

Business Credit Corporation

1998 ANNUAL REPORT

Northwest Territories
Business Credit Corporation





Table of Contents

1. MESSAGE FROM THE CHAIR
2. BOARD OF DIRECTORS
3. OBJECTIVE
4. HISTORICAL HIGHLIGHTS
5. ANNUAL STATISTICS
6. FINANCIAL STATEMENTS MARCH 31, 1998



MESSAGE FROM THE CHAIRPERSON - 1998

**THE HONOURABLE STEPHEN KAKFWI
MINISTER
RESOURCES, WILDLIFE AND ECONOMIC DEVELOPMENT**

I have pleasure in presenting the Annual Report of the Northwest Territories Business Credit Corporation (BCC) for the fiscal year ending March 31, 1998.

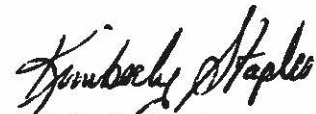
This year saw an increase in the BCC loan portfolio of 20% by number and 62% by volume, representing a total of 119 credit facilities for over \$14 million authorized during the year.

Credit facilities to businesses in Level 2 and 3 communities continued to provide the majority of these new credit facilities. The major increase was in credit facilities to Level 2 communities, the number increasing by 63% and the volume almost doubling from the previous year.

One new feature of our annual report is a breakdown of approved credit facilities into range and average size, which shows that the majority of credit facilities are authorized at the Regional level. Another new feature is a breakdown into economic sectors.

In a move to simplify and streamline delivery of lending throughout the Northwest Territories, the "Access to Capital" study was initiated by the Department last year. The BCC Board participated in this process, by setting forth a new Vision Report, providing their strategic framework and workplan for creating an effective BCC. The resultant report provides the framework by which the BCC can continue to provide financing to NWT businesses in co-operation with other agencies, thus providing the best quality service to clients.

I wish to thank the Board of Directors, the CEO and staff and the Deputy Minister and staff of the Department of Resources, Wildlife and Economic Development, for their support and assistance throughout the year.


Kimberly Staples
Chairperson

BCC BOARD OF DIRECTORS 1997/98

MS. KIMBERLY STAPLES	CHAIRPERSON	YELLOWKNIFE
MR. KEITH PETERSON	VICE CHAIRPERSON	CAMBRIDGE BAY
MS. FRIEDA MARTSELOS	DIRECTOR	FORT SMITH
MR. MARK KALLUAK	DIRECTOR	ARVIAT
MR. ROBERT HANSON	DIRECTOR	IQALUIT
MR. DOUGLAS DOAN	DIRECTOR	YELLOWKNIFE
MR. OTTO OLAH	DIRECTOR	YELLOWKNIFE
*MR. DENNIE LENNIE	DIRECTOR	INUVIK
*MR. GORDON YAKELEYA	DIRECTOR	TULITA

* RESIGNED DURING YEAR

INTRODUCTION

The objective of the Business Credit Corporation is to stimulate economic development and employment in the Northwest Territories, by making credit facilities to business enterprises, guaranteeing credit facilities made by financial institutions to business and by providing bonds to resident business enterprises. It is responsible for making business development credit facilities to northern businesses where conventional lending institutions are not prepared to participate. Its role, therefore, is a blend of being a last resort lender and a developmental agency to provide financial support for higher risk entrepreneurial ventures.

HISTORICAL HIGHLIGHTS

- **1970** The Small Business Loan Fund was created by Indian and Northern Affairs Canada, to provide financing to those businesses and individuals unable to obtain reasonable commercial debt financing from conventional lenders.
- **1977** The Small Business Loan Fund was transferred to the Government of the Northwest Territories. The scope of the fund was expanded to allow the provision of loan guarantees and loan and guarantee limits were increased to \$500,000 from \$50,000.
- **1982** The Business Loan and Guarantees Fund was opened to all qualifying territorial businesses and the word "small" was removed from the fund's title. Previously businesses whose gross revenues exceeded \$1 million were ineligible.
- **1985** The Fund provided contract security to businesses unable to obtain the bonding required to participate in NWT Housing Corporation construction projects.
- **1986** The Fund's capitalization was increased to \$16 million.
- **1989** The Fund's capitalization was increased to \$20 million.
- **1991** The *BCC Act* was proclaimed and the Corporation commenced operations. Loan and guarantee limits were raised to \$1 million.
- **1992** The assets of the Business Loans and Guarantees Fund were transferred to the Business Credit Corporation.
- **1993** The BCC is included in a review of Department of Economic Development & Tourism in connection with reorganization of the Department and the Business Credit Corporation.

HISTORICAL HIGHLIGHTS

- **1994** In accordance with the suggestions incorporated in this review, BCC staff is increased to provide a greater degree of independence and increased service to clients.

Lending authority, to a maximum of \$200,000, is delegated to Regional Superintendents of Department of Economic Development & Tourism. This is designed to provide quicker turn-around time for the majority of BCC loan applications.

Operational Procedures are formulated by BCC, in consultation with the Department of Economic Development & Tourism, to provide guidance and support to Regional Superintendents and ensure conformity with prudent lending practices, at the same time acting in accordance with Ministerial Directives and the objectives of the BCC.

- **1995** The BCC's fund limit is increased to \$23 million. This limit can be extended as far as \$50 million under the existing legislation, upon approval of the Financial Management Board.
- **1996** BCC's Fund limit is increased to \$28 million.
- **1997** BCC reports to the Minister of the newly amalgamated Department of Resources, Wildlife and Economic Development (RWED).

Sahtu Regional Office established. Credit facilities to businesses in this area were transferred to Sahtu from the Inuvik Region, who formerly administered this area.

"Access to Capital" - a review of lending for small business in the North, is commissioned by RWED. This report considers the BCC and local Community Futures organizations to see how they can work together to provide the best service to the public.

- **1998** BCC's Fund limit is increased to \$33 million.

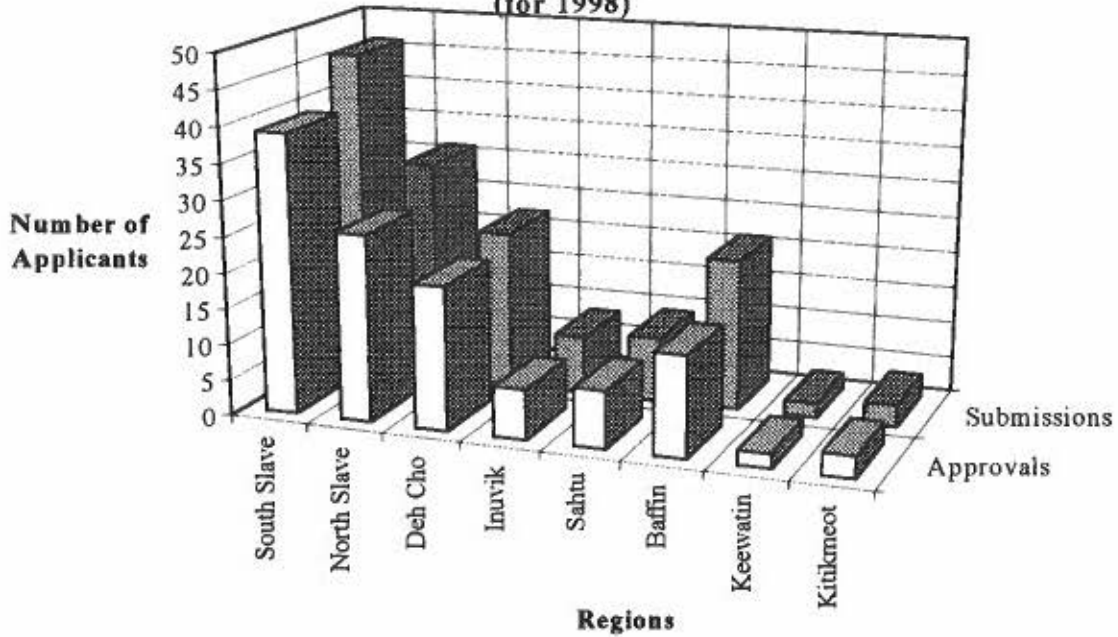
LENDING PARAMETERS

- **Maximum liability for any one business or group of related businesses - \$1 million**
- **Maximum amount for any one business loan, bond, guarantee or indemnity - \$1 million**
- **Maximum loan term – 5 years**
- **Maximum loan amortization - 25 years**
- **Interest rate - two percent (2%) over commercial bank's prime lending rate, set quarterly.**

NUMBER OF APPLICATIONS SUBMITTED & APPROVED

Region	Number of Applications Submitted		Number of Applications Approved	
	1997	1998	1997	1998
South Slave	55	46	45	39
North Slave	13	31	11	26
Deh Cho	16	22	16	20
Inuvik	3	8	3	7
Sahtu	4	9	4	8
Baffin	9	21	9	14
Keewatin	7	2	7	2
Kitikmeot	4	3	4	3
Total	111	142	99	119

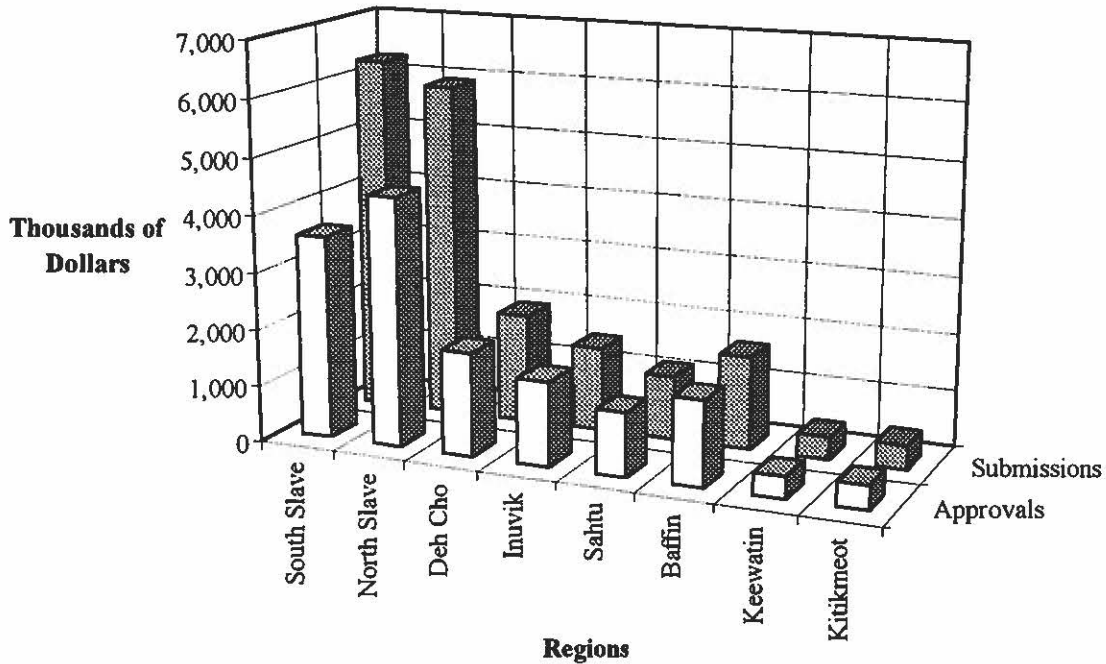
**Number of Applications Submitted and Approved
(for 1998)**



VALUE OF APPLICATIONS SUBMITTED AND APPROVED

Region	Value of Applications Submitted (000's)		Value of Applications Approved (000's)	
	1997	1998	1997	1998
South Slave	\$7,113	\$6,275	\$5,628	\$3,574
North Slave	\$1,002	\$5,907	\$888	\$4,377
Deh Cho	\$607	\$1,929	\$607	\$1,816
Inuvik	\$333	\$1,481	\$333	\$1,481
Sahtu	\$834	\$1,126	\$834	\$1,108
Baffin	\$186	\$1,636	\$186	\$1,493
Keewatin	\$120	\$388	\$120	\$388
Kitikmeot	\$440	\$415	\$440	\$415
Total	\$10,635	\$19,157	\$9,036	\$14,652

**Value of Applications Submitted and Approved
(for 1998)**



NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended March 31, 1998

	<u>\$ 000's</u>	
	<u>1998</u>	<u>1997</u>
OPERATING ACTIVITIES		
Net Income for the Year	\$ 147	\$ 67
Items Not Affecting Treasury Position		
Provision for Losses on Impaired Loans	377	556
Amortization	<u>11</u>	<u>14</u>
	535	637
Increase (Decrease) in Treasury Position		
Accrued Interest Receivable	(30)	(31)
Accounts Receivable	(122)	-
Accounts Payable	<u>121</u>	<u>(15)</u>
Cash Generated by Operating Activities	<u>504</u>	<u>591</u>
 INVESTING ACTIVITIES		
Loans Disbursed	(9,660)	(7,877)
Loans Receivable and Accrued Interest		
Written-off or Forgiven	(366)	(262)
Purchase of Capital Assets	8	-
Loans Repaid	<u>5,321</u>	<u>4,639</u>
Cash Used by Investing Activities	<u>(4,697)</u>	<u>(3,500)</u>
DECREASE IN TREASURY POSITION FOR THE YEAR	(4,193)	(2,909)
TREASURY POSITION AT BEGINNING OF THE YEAR	<u>(23,955)</u>	<u>(21,046)</u>
TREASURY POSITION AT END OF THE YEAR	<u>\$ (28,148)</u>	<u>\$ (23,955)</u>
Treasury Position is Comprised of:		
Advance from the Government of the Northwest Territories	\$ (28,287)	\$ (24,237)
Cash	<u>139</u>	<u>282</u>
	<u>\$ (28,148)</u>	<u>\$ (23,955)</u>

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

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 1998

1. AUTHORITY, OBJECTIVE AND OPERATION

The Corporation was established in 1991 pursuant to the Northwest Territories Business Credit Corporation Act (Act). It is subject to the Financial Administration Act and is a Crown corporation of the Government of the Northwest Territories (the Government).

The Corporation's objective is to stimulate economic development and employment in the Northwest Territories to resident business enterprises, by providing loans, guaranteeing loans made by financial institutions, providing bonds and indemnifying bonding companies which have provided bonds. In addition, the Corporation is responsible for making business development loans to Northern businesses to create economic development opportunities in communities where conventional lending institutions are not prepared to participate. The Corporation's role is a blend of being a last resort lender and a developmental agency for higher risk entrepreneurial ventures.

Economic dependency

The Corporation is economically dependent upon the Government's continuing contributions for direct administrative expenses and advances.

Division

On April 1, 1999, the division of the Northwest Territories is scheduled to occur. It is anticipated that the loan portfolio and liabilities of the Corporation will be divided based on geographical and other criteria as agreed by both the Government of Nunavut and the Government of the Western Territory.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Corporation have been prepared in accordance with generally accepted accounting principles. The significant accounting policies followed by the Corporation in the preparation of these financial statements are summarized below.

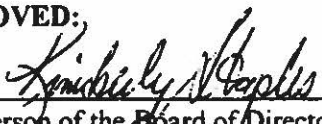
NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

**BALANCE SHEET
MARCH 31, 1998**

	<u>\$ 000's</u>	
ASSETS	<u>1998</u>	<u>1997</u>
Cash (Note 3)	\$ 139	\$ 282
Loans Receivable (Note 4)	30,999	26,677
Accrued Interest Receivable (Note 4)	<u>326</u>	<u>296</u>
	31,325	26,973
Less: Allowance for Losses on Impaired Loans (Note 5)	<u>5,080</u>	<u>5,069</u>
	<u>26,245</u>	<u>21,904</u>
Accounts Receivable	122	-
Capital Assets (net of accumulated amortization of \$36 (1997: \$42))	<u>10</u>	<u>12</u>
	<u>\$ 26,516</u>	<u>\$ 22,198</u>
 LIABILITIES		
Accounts Payable	\$ 132	\$ 11
Advance from the Government of the Northwest Territories (Note 6)	<u>28,287</u>	<u>24,237</u>
	28,419	24,248
 DEFICIT		
Deficit	<u>(1,903)</u>	<u>(2,050)</u>
	<u>\$ 26,516</u>	<u>\$ 22,198</u>

CONTINGENT LIABILITIES (NOTE 7)

APPROVED:



Chairperson of the Board of Directors



Chief Executive Officer

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

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

**STATEMENT OF OPERATIONS AND DEFICIT
For the Year Ended March 31, 1998**

	<u>\$ 000's</u>	
	<u>1998</u>	<u>1997</u>
LENDING ACTIVITIES		
Interest Income on Loans Receivable	\$ 1,823	\$ 1,861
Interest Expense on Advance from the Government of the Northwest Territories (Note 6)	<u>1,299</u>	<u>1,238</u>
Net Interest Income	524	623
Provision for Losses on Impaired Loans (Note 5)	<u>377</u>	<u>556</u>
Net Income on Lending Activities	<u>147</u>	<u>67</u>
ADMINISTRATIVE EXPENSES		
Salaries and Benefits	427	643
Professional Fees & Legal Claims	179	25
Board Meetings	68	35
Office	50	25
Computer Services	33	35
Communications	17	15
Amortization	<u>11</u>	<u>14</u>
	785	792
Less: Administrative Contribution - Government of the Northwest Territories	<u>785</u>	<u>792</u>
Net Administrative Expenses	<u>-</u>	<u>-</u>
NET INCOME FOR THE YEAR	147	67
DEFICIT AT THE BEGINNING OF THE YEAR	<u>(2,050)</u>	<u>(2,117)</u>
DEFICIT AT THE END OF THE YEAR	<u>\$ (1,903)</u>	<u>\$ (2,050)</u>

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

FINANCIAL STATEMENTS

MARCH 31, 1998

TABLE OF CONTENTS

Management's Responsibility for Financial Reporting	1
Auditor's Report	2
Balance Sheet	3
Statement of Operations and Deficit	4
Statement of Changes in Financial Position	5
Notes to Financial Statements	6 - 14

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Northwest Territories Business Credit Corporation were prepared by management in accordance with generally accepted accounting principles. When alternative accounting policies exist, management has chosen those it deems most appropriate in the circumstances. Financial statements include amounts requiring estimates, which have been made based upon informed judgment as to the expected results of current transactions and events. Management has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with the financial statements.

The Corporation maintains internal financial and management systems and practices which are designed to provide reasonable assurance that reliable financial and non-financial information is available on a timely basis, and that assets are acquired prudently, used to further the Corporation's aims, and are protected from loss.

The Corporation is subject to the Northwest Territories Business Credit Corporation Act and the Financial Administration Act. It also receives ministerial directives establishing policy guidelines. Management recognizes its responsibility for conducting the Corporation's affairs in accordance with the requirements of applicable legislation and for maintaining standards of conduct that are appropriate to a territorial Crown corporation.

The Board of Directors appoints certain of its members to serve on the Management Sub-Committee. This Sub-Committee oversees management's responsibility for financial reporting and reviews and recommends the financial statements to the Board for approval.

The Auditor General of Canada annually provides an independent audit for the purpose of expressing his opinion on the financial statements. He also considers whether the transactions that come to his notice in the course of this audit are, in all significant aspects, in accordance with the specified legislation.



Afzal Currimbhoy
Chief Executive Officer.

June 19, 1998



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of the
Northwest Territories Business Credit Corporation

I have audited the balance sheet of the Northwest Territories Business Credit Corporation as at March 31, 1998 and the statements of operations and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

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



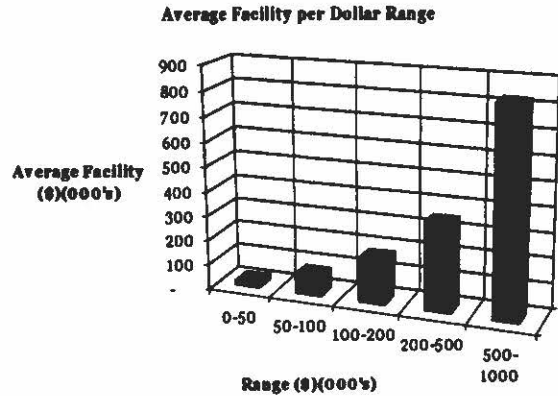
Donald M. Young, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
19 June 1998

**RANGE OF TOTAL CREDIT FACILITIES APPROVED
FISCAL YEAR 1997-1998**

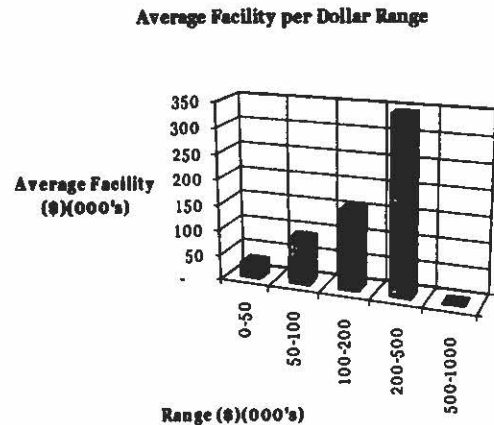
WESTERN ARCTIC

Range (\$)(000's)	No.	Amount (\$)(000's)	Avg. Facility (\$)(000's)
0-50	62	1,190	19
50-100	7	545	78
100-200	15	2,663	178
200-500	11	3,829	348
500-1000	5	4,128	826
Total	100	12,355	1,236



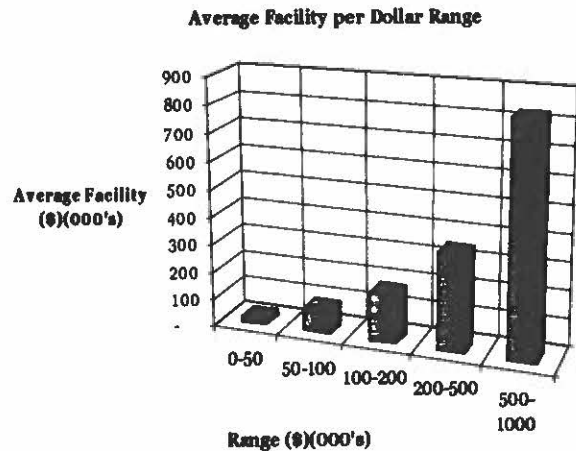
EASTERN ARCTIC

Range (\$)(000's)	No.	Amount (\$)(000's)	Avg. Facility (\$)(000's)
0-50	7	197	28
50-100	5	447	89
100-200	4	621	155
200-500	3	1,032	344
500-1000	0	0	0
Total	19	2,297	121



TERRITORIAL TOTAL

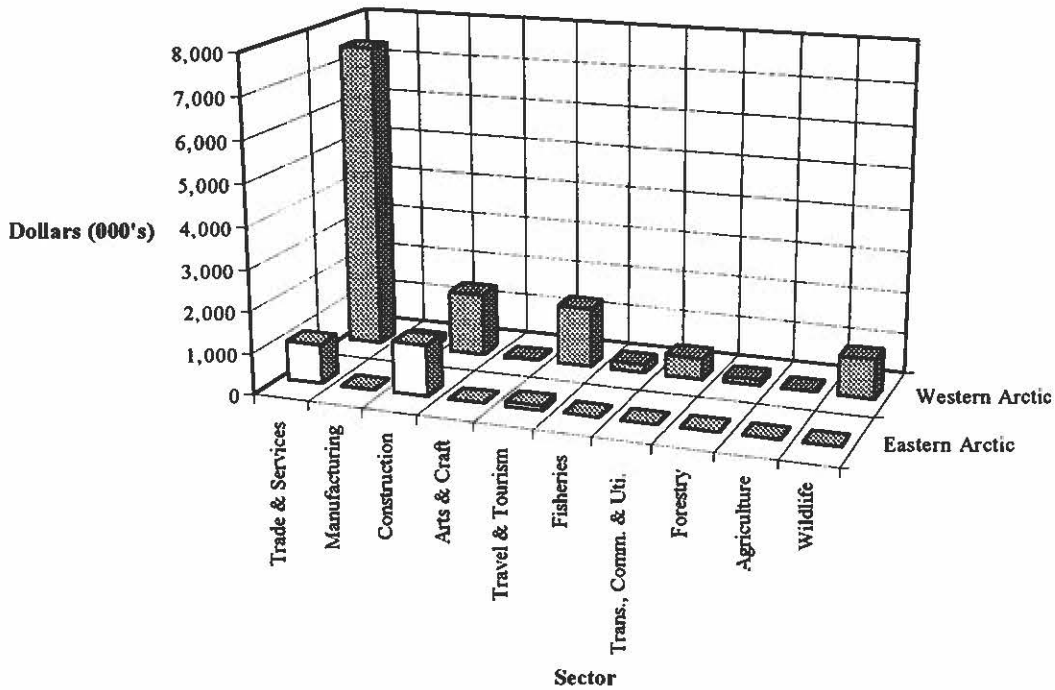
Range (\$)(000's)	No.	Amount (\$)(000's)	Avg. Facility (\$)(000's)
0-50	69	1,387	20
50-100	12	992	83
100-200	19	3,284	173
200-500	14	4,861	347
500-1000	5	4,128	826
Total	119	14,652	123



**APPROVED CREDIT FACILITIES BY ECONOMIC SECTOR
FISCAL YEAR 1997-1998 (000's)**

Economic Sector	Western Arctic	Eastern Arctic	Territorial Total
1. Trade & Services	7,407	954	8,361
2. Manufacturing	161	0	161
3. Construction	1,514	1,242	2,756
4. Arts & Craft	15	0	15
5. Travel & Tourism	1,440	100	1,540
6. Fisheries	204	0	204
7. Transportation, Communication & Utilities	521	0	521
8. Forestry	134	0	134
9. Agriculture	10	0	10
10. Wildlife	950	0	950
Grand Total	12,356	2,296	14,652

Approved by Economic Sector



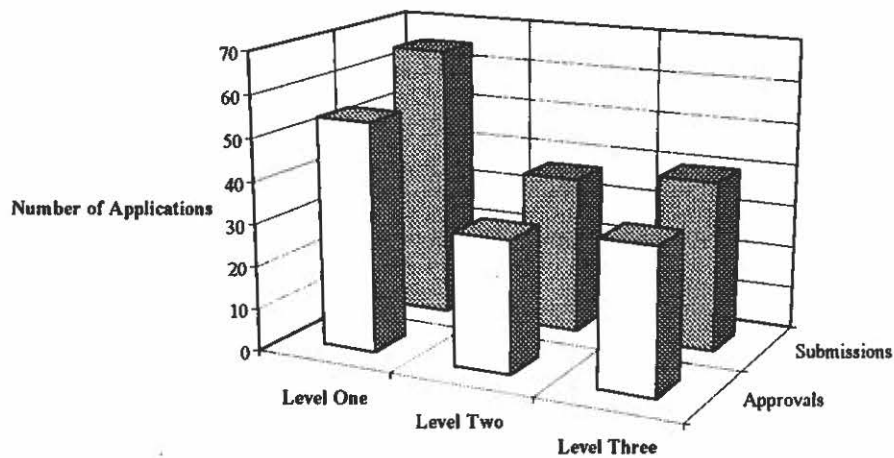
**NUMBER OF APPLICATIONS SUBMITTED AND APPROVED
BY COMMUNITY LEVEL**

	Number of Applications Submitted		Number of Applications Approved	
	1997	1998	1997	1998
Level One	58	65	46	54
Level Two	19	37	19	31
Level Three	34	40	34	34
Total	111	142	99	119

Community Levels

- Level 1: Yellowknife, Hay River, Fort Smith, Inuvik
- Level 2: Iqaluit, Rankin Inlet, Cambridge Bay, Rae-Edzo, Fort Simpson, Norman Wells
- Level 3: All other communities not listed above

**Number of Applications Submitted and Approved
by Community Level for 1998**



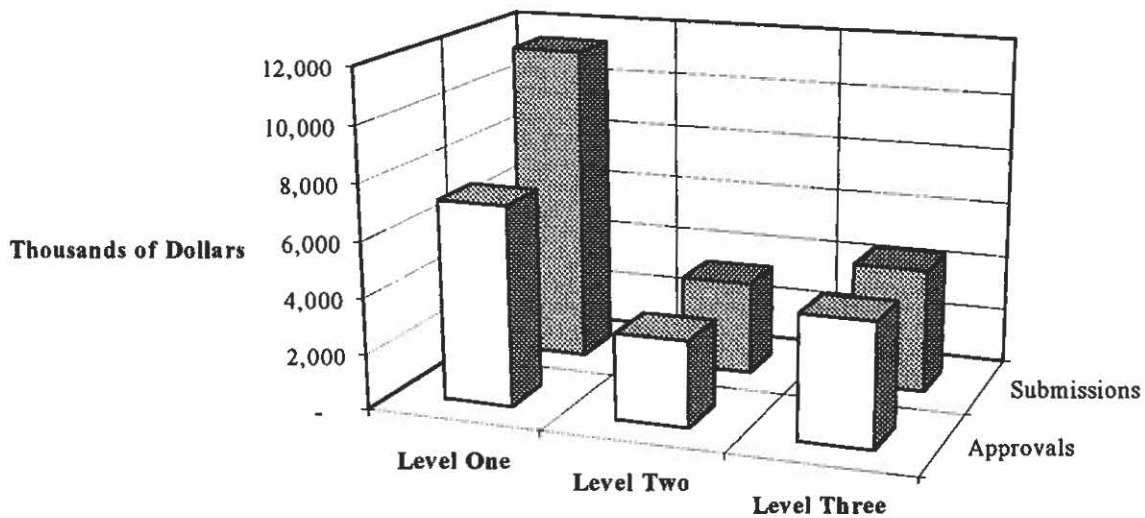
**VALUE OF APPLICATIONS SUBMITTED AND APPROVED
BY COMMUNITY LEVEL**

	Value of Applications Submitted (000's)		Value of Applications Approved (000's)	
	1997	1998	1997	1998
Level One	\$6,556	\$11,392	\$4,957	\$7,163
Level Two	\$1,110	\$3,325	\$1,110	\$3,076
Level Three	\$2,969	\$4,440	\$2,969	\$4,413
Total	\$10,635	\$19,157	\$9,036	\$14,652

Community Levels

- Level 1: Yellowknife, Hay River, Fort Smith, Inuvik
- Level 2: Iqaluit, Rankin Inlet, Cambridge Bay, Rae-Edzo Fort Simpson, Norman Wells
- Level 3: All other communities not listed above

**Value of Applications Submitted and Approved
by Community Level for 1998**



NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 1998

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Loans

Loans are stated at the lower of principal amounts or estimated realizable amounts receivable. Accrued interest receivable and an allowance for loan impairment are recorded separately.

Allowance for loan impairment

The allowance for loan impairment represents management's best estimate of probable losses on loans at the end of the fiscal year. The allowance has a specific and general component.

a) **Specific allowance:** A loan is classified as impaired when one or more of the following conditions exist:

- in the opinion of management, there is reasonable doubt to the ultimate collectability of principal or interest, or
- principal or interest is six months past due, unless the loan is well secured, or
- the loan has been previously restructured and principal or interest is three months past due, or
- principal or interest is twelve months past due regardless of whether or not the loan is well secured.

When a loan is classified as impaired, the carrying amount of the loan is reduced to its estimated realizable amount. This is the lower of the recorded amount of the loan or the estimated net fair value of the underlying security of the loan. The amount of initial impairment and any subsequent changes in the amount of impairment are recorded as a charge or credit to the specific allowance for loan impairment.

b) **General allowance:** In addition to the specific allowance, the Corporation maintains a general allowance, established at two percent (2%) of loans receivable, net of the specific provision, to reflect management's estimate for losses on those impaired loans which cannot yet be specifically identified. The general allowance is determined based on historical loss experience, aggregate exposure in particular industries or geographical regions, and prevailing economic conditions.

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 1998

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Revenue recognition

Interest revenue on loans receivable is normally recognized on an accrual basis. The Corporation ceases to accrue interest once a loan is classified as impaired. Payments received on impaired loans are credited to loan principal and recognized as revenue only when either the principal has been repaid or the loan is no longer classified as impaired. Payments received on any previously written off loans are recognized as revenue.

Capital assets

Capital assets are recorded at cost. Amortization is calculated on a straight line basis over the estimated useful life of the assets as follows:

Computers	3 years
Furniture and Equipment	4 years

Pension contributions

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation matches employees' contributions for current or prior service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the Corporation.

3. CASH

The Corporation's cash is pooled with the Government's surplus cash that is invested in a diversified portfolio of high grade, short-term income producing assets. The cash can be withdrawn at any time, and is not restricted by maturity dates on investments made by the Government. The eligible classes of securities, categories of issuers, limits and terms are approved by the Department of Finance. All instruments depending on the investment class, are rated R-2 High or better from the Dominion Bond Rating Service or A-3 or better from the Canadian Bond Rating Service. The Corporation's average investment yield was 3.4% during the year (1997: 4.7%).

Net investment income of \$9,000 (1997: \$16,000) is included in Interest Income on Loans Receivable.

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 1998

4. LOANS AND ACCRUED INTEREST RECEIVABLE

<u>Region</u>	<u>Range of Annual Interest Rates</u>		<u>1998</u>	<u>1997</u>
	<u>1998</u>	<u>1997</u>		
			(\$ 000's)	
Loans Receivable				
Baffin	6.75-11.75%	6.75-11.75%	\$ 1,913	\$ 1,967
Deh Cho	6.75-14.25%	6.75-14.25%	2,893	2,121
Inuvik	6.75-10.00%	6.75-10.75%	1,616	983
Keewatin	6.75-11.50%	7.50-11.50%	2,198	2,555
Kitikmeot	6.75-10.75%	8.00-10.75%	2,889	2,907
North Slave	6.75-12.00%	7.50-12.00%	8,512	8,270
Sahtu	6.75-10.00%	6.75-10.00%	1,686	616
South Slave	6.75-10.75%	6.75-10.75%	<u>9,292</u>	<u>7,258</u>
			<u>30,999</u>	<u>26,677</u>
Accrued Interest Receivable				
Current			190	137
Arrears			<u>136</u>	<u>159</u>
			<u>326</u>	<u>296</u>
			<u>\$ 31,325</u>	<u>\$ 26,973</u>

Loans receivable and accrued interest include \$7,278,000 (1997: \$6,496,000) that the Corporation has specifically classified as impaired.

In 1998, interest not accrued on impaired loans totalled \$726,366 (1997: \$576,000).

As a developmental lender, the Corporation's lending practices and rate may not always coincide with those of market. To calculate fair value of the loans would not be congruent with the Corporation's purpose of stimulating economic activities and employment growth.

Write-offs

Under the provisions of the Financial Administration Act, a loan (outstanding principal and interest) can only be approved for write-off by either the Legislative Assembly (over \$20,000) or the Board of Directors (\$20,000 or less). A loan written off is still subject to collection action.

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 1998

4. LOANS AND ACCRUED INTEREST RECEIVABLE (CONT'D)

Write-offs (cont'd)

In 1998, eleven accounts representing three borrowers totalling \$325,519 were written off by the Legislative Assembly (1997: nil). No loans were written off by the Board of Directors (1997: nil).

No recoveries were received on loans written off in previous years (1997: \$22,000).

Forgiveness

Under the provisions of the Financial Administration Act, a loan can only be approved for forgiveness by either the Legislative Assembly (over \$1,000) or the Financial Management Board (\$1,000 or less). Once a loan has been forgiven, no further collection action is possible.

In 1998, five accounts representing one borrower totalling \$40,455 were forgiven by the Legislative Assembly (1997: eleven accounts representing six borrowers totalling \$624,000). None of the accounts have been approved for write off previously. No accounts were forgiven by the Financial Management Board (1997: nil).

Credit Risk

The Corporation's credit risk exposure relating to loans receivable is directly impacted by the borrowers' ability to meet their obligations. This ability is impacted by the borrowers' similar exposure to fluctuations in the economy of the Northwest Territories.

The Corporation mitigates credit risk by holding no significant concentration with any individual borrower. It is prevented by the Act to lend any one business enterprise or a group of related enterprises an amount in excess of \$1 million.

5. ALLOWANCE FOR LOSSES ON IMPAIRED LOANS

	<u>1998</u>	<u>1997</u>
	(\$ 000's)	
Specific Allowance for Losses on Impaired Loans:		
Balance at beginning of year	\$ 4,627	\$ 4,393
Provision for the year	<u>289</u>	<u>496</u>
	<u>4,916</u>	<u>4,889</u>

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 1998

5. ALLOWANCE FOR LOSSES ON IMPAIRED LOANS (CONT'D)

	<u>1998</u>	<u>1997</u>
	(\$ 000's)	
Less: write-offs	326	-
forgiveness	<u>40</u>	<u>262</u>
	<u>366</u>	<u>262</u>
 Balance at end of year	 <u>4,550</u>	 <u>4,627</u>
 General Allowance for Losses on Impaired Loans:		
Balance at beginning of year	442	382
Provision for the year	<u>88</u>	<u>60</u>
 Balance at end of year	 <u>530</u>	 <u>442</u>
 Allowance for Losses on Impaired Loans	 <u>\$ 5,080</u>	 <u>\$ 5,069</u>

6. ADVANCE FROM THE GOVERNMENT OF THE NORTHWEST TERRITORIES

The Act authorizes the Corporation to borrow for the purpose of lending, up to \$50 million from the Government of the Northwest Territories through an advance. Increases to the outstanding balance of the advance must be approved by the Financial Management Board based on the need of the Corporation. The balance was not to exceed \$33 million on the balance sheet date.

In May 1998, the balance was increased to a maximum of \$38 million.

Interest on the advance is calculated at a rate of selected Government of Canada 3 year bond rates at the end of each month, compounded annually. The rate varied from 4.7% to 5.4% during the year (1997: 4.2% to 6.6%).

The carrying amount of the advance from the Government of the Northwest Territories of \$28,287,000 (1997: \$24,237,000) approximates fair value.

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 1998

7. CONTINGENT LIABILITIES

Two legal proceedings against the Corporation are pending which challenge certain practices or actions it took. These proceedings are loan related and in reaction to steps taken by the Corporation to call delinquent loans and enforce rights in collateral security of such loans.

In the first proceeding, Judgment in the amount of \$97,333 plus costs has been ruled against the Corporation. This amount has been provided for in the financial statements. The Corporation is appealing the Judgment.

The Corporation is named as co-defendant in the second proceeding. The amount of the claim is \$11,000,000 plus costs. The Corporation's share of potential liability, if any, resulting from this action is not determinable and consequently no liability has been reflected in these financial statements. Liability, if any, will be reflected as an expense when determined.

The Corporation also received a solicitor's letter alleging it is in breach of an employment contract. The letter claimed loss of employment income and damages totalling \$47,652 plus benefits. Since the Corporation's potential liability, if any, resulting from the letter is not determinable and occurred subsequent to the balance sheet date, no liability has been reflected in these financial statements. Settlement, if any, will be reflected as an expenditure when determined.

8. RELATED PARTY TRANSACTIONS

In addition to those related party transactions disclosed, the Corporation is related in terms of common ownership to all Government of the Northwest Territories created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

Administrative contribution

Under the terms of administrative agreements between the Corporation and the Government, direct administrative expenses paid by the Government are recorded by the Corporation as an administrative contribution from the Government.

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 1998

8. RELATED PARTY TRANSACTIONS (CONT'D)

Services provided without charge

The Corporation does not record the value of other capital assets or services provided by the Government without charge in these financial statements. Services provided by the Government include accounting support, employee long term benefits, regional and personnel services as well as office accommodation and some capital assets. Their values are estimated as follow:

	<u>1998</u>	<u>1997</u>
	(\$ 000's)	
Staff support	\$ 199	\$ 145
Accommodation	42	47
Employee long term benefits	<u>5</u>	<u>2</u>
	<u>\$ 246</u>	<u>\$ 194</u>

Furthermore, the Corporation receives audit services without charge from the Office of the Auditor General of Canada.

9. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.

The Corporation is aware that its loan system is not in compliance with the Year 2000 Issue. The effects of this issue may be experienced before, on or after January 1, 2000, and, if not addressed, the Corporation may experience systems failures or processing errors that may affect its ability to conduct normal business operations with existing and new clients. The Corporation is currently seeking a new system that will address this Issue but the costs associated with the acquisition and implementation are not determinable at this time.

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 1998

9. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE (CONT'D)

The Corporation also relies on the systems of the Government. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of Government and other third parties, will be fully resolved.

10. COMPARATIVE FIGURES

Certain comparative financial information has been reclassified to conform with this year's presentation.

LOAN ACCOUNTS APPROVED FOR WRITE OFF

Loan Accounts Approved by the Legislative Assembly

Barsoum Drugs Ltd.	\$ 257,940.96
Kakivak Fisher Food Ltd.	29,088.11
KMW Ventures	<u>38,489.63</u>
	<u>\$ 325,518.70</u>

LOAN ACCOUNT APPROVED FOR FORGIVENESS

Loan Account Approved by the Legislative Assembly

Western Arctic Air Ltd.	<u>\$ 40,455.04</u>
-------------------------	---------------------

