
**MANITOBA
DEVELOPMENT
CORPORATION**

**Annual Report
March 2018**

MANITOBA DEVELOPMENT CORPORATION

Financial Statements
March 31, 2018



**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
450 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, 2018.

Respectfully submitted,

Original signed by

Blaine Pedersen
Minister



Growth, Enterprise and Trade

Manitoba Development Corporation
1010-259 Portage Ave., Winnipeg, Manitoba, Canada R3B 3P4
T 204-945-2770 F 204-945-1193
www.manitoba.ca

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, 2018, as required by Section 18 of the Manitoba Development Corporation Act.

Respectfully submitted,

Original signed by

Dave Dyson
Deputy Minister

MANITOBA DEVELOPMENT CORPORATION

CORPORATE REPORT

CORPORATE PROFILE

DIRECTORS AND OFFICERS

Minister Responsible: The Honourable Blaine Pedersen

Board of Directors:

Chair:	Dave Dyson
Director:	James Wilson
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 Business Investor Stream of the Provincial Nominee Program (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 includes the funds associated with the Manitoba Provincial Nominee Program (MPNP) business stream for international entrepreneurs who wish to 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 be 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, 2018 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.

As at March 31, 2018, the program has 12 active loans to 9 companies totaling \$57 million under management, with 1,566 Manitoba full time equivalent jobs required per the loan agreements and 1,612 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.)	1,413,708
C.P. Loewen Enterprises Ltd.....	13,175,000
Glacier L.P.	5,815,018
HD-Petroleum Inc.	3,067,708
Magellan Aerospace Ltd.	13,230,000
Premier Horticulture Ltd.	166,666
Sightline Innovation Inc.	2,000,000
True North Foods (6381023 Manitoba Ltd.)	2,828,750
Winnipeg Airport Authority Inc.....	<u>15,307,306</u>
Subtotal.....	57,004,159
Net accrued and capitalized interest	<u>621,096</u>
Total.....	57,625,255

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, 2018, 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, 2018 are:

CentreStone Ventures Fund.....	3,408,522
Manitoba Science & Technology Fund.....	<u>1,832,233</u>
Total.....	5,240,755

From its inception in 1996 to March 31, 2018, 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

The Province of Manitoba and Government of Canada share responsibilities regarding business people immigrating to Canada through the Manitoba Provincial Nominee Program (MPNP). The MPNP 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. 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 Investor Pathway to rural Manitoba to strengthen Manitoba's key agricultural sector.

Program Performance and Trends:

On February 4, 2015, the Business Expression of Interest (EOI) online system was opened to the public. Under this process, potential applicants have the opportunity to submit an EOI as an indication of a desire to submit an application. All submissions are placed in an EOI pool and are assessed based on a point system using an Adaptability Assessment Matrix.

In November 2017, the MPNP announced changes to its Business Entrepreneur Pathway (BEP) under the Investor Stream. The BEP allows Manitoba to recruit and nominate qualified business investors and entrepreneurs who have the intent and ability to start or purchase businesses in Manitoba within the first 24 months of arrival in Canada on a temporary work permit. Applicants no longer submit a deposit of \$100,000. Instead, they sign a Business Performance Agreement, which details the obligations candidates must fulfill in order to be nominated for Permanent Residence in Canada. Once those conditions are met, candidates receive Nomination that allows them to apply for Permanent Resident status to Immigration, Refugees and Citizenship Canada. The new criteria and process was launched in May 2018.

MPNP has been successful in recruiting 129 farm business immigrants who have invested over \$120 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 demonstrated the necessary net worth and practical farming skills and experiences that transfer directly to Manitoba's primary production farm industry. The Farm Investor Pathway (FIP) remains a Direct Nomination immigration model at this time. The Direct Nomination model requires an approved applicant to sign a Deposit Agreement and submit a \$75,000 cash deposit prior to receiving nomination. Once the deposit and deposit agreement has been received, the applicant is nominated and can apply for Permanent Residence. Upon the establishment of the farm business, the applicant can apply to the MPNP for deposit refund.

The MPNP monitors initial business investments by business immigrants under the program. In 2017/18, the program measured 50 initial business investments totaling \$15 million by applicants which created or maintained 154 jobs. Since inception in 2001, 941 initial business investments have been made with an investment in excess of \$312 million.

MANITOBA TRADE AND INVESTMENT

Manitoba Trade and Investment assists Manitoba small and medium-sized enterprises (SMEs) to become first-time exporters entering new markets and active exporters diversifying into domestic and international markets. Manitoba Trade and Investment promotes Manitoba as a destination for foreign direct investment to increase inbound investment and employment.

Manitoba Trade and Investment also manages Manitoba's internal and international trade agreements and negotiations, including oversight of domestic and international trade disputes.

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

SERVICES:

Manitoba Trade and Investment:

- Provides Manitoba companies with export counselling; in-market experience; market intelligence; language expertise; and co-ordination of inbound and outbound trade missions and group participation in trade shows.
- Provides support to Manitoba companies by assisting with market entry research; development of their market entry plans and connecting companies that can work together to enter new markets.
- Works in partnership with business organizations and provincial/federal partners to leverage support on export development initiatives including the execution of outgoing trade missions and hosting information sessions for companies.
- Develops provincial policy for the negotiation and implementation of interprovincial and international trade agreements to improve Manitoba companies' access to domestic and foreign markets.
- Ensures Manitoba's priorities and concerns are reflected in trade negotiations through consultations with key stakeholders.
- Provides updates on the status of agreements and negotiations to government, industry and civil society stakeholders.
- Works with stakeholders and front line departments to defend Manitoba exporters and Manitoba programs in domestic and international trade disputes.

Financial Statements of

**MANITOBA DEVELOPMENT
CORPORATION**

Year ended March 31, 2018

MANITOBA DEVELOPMENT CORPORATION

Financial Statements
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Year ended March 31, 2018

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MANAGEMENT REPORT

Management's Responsibility for Financial Reporting

The accompanying financial statements of Manitoba Development Corporation are the responsibility of the management 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 June 25, 2018.

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

June 25, 2018



KPMG LLP
One Lombard Place
Suite 2000
Winnipeg MB
R3B 0X3

Telephone (204) 957-1770
Fax (204) 957-0808
www.kpmg.ca

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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, 2018, 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, 2018, 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

June 25, 2018

Winnipeg, Canada

MANITOBA DEVELOPMENT CORPORATION

Statement of Financial Position

March 31, 2018, with comparative information for 2017

	PNP-B	Business support	MTI	2018 Total	2017 Total
Assets					
Cash and cash equivalents	\$ 49,430,113	\$ 1,571,474	\$ 34,036	\$ 51,035,623	\$ 44,030,190
Accounts receivable (note 3)	320,668	21,047	432,585	774,300	277,689
Loans receivable (note 4)	–	48,802,385	–	48,802,385	54,382,578
Portfolio investments (note 5)	8,137,780	4,250,000	500,000	12,887,780	17,056,252
Restricted funds (note 8)	71,793,101	–	–	71,793,101	63,672,652
Prepaid expenses	–	–	6,032	6,032	237,830
	<u>\$ 129,681,662</u>	<u>\$ 54,644,906</u>	<u>\$ 972,653</u>	<u>\$ 185,299,221</u>	<u>\$ 179,657,191</u>
Liabilities and Surplus					
Liabilities:					
Accounts payable and accrued liabilities	\$ 4,544,626	\$ 404,048	\$ 3,849	\$ 4,952,523	\$ 5,221,136
Deferred revenue (note 6)	–	316,146	14,000	330,146	341,083
Operating advance payable (note 7)	–	–	500,000	500,000	500,000
Funds provided by the Province of Manitoba	–	48,802,385	–	48,802,385	54,382,578
Deposits payable (note 8)	71,793,101	–	–	71,793,101	63,672,652
	<u>76,337,727</u>	<u>49,522,579</u>	<u>517,849</u>	<u>126,378,155</u>	<u>124,117,449</u>
Accumulated surplus (note 9)	53,343,935	5,122,327	454,804	58,921,066	55,539,742
Contingencies (note 10)					
Commitments (note 11)					
	<u>\$ 129,681,662</u>	<u>\$ 54,644,906</u>	<u>\$ 972,653</u>	<u>\$ 185,299,221</u>	<u>\$ 179,657,191</u>

The accompanying notes form an integral part of these financial statements.

On behalf of the Board:

Original signed by Jeff Hodge

Director

Original signed by Dave Dyson

Director

MANITOBA DEVELOPMENT CORPORATION

Statement of Operations and Accumulated Surplus

Year ended March 31, 2018, with comparative information for 2017

	Budget	2018	2017
Income:			
Income from portfolio investments	\$ 372,412	\$ 383,242	\$ 425,749
Interest income	9,871,588	3,579,996	3,587,470
Deposit retentions (note 8)	8,175,000	8,426,675	9,024,807
Application processing fees (note 8)	1,000,000	698,432	1,117,475
Participation fees	170,000	512,946	50,550
Project revenue	96,000	8,437	64,953
Recovery (reimbursement) of Business Support expenses from (to) the Province of Manitoba:			
Provision for (reversal of) doubtful loans receivable	1,387,156	(815,792)	(206,611)
Provision for decline in value of investments	105,000	–	–
Provision for (reversal of) loan guarantees	–	(500,000)	500,000
	<u>21,177,156</u>	<u>12,293,936</u>	<u>14,564,393</u>
Expenses:			
Program administration	2,558,000	1,920,639	1,475,410
Payment of Business Support interest on loans receivable to the Province of Manitoba	8,810,000	2,553,328	3,005,545
Project costs	96,000	8,437	64,953
Provision for (reversal of) doubtful loans receivable	1,387,156	(815,792)	(206,611)
Provision for decline in value of investments	105,000	–	–
Provision for (reversal of) loan guarantees	–	(500,000)	500,000
	<u>12,956,156</u>	<u>3,166,612</u>	<u>4,839,297</u>
Transfers to the Department of Education and Training (note 12)	4,640,000	3,996,000	3,728,000
Transfers to the Department of Growth, Enterprise and Trade (note 12)	2,350,000	1,750,000	2,292,000
	<u>19,946,156</u>	<u>8,912,612</u>	<u>10,859,297</u>
Annual surplus	1,231,000	3,381,324	3,705,096
Accumulated surplus, beginning of year		55,539,742	51,834,646
Accumulated surplus, end of year		<u>\$ 58,921,066</u>	<u>\$ 55,539,742</u>

The accompanying notes form an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION

Statement of Changes in Net Financial Assets

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Annual surplus	\$ 3,381,324	\$ 3,705,096
Net financial assets, beginning of year	55,539,742	51,834,646
Net financial assets, end of year	\$ 58,921,066	\$ 55,539,742

The accompanying notes form an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION

Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 3,381,324	\$ 3,705,096
Adjustments for:		
Provision for (reversal of) doubtful loans receivable	(815,792)	(206,611)
Provision for (reversal of) loan guarantees	(500,000)	500,000
Deposit retentions	(8,426,675)	(9,024,807)
Amortization of bond premiums	180,635	236,518
Capitalized interest	(9,398)	(44,571)
Recovery (reimbursement) of Business Support expenses to the Province of Manitoba	1,315,792	(293,389)
Change in non-cash operating working capital:		
Restricted funds	(8,131,287)	(9,901,084)
Accounts receivable	(496,611)	18,067
Loan interest receivable	(21,570)	40,977
Prepaid expenses	231,798	(237,830)
Accounts payable and accrued liabilities	(268,613)	25,919
Deferred revenue	(10,937)	(57,453)
Net change in deposits payable	16,547,124	18,911,700
Net cash provided by operating activities	2,975,790	3,672,532
Investing activities:		
Loans receivable principal repayments	8,919,953	20,423,574
Issuance of loans receivable	(2,493,000)	(1,300,000)
Purchase of portfolio investments	(4,750,000)	(4,750,000)
Redemption of portfolio investments	8,748,675	8,767,526
Net cash provided by investing activities	10,425,628	23,141,100
Financing activities:		
Funds provided by (paid to) the Province of Manitoba for Business Support	(6,395,985)	(19,119,980)
Increase in cash and cash equivalents	7,005,433	7,693,652
Cash and cash equivalents, beginning of year	44,030,190	36,336,538
Cash and cash equivalents, end of year	\$ 51,035,623	\$ 44,030,190
Cash and cash equivalents consists of the following:		
Cash	\$ 13,481,917	\$ 16,172,172
Cash equivalents	37,553,706	27,858,018
	\$ 51,035,623	\$ 44,030,190
Supplementary information:		
Cash paid for interest	\$ 2,553,328	\$ 3,005,545
Cash received for interest	4,079,847	4,274,679

The accompanying notes form an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements

Year ended March 31, 2018

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 Business Investor Stream of the Provincial Nominee Program (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 PNP-B (based on the most recent year's actual expenses) plus 25 percent of the previous year's PNP-B deposit retentions. This is a reserve which is not available for 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, 2018, the Corporation has complied with these restrictions.

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

2. Significant accounting policies:

The Corporation's financial statements have been prepared by management in accordance with Canadian public sector accounting standards as defined by the Chartered Professional Accountants of Canada.

(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.

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

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.

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

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.

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

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.

(l) Changes in accounting policies:

On April 1, 2017, the Corporation adopted Canadian public sector accounting standards PS 2200 *Related party disclosures*, PS 3420 *Inter-entity transactions*, PS 3210 *Assets*, PS 3320 *Contingent assets*, and PS 3380 *Contractual rights*. The adoption of these standards did not have a material impact on the financial statements.

3. Accounts receivable:

	2018	2017
Accrued interest:		
PNP-B	\$ 320,668	\$ 253,168
Business support	21,047	17,705
Other receivables	432,585	6,816
	<u>\$ 774,300</u>	<u>\$ 277,689</u>

4. Loans receivable managed for the Province of Manitoba:

	2018	2017
Business support:		
Manitoba Industrial Opportunities Program - repayable	\$ 57,625,255	\$ 65,600,122
Other loans receivable	9,019,003	7,440,121
	<u>66,644,258</u>	<u>73,040,243</u>
Provision for doubtful loans receivable	(17,841,873)	(18,657,665)
	<u>\$ 48,802,385</u>	<u>\$ 54,382,578</u>

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

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

The Manitoba Industrial Opportunities Program (MIOP) provides repayable, secured loans for businesses that undertake significant investment in fixed assets and/or create jobs. Loan principal is due as follows:

	2018	2017
2019	\$ 6,866,732	\$ 8,638,926
2020	7,445,272	9,168,005
2021	5,282,596	7,379,428
2022	7,626,596	7,160,752
2023	7,626,596	7,560,752
Subsequent to 2023	22,156,367	25,108,483
Accrued and capitalized interest	621,096	583,776
	57,625,255	65,600,122
Provision for doubtful loans receivable	(17,091,873)	(17,907,665)
	\$ 40,533,382	\$ 47,692,457

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:

	2018	2017
Greater than nil, less than 5%	\$ 32,886,416	\$ 36,418,132
5% or greater, less than 6%	24,117,743	28,291,547
6% or greater, less than 7%	-	-
7% or greater, less than 8%	-	306,667
Accrued and capitalized interest	621,096	583,776
	57,625,255	65,600,122
Provision for doubtful loans receivable	(17,091,873)	(17,907,665)
	\$ 40,533,382	\$ 47,692,457

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

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, 2018, other loans receivable include non-interest bearing loans in the amount of \$6,520,211 and an interest bearing loan in the amount of \$2,498,792 bearing interest at 5.30 percent (2017 - non-interest bearing loans) and maturities ranging from no fixed terms of repayment to December 2022 (2017 - ranging from no fixed terms of repayment to December 2022). At March 31, 2018, the provision for doubtful loans receivable for these loans is \$750,000 (2017 - \$750,000).

5. Portfolio investments:

Portfolio investments are comprised of the following:

	2018	2017
Provincial bonds	\$ 8,137,780	\$ 12,306,252
Term deposits	4,750,000	4,750,000
Equity investments	-	-
	<u>\$ 12,887,780</u>	<u>\$ 17,056,252</u>

The provincial bonds, which are included in PNP-B, bear interest at rates ranging from 2.40 percent to 4.15 percent (2017 - 2.40 percent to 4.50 percent) and mature between December 2018 and December 2019 (2017 - between December 2017 and December 2019). Interest earned on provincial bonds for the year ended March 31, 2018 totaled \$374,941 (2017 - \$457,767). Amortization of bond premiums for the year ended March 31, 2018 totaled \$169,797 (2017 - \$222,327). Fair value of the provincial bonds at March 31, 2018 is \$8,165,600 (2017 - \$12,502,560).

The term deposits, which are included in Business Support and MTI, bear interest at rates ranging from 1.62 percent to 1.93 percent (2017 - 0.69 percent to 1.25 percent) and mature between May 2018 and March 2019 (2017 - June 2017 and March 2018). Fair values approximate cost. Interest earned on term deposits for the year ended March 31, 2018 totaled \$83,182 (2017 - \$75,386).

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

5. Portfolio investments (continued):

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

	2018	2017
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:

	2018	2017
Business Support		
BFO funding (geothermal program)	\$ 148,782	\$ 156,582
Electric vehicle initiative	143,691	143,691
Manitoba Hydro funding (shallow unconventional shale gas project)	13,968	14,605
Other unearned project receipts	9,705	9,705
	316,146	324,583
MTI	14,000	16,500
Deferred revenue	\$ 330,146	\$ 341,083

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.

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

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:

	2018	2017
Cash and cash equivalents with a chartered bank	\$ 7,917,794	\$ 11,095,540
Amounts invested with the Minister of Finance	63,875,307	52,577,112
	<u>\$ 71,793,101</u>	<u>\$ 63,672,652</u>

Included within amounts invested with the Minister of Finance is a provincial bond with a carrying value of \$5,020,328 (2017 - \$5,032,491) 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 (2017 - 2.45 percent) and matures December 2019 (2017 - matures December 2019).

Interest earned on the provincial bond for the year ended March 31, 2018 totaled \$105,753 (2017 - \$129,114). Amortization of bond premium for the year ended March 31, 2018 totaled \$10,838 (2017 - \$14,191). Fair value of the provincial bond at March 31, 2018 is \$5,044,250 (2017 - \$5,165,500).

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

	2018	2017
Deposits payable	\$ 71,793,101	\$ 63,672,652

The Corporation, Manitoba Growth, Enterprise and Trade and Manitoba Education and Training operate a program known as the Business Investor Stream of the Provincial Nominee Program (formerly 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 committed 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, 2018

8. Restricted funds and deposits payable (continued):

As evidence of their commitment, upon approval the immigrants were 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 processing fees collected during the year were \$698,432 (2017 - \$1,117,475).

In November 2017, further changes were introduced to the PNP-B. Application processing fees will continue to be collected; however, they will not be administered by the Corporation. Also, the PNP-B now has two pathways:

- The Entrepreneur Pathway, for applicants seeking to open a business in Manitoba; and
- The Farm Investor Pathway for those intending to operate a farm operation in rural Manitoba.

After November 2017, new business investors under the Entrepreneur Pathway are not required to submit a deposit or enter into an agreement with the Corporation. As of March 31, 2018, the PNP-B continues to process a backlog of applications submitted prior to November 2017; however, once this backlog is cleared, there will be no further application fees received and deposits (\$75,000) will only be received from individuals under the Farm Investor Pathway (which replaced the FSRI).

Actual deposits retained during the year amounted to \$9,026,770 (2017 - \$9,399,985) and are presented net of the reversal of amounts previously retained of \$600,095 (2017 - \$375,178) as a result of immigrants subsequently satisfying the conditions of the agreements. Net deposits retained are \$8,426,675 (2017 - \$9,024,807).

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

9. Accumulated surplus:

Accumulated surplus is made up of the following:

				2018	2017
	PNP-B	Business support	MTI		
Unrestricted surplus	\$ 46,866,084	\$ 5,121,327	\$ 454,804	\$ 52,442,215	\$ 48,961,738
Restricted surplus	6,477,851	—	—	6,477,851	6,577,004
Share capital	—	1,000	—	1,000	1,000
	\$ 53,343,935	\$ 5,122,327	\$ 454,804	\$ 58,921,066	\$ 55,539,742

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	2018	2017
Friends of the Canadian Museum for Human Rights	\$ 25,000,000	\$ 7,150,000	\$ 10,500,000
Other	2,000,000	1,205,000	2,005,000
	\$ 27,000,000	\$ 8,355,000	\$ 12,505,000

At March 31, 2018, a reversal of the provision for future losses on guarantees in the amount of \$500,000 (2017 - a provision for future losses on guarantees in the amount of \$500,000) has been recognized in the statement of operations and accumulated surplus.

11. Commitments:

Commitments and undisbursed balances of approved loans and equity investments:

	2018	2017
Manitoba Industrial Opportunities Program	\$ 3,475,000	\$ 3,475,000
Manitoba Science & Technology Fund	667,767	667,767
CentreStone Ventures Limited Partnership	1,381,525	1,381,525
	\$ 5,524,292	\$ 5,524,292

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

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:

	2018	2017
Education and Training	\$ 3,996,000	\$ 3,728,000
Growth, Enterprise and Trade	1,750,000	2,292,000
	\$ 5,746,000	\$ 6,020,000

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:

	2018	2017
Cash and cash equivalents	\$ 51,035,623	\$ 44,030,190
Accounts receivable	774,300	277,689
Loans receivable	48,802,385	54,382,578
Portfolio investments	12,887,780	17,056,252
Restricted funds	71,793,101	63,672,652
	\$ 185,293,189	\$ 179,419,361

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.

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

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

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.

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, 2018 is \$17,841,873 (2017 - \$18,657,665).

Management has determined that the provision required for loan guarantees as at March 31, 2018 is nil (2017 - \$500,000).

Management has determined that the provision required for portfolio investments as at March 31, 2018 is \$5,240,755 (2017 - \$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.

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

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

(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, 2018, with comparative information for 2017

	Budget	2018	2017
Income:			
Income from portfolio investments	\$ 247,412	\$ 300,060	\$ 350,363
Interest income	846,588	1,026,738	552,062
Deposit retentions	8,175,000	8,426,675	9,024,807
Application processing fees	1,000,000	698,432	1,117,475
	10,269,000	10,451,905	11,044,707
Expenses:			
Program administration	2,278,000	1,394,551	1,408,666
Transfers to the Department of Education and Training	4,640,000	3,996,000	3,728,000
Transfers to the Department of Growth, Enterprise and Trade	2,350,000	1,750,000	2,292,000
	9,268,000	7,140,551	7,428,666
Annual surplus	1,001,000	3,311,354	3,616,041
Accumulated surplus, beginning of year		50,032,581	46,416,540
Accumulated surplus, end of year		\$ 53,343,935	\$ 50,032,581

MANITOBA DEVELOPMENT CORPORATION

Schedule of Operations and Accumulated Surplus - Business Support

Schedule B

Year ended March 31, 2018, with comparative information for 2017

	Budget	2018	2017
Income:			
Interest from portfolio investments	\$ 110,000	\$ 79,751	\$ 72,286
Interest income	9,025,000	2,553,258	3,035,408
Project revenue	96,000	8,437	64,953
Recovery (reimbursement) of Business Support expenses from (to) the Province of Manitoba:			
Provision for (reversal of) doubtful loans receivable	1,387,156	(815,792)	(206,611)
Provision for decline in value of investments	105,000	–	–
Provision for (reversal of) loan guarantees	–	(500,000)	500,000
	10,723,156	1,325,654	3,466,036
Expenses:			
Program administration	110,000	20,331	21,929
Payment of Business Support interest on loans receivable to the Province of Manitoba	8,810,000	2,553,328	3,005,545
Project costs	96,000	8,437	64,953
Provision for (reversal of) doubtful loans receivable	1,387,156	(815,792)	(206,611)
Provision for decline in value of investments	105,000	–	–
Provision for (reversal of) loan guarantees	–	(500,000)	500,000
	10,508,156	1,266,304	3,385,816
Annual surplus	215,000	59,350	80,220
Accumulated surplus, beginning of year		5,062,977	4,982,757
Accumulated surplus, end of year		\$ 5,122,327	\$ 5,062,977

MANITOBA DEVELOPMENT CORPORATION

Schedule of Operations and Accumulated Surplus - MTI

Schedule C

Year ended March 31, 2018, with comparative information for 2017

	Budget	2018	2017
Income:			
Income from portfolio investments	\$ 15,000	\$ 3,431	\$ 3,100
Participation fees	170,000	512,946	50,550
	185,000	516,377	53,650
Expenses:			
Program administration	170,000	505,757	44,815
Annual surplus	15,000	10,620	8,835
Accumulated surplus, beginning of year		444,184	435,349
Accumulated surplus, end of year		\$ 454,804	\$ 444,184

MANITOBA DEVELOPMENT CORPORATION

Report of Assistance Granted or to be Granted

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Schedule D

Year ended March 31, 2018

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