit risk and liquidity risk as a result of holding financial instruments. The Board of Directors has overall responsibility for the oversight of these risks and reviews the Corporation's policies on an ongoing basis to ensure that these risks are appropriately managed. The source of risk exposure and how each is managed is outlined below.

Credit risk
Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligation. The Corporation's credit risk is primarily attributable to accounts receivable and loans receivable. Management believes that the credit risk with respect to accounts receivable is remote as the majority is due from government funding agencies. The Corporation's loans receivable are recorded at net realizable value and a determination of fair value for these financial instruments is not considered possible. Management's policies relating to credit risk from loans receivable is discussed in note 7.

Liquidity risk
Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. As at March 31, 2017, the Corporation had unrestricted cash of $34,519, which is sufficient to cover its short-term financial obligations.

12. Comparative Figures

Comparative figures may have been reclassified to conform to the financial statement presentation adopted for the current year.