MANITOBA
DEVELOPMENT
CORPORATION

Annual Report

March 2017

MANITOBA DEVELOPMENT CORPORATION

Financial Statements
March 31, 2017

Minister
of Growth, Enterprise and Trade

Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

Her Honour The Honourable Janice C. Filmon C.M., O.M.
Lieutenant Governor of Manitoba
Room 235 Legislative Building
405 Broadway
Winnipeg MB R3C 0V8

Your Honour:

I am pleased to present the Annual Report for the Manitoba Development Corporation for the fiscal year ending March 31, 2017.

Respectfully submitted,

Original signed by

Blaine Pedersen
Minister

Manitoba
Growth, Enterprise and Trade
Manitoba Development Corporation
1040-259 Portage Ave., Winnipeg, Manitoba, Canada R3B 3P4
T 204-945-2770 **F** 204-945-1193
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Honourable Blaine Pedersen
Minister of Growth, Enterprise and Trade
Room 358 Legislative Building
Winnipeg MB R3C 0V8

Dear Minister Pedersen:

It is our pleasure to submit the Annual Report of the Manitoba Development Corporation for the fiscal year ended March 31, 2017, as required by Section 18 of the Manitoba Development Corporation Act.

Respectfully submitted,

Original signed by

Dave Dyson
A/ Deputy Minister

MANITOBA DEVELOPMENT CORPORATION

CORPORATE REPORT

CORPORATE PROFILE

DIRECTORS AND OFFICERS

Minister Responsible: The Honourable Blaine Pedersen

Board of Directors:

Chair:	James Wilson
Vice-Chair:	Lynn Zapshala-Kelln
General Manager:	Jeffrey Hodge

HEAD OFFICE

1010-259 Portage Avenue
Winnipeg, Manitoba R3B 3P4
Telephone: (204) 945-2770

PROFILE

The Manitoba Development Corporation (MDC) provides loans, guarantees and investments under the Manitoba Development Corporation Act. The objectives of MDC are to provide financial services and financial instruments on behalf of the Province of Manitoba to assist with economic development initiatives. There are three divisions administered by MDC: Business Support, the Provincial Nominee Program for Business (PNP-B) and Manitoba Trade and Investment (MTI).

Business Support administers the Manitoba Industrial Opportunities Program (MIOP), the Third-Party Investment Funds Program (Investment Program) and other financial assistance. PNP-B is a program for international entrepreneurs who wish to immigrate and establish a business in Manitoba. MTI delivers targeted programs and services to Manitoba small and medium sized enterprises to promote Manitoba as a destination for foreign direct investment.

The Province determines which programs will be housed in MDC, what resources are available to administer the programs and the desired outcomes for those programs. MDC requires approval of the Province to provide loans, guarantees or equity investments and must comply with all Provincial directives.

MANITOBA INDUSTRIAL OPPORTUNITIES PROGRAM

The Manitoba Industrial Opportunities Program (MIOP) provides financial support to assist businesses expanding their operations in Manitoba. The financial support is in the form of repayable, secured loans with repayment terms that can somewhat flexible for businesses that undertake significant investment in fixed assets and/or create new jobs. The loans are usually in excess of $500,000.

The primary considerations in assessing any request for assistance are:

- the viability of the business proposal;
- the applicant's level of equity contribution; and,
- the project's resulting benefits to the Manitoba economy.

Most loan repayment terms are 60 to 84 months. Loan interest rates are charged at the crown rate or at the crown rate plus a premium.

The nature and level of provincial support offered to a project is established by a detailed review of the proponent's business proposal, including a cost/benefit analysis and risk appraisal.

All loans receive Treasury Board approval and an Order in Council authorizing the loan.

Program Clients:

MIOP clients are companies with significant operations in Manitoba or companies wishing to establish operations in Manitoba.

Program Objectives:

The objective of MIOP is to secure significant business project investment which would not occur in Manitoba without the provision of some level of government assistance.

In certain cases MIOP supports projects that increase the number of jobs created in Manitoba; in other cases MIOP supports projects that increase the number of jobs maintained in Manitoba.

Program Performance and Trends:

From March 31, 2000 to March 31, 2017 MIOP approved 53 business expansion loans totaling $276 million, which is projected to lever $640 million in additional capital, for a total Manitoba investment of $916 million, supporting approximately 11,297 Manitoba jobs.

	2013/14	2014/15	2015/16	2016/17
Dollar amount of new loans approved (in millions)	$6.5	$14.0	$11.5	$0.0
Total projected Manitoba capital spend resulting from newly approved Loans	$10.0	$21.0	$81.5	$0.0
Projected capital leveraged resulting from newly approved Loans	$3.5	$7.0	$70.0	$0.0
Jobs created / maintained resulting from newly approved Loans	483	1089	780	0

As at March 31, 2017, the program has 15 active loans to 11 companies totaling $65.0 million under management, with 2,342 Manitoba full time equivalent jobs required per the loan agreements and 2,413 Manitoba full time equivalent jobs maintained.

MIOP loans made under authority of the Manitoba Development Corporation Act as published in Volume 3 of Public Accounts are as follows:

Color Ad Packaging (3759326 Canada Ltd.)	3,153,132
C.P. Loewen Enterprises Ltd.	13,175,000
Glacier L.P.	6,745,421
HD-Petroleum Inc.	3,100,000
ARxIUM (formerly: Intelligent Hospital Systems Inc.)	306,667
Magellan Aerospace Ltd.	14,990,000
Medicure Inc.	2,222,222
Premier Horticulture Ltd.	500,000
Sightline Innovation Inc.	2,000,000
6381023 Manitoba Ltd. o/a True North Foods	2,843,750
Winnipeg Airport Authority Inc.	15,980,155
Subtotal	65,016,346
Net accrued and capitalized interest	583,776
Total	65,600,122

THIRD-PARTY INVESTMENT FUNDS PROGRAM

The Third-Party Investment Funds Program provides equity investment capital to venture capital limited partnerships that are managed by the private sector, who in turn invest this capital in small to medium-sized businesses. The two remaining funds under this program are in divestiture mode and are no longer making investments.

Program Objectives:

- To create pools of equity capital that are managed in Manitoba and available to be invested in Manitoba businesses.
- To create jobs within Manitoba.
- To increase the flow of equity capital to Manitoba businesses.
- To earn a return on investment that exceeds the Province's cost of capital.

Program Performance and Trends:
From its inception in 1996 to March 31, 2017, the Investment Program has advanced $23.6 million in six limited partnerships.

Third Party Investment Funds Program equity investments net of repayments as published in Volume 3 of the Public Accounts as at March 31, 2017 are:

CentreStone Ventures Fund	3,408,522
Manitoba Science & Technology Fund	1,832,233
Total	5,240,755

From its inception in 1996 to March 31, 2017, in aggregate, the limited partnerships in the Third Party Investment Funds Program have invested approximately $174.3 million into 78 business entities, of which 67 were Manitoba companies.

MANITOBA PROVINCIAL NOMINEE PROGRAM FOR BUSINESS

The Province of Manitoba and Government of Canada share responsibilities regarding business people immigrating to Canada through the Manitoba Provincial Nominee Program for Business (PNP-B). PNP-B allows Manitoba to recruit and nominate qualified business people from around the world who have the intent and ability to move to Manitoba and establish or purchase a business or become partners in an existing business.

PNP-B accelerates the immigration process by providing a Nomination Certificate to approved applicants, which allows for faster federal processing of their immigration application to Canada. The Province of Manitoba is committed to help new immigrants settle successfully, identify business opportunities and establish businesses or farms in the province.

Program Objectives:

- Recruit immigrants who will contribute to the province's economy by living in Manitoba and investing in and operating a business in Manitoba.
- Recruit farmers through the Farm Strategic Recruitment Initiative to rural Manitoba to strengthen Manitoba's key agricultural sector.

Program Performance and Trends:

In August 2013, the PNP-B introduced a new process whereby potential applicants have the opportunity to submit an Expression of Interest (EOI) as an indication of a desire to submit an application. All EOI submissions are placed in an EOI pool and are assessed based on a point system using an Adaptability Assessment Matrix. Potential applicants who had an Exploratory Visit Application to PNP-B prior to August 2013 were given priority in making a submission to the EOI system. On Feb. 4, 2015, the EOI online submission system was opened to the public.

In addition to the EOI system, the PNP-B increased the deposit amount of $75,000 to $100,000. A non-refundable application processing fee of $2,500 was introduced for new applications. The Young Farmer Nominee Program was replaced by the Farm Strategic Recruitment Initiative (FSRI) to facilitate the recruitment of the most suitable farmer immigrants. The deposit amount under the FSRI is $75,000.

PNP-B has been successful in recruiting 123 farm business immigrants since program inception who have invested over $114 million. The Program notes that the farm business investments recorded only include the initial investment. It does not account for additional investments made after the farm business is started. The farm business immigrants that were able to successfully establish their intended farm business quickly and successfully demonstrated the necessary net worth and practical farming skills and experiences that transfer directly to Manitoba's primary production farm industry.

The PNP-B monitors initial business investments by business immigrants under the program. In 2016/17, the program measured 63 initial business investments totaling $32 million by applicants which created or maintained 230 jobs. Since inception in 2001, 891 initial business investments have been made with an investment in excess of $307 million.

MANITOBA TRADE AND INVESTMENT

Manitoba Trade and Investment (MTI) is the lead provincial agency for international business development and trade agreements and negotiations. MTI supports Manitoba businesses to become export capable and to diversify into domestic and international markets by delivering targeted programs and services to Manitoba small and medium-sized enterprises (SMEs). MTI manages both Manitoba's internal and international trade agreements and negotiations, including oversight of domestic and international trade disputes. In addition, MTI promotes Manitoba as a destination for foreign direct investment to increase inward investment and employment.

As an administrative mechanism, MDC supports MTI in the facilitation of cost-sharing partnerships for specific projects and provides administrative support for missions by collecting revenues and paying related expenditures.

SERVICES:

Export Counselling – MTI staff engage in consultations with Manitoba companies interested in developing their exports. Export counselling focuses on the companies' markets of interest, market entry strategies and the companies' export capacity.

In-market Experience – MTI staff and foreign representatives have over 530 years of combined international business experience and many of MTI's staff have lived/worked in the markets for which they are responsible. This experience enables them to provide first-hand knowledge of business practices, cultural considerations and consumer preferences and expectations.

Market Intelligence – MTI staff combine their first hand knowledge with ongoing research and involvement with the markets to provide Manitoba companies with insight into their markets. MTI staff help Manitoba companies better understand the markets that they are pursuing.

Trade Agreements and Negotiations – MTI develops provincial policy for the negotiation and implementation of interprovincial and international trade agreements. MTI ensures Manitoba's priorities and concerns are reflected in trade negotiations through consultations with key stakeholders. MTI provides updates on the status of agreements and negotiations to government, industry and civil society stakeholders. MTI also works with stakeholders and front line departments to defend Manitoba exporters and Manitoba programs in domestic and international trade disputes.

Missions and Tradeshows – outbound missions include companies from multiple sectors targeting opportunities in another province or a foreign country and include a combination of joint networking opportunities and business-to-business meetings; incoming missions normally include a small number of companies from one market or one sector from a geographic region, that have one-on-one meetings with Manitoba companies who are potential partners/suppliers; tradeshows are sector specific marketing events in external markets where Manitoba companies promote their products/services. Missions and tradeshows are integral components of MTI's delivery on its mandate. Each market is different and requires a unique approach – tradeshows work in some markets whereas missions are a better approach for others.

Foreign Trade Representatives – MTI has augmented the expertise and experience of its staff with Foreign Trade Representatives in five markets (Brazil, China, Europe, India and Mexico). MTI's Foreign Trade Representatives support Manitoba companies' market entry with in-country assistance.   MTI continues to evaluate new markets as possible locations for new representatives.

Financial programs – MTI plays an active role in the delivery of the Commercialization Support for Business (CSB) Program. The Market Development stream of the CSB Program supports qualified Manitoba small to medium-sized enterprises with financial assistance to attend export oriented tradeshows and develop export focused marketing materials.

Languages – MTI and its Foreign Trade Representatives can provide services in 17 languages; language capabilities include: English, French, Spanish, Mandarin, German, Portuguese, Hebrew, Russian, Hindi, Gujarati, Ukrainian, Dutch, Telugu, Malayalam, Bengali, Punjabi, and Swedish.

Promote Manitoba – MTI staff promote the full range of Manitoba's capabilities internationally, including tourism, education, immigration, investment and trade.

Financial Statements of

MANITOBA DEVELOPMENT CORPORATION

Year ended March 31, 2017

MANITOBA DEVELOPMENT CORPORATION

Financial Statements
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Year ended March 31, 2017

MANAGEMENT REPORT

Management's Responsibility for Financial Reporting

The accompanying financial statements are the responsibility of the management of Manitoba Development Corporation and have been prepared in accordance with Canadian public sector accounting standards. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available to September 20, 2017.

Management maintains internal controls to properly safeguard the assets and to provide reasonable assurance that the books and records from which the financial statements are derived accurately reflect all transactions and that established policies and procedures are followed.

The responsibility of the external audit is to express an independent opinion on whether the financial statements of Manitoba Development Corporation are fairly presented in accordance with Canadian public sector accounting standards. The Independent Auditors' Report outlines the scope of the audit examination and provides the audit opinion.

On behalf of Management,
MANITOBA DEVELOPMENT CORPORATION

Original Signed By

Jeff Hodge, General Manager

September 20, 2017

KPMG

KPMG LLP
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Canada

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Manitoba Development Corporation

We have audited the accompanying financial statements of Manitoba Development Corporation, which comprise the statement of financial position as at March 31, 2017, the statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, including Schedules A to D.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 our 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, we consider 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Manitoba Development Corporation as at March 31, 2017, and its results of operations, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants

September 20, 2017

Winnipeg, Canada

MANITOBA DEVELOPMENT CORPORATION

Statement of Financial Position

March 31, 2017, with comparative information for 2016

	PNP-B	Business support	MTI	2017 Total	2016 Total
Assets					
Cash and cash equivalents	$ 42,293,436	$ 1,516,949	$ 219,805	$ 44,030,190	$ 36,336,538
Accounts receivable (note 3)	253,168	17,705	6,816	277,689	295,756
Loans receivable (note 4)	–	54,382,578	–	54,382,578	73,295,947
Portfolio investments (note 5)	12,306,252	4,250,000	500,000	17,056,252	21,296,105
Restricted funds (note 8)	63,672,652	–	–	63,672,652	53,785,759
Prepaid expenses	–	–	237,830	237,830	–
	$ 118,525,508	$ 60,167,232	$ 964,451	$ 179,657,191	$ 185,010,105
Liabilities and Surplus					
Liabilities:					
Accounts payable and accrued liabilities	$ 4,820,275	$ 397,094	$ 3,767	$ 5,221,136	$ 5,195,217
Deferred revenue (note 6)	–	324,583	16,500	341,083	398,536
Operating advance payable (note 7)	–	–	500,000	500,000	500,000
Funds provided by the Province of Manitoba	–	54,382,578	–	54,382,578	73,295,947
Deposits payable (note 8)	63,672,652	–	–	63,672,652	53,785,759
	68,492,927	55,104,255	520,267	124,117,449	133,175,459
Accumulated surplus (note 9)	50,032,581	5,062,977	444,184	55,539,742	51,834,646
Contingencies (note 10)					
Commitments (note 11)					
	$ 118,525,508	$ 60,167,232	$ 964,451	$ 179,657,191	$ 185,010,105

See accompanying notes to financial statements.

On behalf of the Board:

Original Signed By Jeff Hodge, Director

Original Signed By James Wilson, Director

MANITOBA DEVELOPMENT CORPORATION

Statement of Operations and Accumulated Surplus

Year ended March 31, 2017, with comparative information for 2016

	Budget	2017	2016
Income:			
Income from portfolio investments	$ 437,337	$ 425,749	$ 942,924
Interest income	8,867,653	3,587,470	3,643,819
Deposit retentions (note 8)	7,750,000	9,024,807	5,026,086
Application processing fees (note 8)	1,250,000	1,117,475	783,730
Participation fees	165,000	50,550	426,180
Project revenue	96,000	64,953	5,271
Recovery (reimbursement) of Business Support expenses from (to) the Province of Manitoba:			
Provision for doubtful loans receivable	1,387,156	(206,611)	(1,977,605)
Provision for decline in value of investments	105,000	–	1,315
Provision for loan guarantees	–	500,000	–
	20,058,146	14,564,393	8,851,720
Expenses:			
Program administration	2,153,829	1,475,410	2,092,957
Payment of Business Support interest on loans receivable to the Province of Manitoba	8,810,000	3,005,545	3,263,941
Provision for (reversal of) doubtful loans receivable	1,387,156	(206,611)	(1,977,605)
Provision for decline in value of investments	105,000	–	1,315
Provision for loan guarantees	–	500,000	–
Project costs	96,000	64,953	5,271
	12,551,985	4,839,297	3,385,879
Transfers to the Department of Education and Training (note 12)	4,640,000	3,728,000	3,823,000
Transfers to the Department of Growth, Enterprise and Trade (note 12)	2,732,000	2,292,000	2,322,000
	19,923,985	10,859,297	9,530,879
Accumulated surplus (deficiency)	134,161	3,705,096	(679,159)
Accumulated surplus, beginning of year		51,834,646	52,513,805
Accumulated surplus, end of year		$ 55,539,742	$ 51,834,646

See accompanying notes to financial statements.

MANITOBA DEVELOPMENT CORPORATION

Statement of Changes in Net Financial Assets

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Annual surplus (deficiency)	$ 3,705,096	$ (679,159)
Net financial assets, beginning of year	51,834,646	52,513,805
Net financial assets, end of year	$ 55,539,742	$ 51,834,646

See accompanying notes to financial statements.

MANITOBA DEVELOPMENT CORPORATION

Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Annual surplus (deficiency)	$ 3,705,096	$ (679,159)
Adjustments for:		
Provision for (reversal of) doubtful loans receivable	(206,611)	(1,977,605)
Provision for decline in value of investments	–	1,315
Provision for loan guarantees	500,000	–
Deposit retentions	(9,024,807)	(5,026,086)
Amortization of bond premiums	236,518	417,232
Capitalized interest	(44,571)	(81,149)
Recovery (reimbursement) of Business Support expenses to the Province of Manitoba	(293,389)	1,976,290
Change in non-cash operating working capital:		
Restricted funds	(9,901,084)	(3,489,891)
Accounts receivable	18,067	202,180
Loan interest receivable	40,977	(2,494)
Prepaid expenses	(237,830)	–
Accounts payable and accrued liabilities	25,919	(515,500)
Deferred revenue	(57,453)	(40,781)
Net change in deposits payable	18,911,700	8,778,844
Cash provided by (used in) operating activities	3,672,532	(436,804)
Investing activities:		
Loans receivable principal repayments	20,423,574	13,635,149
Issuance of loans receivable	(1,300,000)	(14,584,307)
Purchase of portfolio investments	(4,750,000)	(4,751,315)
Redemption of portfolio investments	8,767,526	3,299,182
Cash provided by (used in) investing activities	23,141,100	(2,401,291)
Financing activities:		
Funds provided by (paid to) the Province of Manitoba for Business Support	(19,119,980)	603,459
Increase (decrease) in cash and cash equivalents	7,693,652	(2,234,636)
Cash and cash equivalents, beginning of year	36,336,538	38,571,174
Cash and cash equivalents, end of year	$ 44,030,190	$ 36,336,538
Cash and cash equivalents consists of the following:		
Cash	$ 16,172,172	$ 13,982,784
Cash equivalents	27,858,018	22,353,754
	$ 44,030,190	$ 36,336,538
Supplementary information:		
Cash paid for interest	$ 3,005,545	$ 3,263,941
Cash received for interest	4,274,679	5,214,935

See accompanying notes to financial statements.

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements

Year ended March 31, 2017

1. Nature of operations and economic dependence:

The Manitoba Development Corporation (the "Corporation") provides loans, guarantees and investments under the *Manitoba Development Corporation Act*. The objectives of the Corporation are to provide financial services and financial instruments on behalf of the Province of Manitoba to assist with economic development initiatives. There are three divisions administered by the Corporation: Business Support, the Provincial Nominee Program for Business (PNP-B) and Manitoba Trade and Investment (MTI). Business Support administers the Manitoba Industrial Opportunities Program (MIOP), the Third-Party Investment Funds Program (Investment Program) and other financial assistance (Other Loans). The PNP-B is a program for international entrepreneurs who wish to immigrate and establish a business in Manitoba. MTI delivers targeted programs and services to Manitoba small and medium sized enterprises to promote Manitoba as a destination for foreign direct investment.

The Province provides all financing for these initiatives and ultimately bears all costs, including any exposure for the financial assets due to interest rate fluctuations, changes to their fair value or credit risk relating to the realization of these assets. Losses are the responsibility of the Province and are charged directly against advances received from the Province.

The Corporation considers its capital to comprise its accumulated surplus (including share capital, restricted surplus and unrestricted surplus). There have been no changes to what the Corporation considers to be its capital since the previous period.

As a government enterprise, the Corporation's operations are reliant on revenues generated annually. The Corporation has accumulated retained earnings over its history, which is included in accumulated surplus in the statement of financial position. A portion of these funds is retained as working capital (current assets less current liabilities) which may be required from time to time due to timing delays in receiving its primary funding.

The Province of Manitoba has directed that the balance of restricted accumulated surplus for the year to be equal to three years' operating expenses of the Business Immigration and Investment Branch (based on the most recent year's actual expenses) plus 25 percent of the previous year's PNP-B deposit retentions as a reserve which would not be available for annual distribution to the Province. Any excess beyond that amount, once it has been released by the Province, would then be transferred to unrestricted accumulated surplus. For the year ended March 31, 2017, the Corporation has complied with these restrictions.

2. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles as defined by the Chartered Professional Accountants of Canada Public Sector Accounting Handbook.

(a) Revenue recognition:

Income from deposit retentions is recognized when depositors fail to meet their agreement terms thereby forfeiting their deposits. Income from application processing fees is recognized as applications are processed. Interest income from portfolio investments and loans receivable is recognized on an accrual basis in the fiscal period in which it is earned.

(b) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with the Province of Manitoba and banks with maturities of three months or less.

(c) Financial instruments:

Financial instruments are recorded at fair value or exchange amount on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. The Corporation has not elected to carry any such group of financial instruments at fair value.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the effective interest method.

2. Significant accounting policies (continued):

(d) Loans receivable under Business Support:

The Corporation maintains an allowance for loan impairment, which reduces the carrying value of loans receivable to their estimated realizable amounts. Estimated realizable amounts are determined with reference to the Corporation's historical loss experience on similar loans and estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. Interest on loans is recorded as income on an accrual bases except for loans considered impaired. When a loan is classified as impaired, accrual of interest on the loan ceases.

Provisions are established for individual loans for which the estimated realizable amount is less than the carrying value. The amount of initial impairment and any subsequent changes are recorded through the provision for doubtful loans receivable as an adjustment of the provision.

(e) Portfolio investments:

Portfolio investments consist of provincial bonds, term deposits, guaranteed investment certificates (GICs) and equity investments.

The Corporation's investments in provincial bonds are recorded at amortized cost. Discounts and premiums arising on the purchase of these bonds are amortized over the term of the bond to maturity. The Corporation's investments in GICs and term deposits are recorded at cost.

The Corporation's equity investments related to share capital investments are recorded at cost. The Corporation's investment in the CentreStone Ventures Limited Partnership and Manitoba Science and Technology Fund are accounted for using the cost method of accounting.

When there has been a loss in value that is other than a temporary decline in value, the respective investment is written down to recognize the loss in the provision for decline in value of investments.

2. Significant accounting policies (continued):

(f) Restricted funds:

Restricted funds are deposits held under the PNP-B (note 8) and consist of balances with banks, provincial bonds and term deposits with maturities of three months or less held with the Province of Manitoba. The provincial bonds are recorded at amortized cost. Discounts and premiums arising on the purchase of these bonds are amortized over the term of the bond to maturity. Term deposits are recorded at cost.

(g) Deferred revenue:

Deferred revenue represents funds received for specific projects for which expenditures will be incurred in future periods as well as fees received in advance of event days for specific trade projects.

(h) Government transfers:

Government transfers are recognized as expenses in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

(i) Guarantees:

Manitoba Development Corporation in the normal course of business, may provide a guarantee to honour repayment of debt or loans of an organization.

Guarantees by Manitoba Development Corporation are made through specific agreements to repay promissory notes, banks loans, lines of credit, mortgages and other securities. The provision for losses on guaranteed loans is determined by a review of individual guarantees. A provision for losses on these guarantees is recorded when it is likely that a loss will occur. The amount of the loss provision represents management’s best estimate of probable claims against the guarantees.

(j) Contributed services:

During the year, the Province of Manitoba provided office space and other administrative services to the Corporation at no cost. Because of the difficulty of estimating the fair value of such expenses, no contributed services are recognized in the financial statements.

2. Significant accounting policies (continued):

(k) Use of estimates:

The preparation of financial statements 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 revenues and expenses during the period. Significant items subject to estimates and assumptions include the carrying amount of loans receivable and portfolio investments and provisions for losses on loan guarantees. Actual results could differ from those estimates.

3. Accounts receivable:

	2017	2016
Accrued interest:		
PNP-B	$ 253,168	$ 266,928
Business support	17,705	5,213
Other receivables	6,816	23,615
	$ 277,689	$ 295,756

4. Loans receivable managed for the Province of Manitoba:

	2017	2016
Business support:		
Manitoba Industrial Opportunities Program - repayable	$ 65,600,122	$ 81,535,454
Other loans receivable	7,440,121	10,624,769
	73,040,243	92,160,223
Provision for doubtful loans receivable	(18,657,665)	(18,864,276)
	$ 54,382,578	$ 73,295,947

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

4. Loans receivable managed for the Province of Manitoba (continued):

The Manitoba Industrial Opportunities Program (MIOP) provides flexible repayable financing to encourage companies to expand or locate in Manitoba. Loan principal is due as follows:

	2017	2016
2018	$ 8,638,926	$ 7,332,676
2019	9,168,005	9,926,426
2020	7,379,428	10,380,504
2021	7,160,752	8,591,928
2022	7,560,752	8,373,252
Subsequent to 2022	25,108,483	36,350,486
Accrued and capitalized interest	583,776	580,182
	65,600,122	81,535,454
Provision for doubtful loans receivable	(17,907,665)	(18,114,276)
	$ 47,692,457	$ 63,421,178

Interest rates charged for Manitoba Industrial Opportunities Program loans are fixed in reference to the Corporation's cost of borrowing from the Province of Manitoba at the time of the first disbursement of the loan proceeds to the debtor. In some cases, per the terms of individual loan agreements, interest rates may be adjusted during the term of the loan based on the Corporation's cost of borrowing from the Province of Manitoba at a date(s) specified in the loan agreement. In certain cases, the Corporation, under the direction of the Province, may charge interest rates which are less than its cost of borrowing to encourage investment and job creation in Manitoba, but this has not happened since 2003. In other cases, the Corporation charges rates in excess of its cost of borrowing to reflect risk conditions. Interest rates charged on loans are as follows:

	2017	2016
Greater than nil, less than 5%	$ 36,418,132	$ 48,137,556
5% or greater, less than 6%	28,291,547	32,051,049
6% or greater, less than 7%	–	–
7% or greater, less than 8%	306,667	766,667
Accrued and capitalized interest	583,776	580,182
	65,600,122	81,535,454
Provision for doubtful loans receivable	(17,907,665)	(18,114,276)
	$ 47,692,457	$ 63,421,178

4. Loans receivable managed for the Province of Manitoba (continued):

When possible, the Corporation obtains various forms of security on the Manitoba Industrial Opportunities loans with priority ranking subject to any prior existing charges.

At March 31, 2017, other loans receivable include non-interest bearing loans (2016 - non-interest bearing loans) and maturities ranging from no fixed terms of repayment to December 2022 (2016 - ranging from no fixed terms of repayment to December 2022). At March 31, 2017, the provision for doubtful loans receivable for these loans is $750,000 (2016 - $750,000).

5. Portfolio investments:

Portfolio investments are comprised of the following:

	2017	2016
Provincial bonds	$ 12,806,252	$ 16,530,607
Term deposits	4,250,000	4,500,000
GICs	–	265,498
Equity investments	–	–
	$ 17,056,252	$ 21,296,105

The provincial bonds, which are included in PNP-B, bear interest at rates ranging from 2.40 percent to 4.50 percent (2016 - 2.05 percent to 4.50 percent) and mature between December 2017 and December 2019 (2016 - between December 2016 and December 2019). Interest earned on provincial bonds for the year ended March 31, 2017 totaled $457,767 (2016 - $499,164). Amortization of bond premiums for the year ended March 31, 2017 totaled $222,327 (2016 - $234,442). Fair value of the provincial bonds at March 31, 2017 is $12,502,560 (2016 - $16,837,040).

The GICs and term deposits, which are included in Business Support and MTI, bear interest at rates ranging from 0.69 percent to 1.25 percent (2016 - 0.62 percent to 1.70 percent) and mature between June 2017 and March 2018 (2016 - September 2016 and March 2017). Fair values approximate cost. Interest earned on GICs and term deposits for the year ended March 31, 2017 totaled $75,386 (2016 - $76,201).

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

5. Portfolio investments (continued):

Equity investments managed for the Province of Manitoba included in Business Support consist of the following:

	2017	2016
CentreStone Ventures Limited Partnership	$ 3,408,522	$ 3,408,522
Manitoba Science and Technology Fund	1,832,233	1,832,233
	5,240,755	5,240,755
Provision for decline in value of investments	(5,240,755)	(5,240,755)
	$ –	$ –

6. Deferred revenue:

	2017	2016
Business Support		
BFO funding (geothermal program)	$ 156,582	$ 214,540
Electric vehicle initiative	143,691	143,691
Manitoba Hydro funding (shallow unconventional shale gas project)	14,605	21,600
Other unearned project receipts	9,705	9,705
	324,583	389,536
MTI	16,500	9,000
Deferred revenue	$ 341,083	$ 398,536

7. Operating advance payable:

The Corporation has a $500,000 non-interest bearing working capital advance from the Province of Manitoba for MTI. The advance is payable on demand.

8. Restricted funds and deposits payable:

As at March 31, restricted funds held under the PNP-B and invested with a Schedule I chartered bank and the Province of Manitoba were as follows:

	2017	2016
Cash and cash equivalents with a chartered bank	$ 11,095,540	$ 10,083,783
Amounts invested with the Minister of Finance	52,577,112	43,701,976
	$ 63,672,652	$ 53,785,759

Included within amounts invested with the Minister of Finance is a provincial bond with a carrying value of $5,032,491 (2016 - $5,044,655) with the remainder consisting of term deposits with maturities of three months or less held with the Province of Manitoba.

The provincial bond bears interest at a rate of 2.45 percent (2016 - 2.45 percent) and matures December 2019 (2016 - matures December 2019).

Interest earned on provincial bonds for the year ended March 31, 2017 totaled $129,114 (2016 - $784,791). Amortization of bond premiums for the year ended March 31, 2017 totaled $14,191 (2016 - $182,790). Fair value of the provincial bond at March 31, 2017 is $5,165,500 (2016 - $5,224,650).

As at March 31, deposits payable under the PNP-B were as follows:

	2017	2016
Deposits payable	$ 63,672,652	$ 53,785,759

The Corporation, Manitoba Growth, Enterprise and Trade (formerly Jobs and the Economy) and Manitoba Education and Training (formerly Labour and Immigration) operate a program known as the Provincial Nominee Program for Business (PNP-B). The PNP-B offers individuals who wish to immigrate to Manitoba to establish and operate a business, the opportunity to obtain a provincial Nomination Certificate. During the 2003 fiscal year, the Corporation began entering into agreements with qualified individuals whereby the immigrants commit to invest specified amounts to establish approved businesses in Manitoba within a specified period of time after landing in Canada.

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

8. Restricted funds and deposits payable (continued):

As evidence of their commitment, upon approval the immigrants are required to deposit $100,000 (or $75,000 under the Farm Strategic Recruitment Initiative) with the Corporation prior to receiving the Nomination Certificate. These deposits are held by the Corporation and are refundable to the immigrants based on the satisfaction of the conditions set out in the deposit agreements. The final decision as to admission to Canada for permanent residence is made by the Government of Canada. In the event that a nominee is not granted a Permanent Resident visa by the Government of Canada, the Corporation refunds the deposit. The Corporation invests the deposits, retains all interest income earned on the deposits and, should immigrants fail to satisfy the conditions of the agreements, the Corporation also has the right, under the agreements, to retain the deposits.

In 2014, a number of changes were introduced to the PNP-B. The deposit for the PNP-B was raised to $100,000 from $75,000. The Young Farmer Program was replaced by a Farm Strategic Recruitment Initiative (FSRI) which is a special rural economic initiative under the auspices of the PNP-B. Approved immigrants under the FSRI are required to deposit $75,000 with the corporation. Under both the PNP-B and the FSRI, a non-refundable application processing fee of $2,500 was introduced. Total application fees collected during the year were $1,117,475 (2016 - $783,730).

Actual deposits retained during the year amounted to $9,399,985 (2016 - $5,551,088) and are presented net of the reversal of amounts previously retained of $375,178 (2016 - $525,002) as a result of immigrants subsequently satisfying the conditions of the agreements. Net deposits retained are $9,024,807 (2016 - $5,026,086).

9. Accumulated surplus:

Accumulated surplus is made up of the following:

				2017	2016
	PNP-B	Business support	MTI		
Unrestricted surplus	$ 43,455,577	$ 5,061,977	$ 444,184	$ 48,961,738	$ 45,576,542
Restricted surplus	6,577,004	–	–	6,577,004	6,257,104
Share capital	–	1,000	–	1,000	1,000
	$ 50,032,581	$ 5,062,977	$ 444,184	$ 55,539,742	$ 51,834,646

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

10. Contingencies:

Manitoba Development Corporation has guaranteed the repayment of debt, bank loans and lines of credit held by others. Debt guaranteed by MDC is guaranteed, as to principal and interest, until the debt is matured or redeemed.

The authorized limits and the outstanding guarantees are summarized as follows:

	Authorized Limit	2017	2016
Friends of the Canadian Museum for Human Rights	$ 25,000,000	$ 10,500,000	$ 15,900,000
Other	3,000,000	2,005,000	2,665,000
	$ 28,000,000	$ 12,505,000	$ 18,565,000

At March 31, 2017, a provision for future losses on guarantees in the amount of $500,000 (2016 - nil) has been recognized in the statement of operations and accumulated surplus.

11. Commitments:

Commitments and undisbursed balances of approved loans and equity investments:

	2017	2016
Manitoba Industrial Opportunities Program	$ 3,475,000	$ 4,775,000
Manitoba Science & Technology Fund	667,767	667,767
CentreStone Ventures Limited Partnership	1,381,525	1,381,525
	$ 5,524,292	$ 6,824,292

12. Growing Through Immigration Strategy and Economic Development Support:

Funds transferred to support the Growing Through Immigration Strategy and Economic Development Support are made up of the following, as approved by Treasury Board:

	2017	2016
Education and Training	$ 3,728,000	$ 3,823,000
Growth, Enterprise and Trade	2,292,000	2,322,000
	$ 6,020,000	$ 6,145,000

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

13. Related party transactions:

The Corporation is related in terms of common ownership to all Province of Manitoba created departments, agencies and crown corporations. The Corporation enters into transactions with these entities in the normal course of business. These transactions are recorded at the exchange amount.

14. Financial risks and concentration of risk:

(i) Credit risk:

Credit risk is the risk that one party to a financial instruments fails to discharge an obligation and causes financial loss to another party. Financial instruments that potentially subject the Corporation to credit risk consist principally of cash and cash equivalents, portfolio investments, accounts receivable, loans receivable and trust funds.

The maximum exposure of the Corporation to credit risk at March 31 is:

	2017	2016
Cash and cash equivalents	$ 44,030,190	$ 36,336,538
Accounts receivable	277,689	295,756
Loans receivable	54,382,578	73,295,947
Portfolio investments	17,056,252	21,296,105
Restricted funds	63,672,652	53,785,759
	$ 179,419,361	$ 185,010,105

Cash and cash equivalents and restricted funds: the Corporation is not exposed to significant credit risk as the cash and cash equivalents and restricted funds are primarily held by the Minister of Finance and with a Schedule 1 Canadian chartered bank.

Accounts receivable, loans receivable and portfolio investments: the Corporation establishes an allowance that represents its estimate of potentially uncollectible loans and recoverable portfolio investments. The provision for doubtful loans receivable is determined with reference to the Corporation's historical loss experience on similar loans and management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off. When there has been a loss in value that is other than a temporary decline in value, the respective investment is written down to recognize the loss in the provision for decline in value of estimates.

14. Financial risks and concentration of risk (continued):

Management of credit risk is an integral part of the Corporation's activities with careful monitoring and appropriate remedial actions being taken.

Management has determined that the provision required for loans receivable as at March 31, 2017 is $18,657,665 (2016 - $18,864,276).

Management has determined that the provision required for loan guarantees as at March 31, 2017 is $500,000 (2016 - nil).

Management has determined that the provision required for portfolio investments as at March 31, 2017 is $5,240,755 (2016 - $5,240,755).

(ii) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to term deposits with the Minister of Finance and a Schedule I Canadian chartered bank. The term deposits are interest bearing with short-terms to maturity. As the term deposits are normally held to maturity, changes in interest rates do not affect their value.

(iii) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due.

The Corporation manages liquidity risk by maintaining adequate cash balances and by review from the Province of Manitoba to ensure adequate funding will be received to meet the obligations. Funds provided by the Province of Manitoba have a direct correlation to the loans receivable and equity investments as funds borrowed are used for these purposes. Funding is provided by the Province of Manitoba for the full amount of loans receivable and equity investments that are written off. Subsequently, the Corporation has minimal liquidity risk on its loans receivable and equity investments in respect of the funds provided by the Province of Manitoba.

There have been no significant changes to the Corporation's exposure to financial risks, concentration of risk in how they arise nor how risks are managed since the previous period.

MANITOBA DEVELOPMENT CORPORATION

Schedule of Operations and Accumulated Surplus - PNP-B

Schedule A

Year ended March 31, 2017, with comparative information for 2016

	Budget	2017	2016
Income:			
Income from portfolio investments	$ 312,337	$ 350,363	$ 866,723
Interest income	492,145	552,062	377,805
Deposit retentions	7,750,000	9,024,807	5,026,086
Application processing fees	1,250,000	1,117,475	783,730
	9,804,482	11,044,707	7,054,344
Expenses:			
Program administration	1,878,829	1,408,666	1,623,129
Transfers to the Department of Education and Training	4,640,000	3,728,000	3,823,000
Transfers to the Department of Growth, Enterprise Enterprise and Trade	2,732,000	2,292,000	2,322,000
	9,250,829	7,428,666	7,768,129
Annual surplus (deficiency)	553,653	3,616,041	(713,785)
Accumulated surplus, beginning of year		46,416,540	47,130,325
Accumulated surplus, end of year		$ 50,032,581	$ 46,416,540

MANITOBA DEVELOPMENT CORPORATION

Schedule of Operations and Accumulated Surplus - Business Support

Schedule B

Year ended March 31, 2017, with comparative information for 2016

	Budget	2017	2016
Income:			
Interest from portfolio investments	$ 110,000	$ 72,286	$ 72,792
Interest income	8,375,508	3,035,408	3,266,014
Project revenue	96,000	64,953	5,271
Recovery (reimbursement) of Business Support expenses from (to) the Province of Manitoba:			
Provision for doubtful loans receivable	1,387,156	(206,611)	(1,977,605)
Provision for decline in value of investments	105,000	–	1,315
Provision for loan guarantees	–	500,000	–
	10,073,664	3,466,036	1,367,787
Expenses:			
Program administration	110,000	21,929	64,623
Payment of Business Support interest on loans receivable to the Province of Manitoba	8,810,000	3,005,545	3,263,941
Provision for (reversal of) doubtful loans receivable	1,387,156	(206,611)	(1,977,605)
Provision for decline in value of investments	105,000	–	1,315
Provision for loan guarantees	–	500,000	–
Project costs	96,000	64,953	5,271
	10,508,156	3,385,816	1,357,545
Annual surplus (deficiency)	(434,492)	80,220	10,242
Accumulated surplus, beginning of year		4,982,757	4,972,515
Accumulated surplus, end of year		$ 5,062,977	$ 4,982,757

MANITOBA DEVELOPMENT CORPORATION

Schedule of Operations and Accumulated Surplus - MTI

Schedule C

Year ended March 31, 2017, with comparative information for 2016

	Budget	2017	2016
Income:			
Income from portfolio investments	$ 15,000	$ 3,100	$ 3,409
Participation fees	165,000	50,550	426,180
	180,000	53,650	429,589
Expenses:			
Program administration	165,000	44,815	405,205
Annual surplus	15,000	8,835	24,384
Accumulated surplus, beginning of year		435,349	410,965
Accumulated surplus, end of year		$ 444,184	$ 435,349

MANITOBA DEVELOPMENT CORPORATION

Report of Assistance Granted or to be Granted

Schedule D

Year ended March 31, 2017

Under the *Manitoba Development Corporation Act*, there was no new assistance authorized in the current year.