



**2018**  
Financial  
Statements

UNAUDITED

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**STATEMENT OF FINANCIAL POSITION**

AS AT DECEMBER 31

<i>(in thousands of Canadian dollars)</i>	Notes	2018	2017
<b>Assets</b>			
Cash		<b>2,733</b>	-
Marketable securities	3	<b>77,367</b>	-
Investments	4	<b>15,971</b>	-
Other assets		<b>549</b>	-
Property, plant and equipment	5	<b>566</b>	-
<b>Total Assets</b>		<b>\$97,186</b>	\$-
<b>Liabilities and Equity</b>			
Accounts payable and other credits		<b>990</b>	-
Owing to Export Development Canada	7	<b>6,194</b>	2,137
Derivative instruments	6	<b>321</b>	-
<b>Total Liabilities</b>		<b>7,505</b>	2,137
<b>Equity (Deficit)</b>			
Share capital	9	<b>100,000</b>	-
Deficit		<b>(10,319)</b>	(2,137)
<b>Total Equity (Deficit)</b>		<b>89,681</b>	(2,137)
<b>Total Liabilities and Equity</b>		<b>\$97,186</b>	\$-

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

Approved by:

**Mairead Lavery**  
Board Chair

**Paul Lamontagne**  
Managing Director

**STATEMENT OF COMPREHENSIVE LOSS**

FOR THE YEAR ENDED DECEMBER 31

<i>(in thousands of Canadian dollars)</i>	Notes	2018	2017
<b>Investment Income</b>			
Marketable securities	3	1,293	-
Interest expense	6	100	-
Transaction costs		432	-
<b>Net Investment Income</b>		<b>761</b>	<b>-</b>
<b>Other Expenses</b>			
	10	517	-
<b>Administrative Expenses</b>			
Administration costs	7	2,240	894
Salaries and benefits		2,034	104
Professional services		1,916	949
Marketing and communications		743	100
Travel, hospitality and conferences		477	57
Other		1,016	33
		<b>8,426</b>	<b>2,137</b>
<b>Net Loss</b>		<b>(8,182)</b>	<b>(2,137)</b>
Other comprehensive income		-	-
<b>Comprehensive Loss</b>		<b>\$(8,182)</b>	<b>\$(2,137)</b>

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

**STATEMENT OF CHANGES IN EQUITY**

FOR THE YEAR ENDED DECEMBER 31

<i>(in thousands of Canadian dollars)</i>	Notes	<b>2018</b>	2017 <sup>(1)</sup>
<b>Share Capital</b>			
Balance beginning of year		-	-
Shares issued	9	<b>100,000</b>	-
Balance end of year		<b>100,000</b>	-
<b>Deficit</b>			
Balance beginning of year		<b>(2,137)</b>	-
Comprehensive loss		<b>(8,182)</b>	(2,137)
Balance end of year		<b>(10,319)</b>	(2,137)
<b>Total Equity (Deficit) at End of Year</b>		<b>\$89,681</b>	\$(2,137)

<sup>(1)</sup> Share capital as at December 31, 2017 was \$100 Canadian dollars.

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

**STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED DECEMBER 31

<i>(in thousands of Canadian dollars)</i>	<b>2018</b>	2017
<b>Cash Flows used in Operating Activities</b>		
Net Loss	<b>(8,182)</b>	(2,137)
Adjustments to determine net cash from operating activities		
Depreciation	<b>58</b>	-
Changes in operating assets and liabilities		
Change in accrued interest and fee receivable	<b>448</b>	-
Change in fair value of marketable securities	<b>(124)</b>	-
Change in derivative instruments	<b>(532)</b>	-
Other	<b>230</b>	-
<b>Net cash used in operating activities</b>	<b>(8,102)</b>	(2,137)
<b>Cash Flows used in Investing Activities</b>		
Disbursement for investments	<b>(15,358)</b>	-
Purchases of marketable securities	<b>(83,416)</b>	-
Maturities of marketable securities	<b>54,931</b>	-
Purchases of property, plant, and equipment	<b>(624)</b>	-
<b>Net cash used in investing activities</b>	<b>(44,467)</b>	-
<b>Cash Flows from Financing Activities</b>		
Increase (decrease) in amount due to EDC	<b>4,045</b>	2,137
Issuance of share capital	<b>100,000</b>	-
<b>Net cash from financing activities</b>	<b>104,045</b>	2,137
Effect of exchange rate changes on cash and cash equivalents	<b>15</b>	-
Net increase in cash and cash equivalents	<b>51,491</b>	-
<b>Cash and cash equivalents</b>		
Beginning of year	-	-
<b>End of year</b>	<b>\$51,491</b>	\$-
<b>Cash and cash equivalents are comprised of:</b>		
Cash	<b>2,733</b>	-
Cash equivalents included within marketable securities	<b>48,758</b>	-
	<b>\$51,491</b>	\$-

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

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Corporate Mandate

Development Finance Institute Canada (DFIC) Inc. was incorporated on September 14, 2017 as a wholly-owned subsidiary of Export Development Canada ("EDC") for the purpose of providing, directly or indirectly, development financing and other forms of development support in a manner that is consistent with Canada's international development priorities. The corporation operates under the trade name FinDev Canada. As a subsidiary of EDC, FinDev Canada is subject to the *Export Development Act* and the *Financial Administration Act*.

### 2. Summary of Significant Accounting Policies

#### Basis of Presentation

FinDev Canada's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### Use of Estimates and Key Judgements

To prepare our financial statements in accordance with IFRS, it is necessary for management to exercise judgment and make use of estimates and assumptions in applying certain accounting policies. We utilize current market data and other information available to us as at the date of the financial statements in arriving at our decisions. We have established procedures to ensure that the process for determining our estimates and assumptions is well controlled and occurs in an appropriate and systematic manner.

Uncertainty is inherent in the use of estimates and assumptions and as a result, actual results may vary significantly from management's estimates. Uncertainty arises, in part, from the use of data at a point in time to establish our assumptions. While this data may be the most reliable basis available on which to base our assumptions, economic events may occur subsequently that render previous assumptions invalid and cause a material change to actual results.

Management has made significant use of estimates and exercised judgment as described in the following paragraphs.

#### FINANCIAL INSTRUMENTS

Financial instruments are recognized on our statement of financial position at their fair value. These financial instruments include marketable securities, derivative instruments, and investments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Our financial instruments are categorized into one of three levels based on whether the techniques employed to value the instruments use observable or unobservable market inputs. Financial instruments categorized as Level 1 are valued using quoted market prices, thus minimal estimation is required, yet this requires judgement. Those instruments categorized as Level 2 and 3 require the use of greater estimation and judgment as they may include inputs such as discount rates, yield curves and other inputs into our models which may not be based on observable market data. Refer to Note 8 for further details.

## STRUCTURED ENTITIES

Our fund investment is considered to be a structured entity. A structured entity (SE) is defined as an entity created to accomplish a narrow and well-defined objective. Management exercises judgment in determining whether FinDev Canada has control of structured entities. Under IFRS 10 – *Consolidated Financial Statements*, when a reporting entity has power over a SE and is exposed, or has rights to variable returns from its involvement with a SE and has the ability to affect those returns through its power over the SE, the reporting entity is considered to have control over the SE which must be consolidated within the reporting entity's financial statements. When the reporting entity does not control the SE, consolidation is not required under IFRS 10.

## Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and short-term highly liquid marketable securities with a term to maturity of 90 days or less from the date of their acquisition, are considered highly liquid, readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash equivalents are included within marketable securities on the statement of financial position.

## Translation of Foreign Currency

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars, the functional and presentation currency of FinDev Canada, at exchange rates prevailing at the end of the year. Income and expenses are translated at either daily or monthly average exchange rates in effect during the year.

## Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets or the term of the lease. The estimated useful lives and depreciation methods are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. The useful life used in the calculation of depreciation for furniture and equipment is five years and for computer hardware is three years. Leasehold improvements are depreciated on a straight-line basis over the shorter of the term of the lease or the useful economic life of the leasehold improvement. Depreciation is recorded in administrative expenses.

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in other expenses. The estimated useful lives and depreciation method are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis.

## Marketable Securities

Marketable securities are held for liquidity purposes. These are held with creditworthy counterparties that must have a minimum credit rating from an external credit rating agency of A- for all transactions.

Marketable securities held directly by FinDev Canada are recorded at fair value through profit or loss to reflect our business model for managing these instruments. Purchases and sales of marketable securities are recorded on the trade date and the transaction costs are expensed as incurred. Interest revenue is recorded in marketable securities revenue in the statement of comprehensive loss. Realized and unrealized gains and losses on these securities are included in other expenses in the statement of comprehensive loss.



## Investments

Investments are comprised of direct investments that are held in private companies and investments in private equity funds. Purchases and sales of these investments are recorded on a trade-date basis and are measured at fair value. Subsequent changes in fair value and any realized gains and losses are recorded in other expenses. Transaction costs are expensed as incurred.

## Accounts Payable and Other Credits

Accounts payable and other credits are carried at amortized cost.

## Derivative Instruments

Derivative instruments (derivatives) are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, equities, credit spreads or other financial measures. We use derivatives (foreign exchange swaps) to manage foreign exchange risk.

We do not apply hedge accounting to our derivatives. Derivatives are accounted for at fair value and are recognized on the statement of financial position upon the trade date and are removed from the statement of financial position when they expire or are terminated. Derivatives with a positive fair value are reported as derivative instruments within assets, while derivatives with a negative fair value are reported as derivative instruments within liabilities. All interest income and expenses associated with our derivatives are included in interest, while realized and unrealized gains and losses are recorded in other expenses.

## 3. Marketable Securities

FinDev Canada holds Canadian dollar interest-earning short-term instruments with Canadian banks that are due within one year for cash management purposes.

The yield on marketable securities for 2018 was 1.50%.

## 4. Investments

<i>(in thousands of Canadian dollars)</i>	<b>Dec. 31, 2018</b>		Dec. 31, 2017	
	<b>Cost</b>	<b>Fair Value</b>	Cost	Fair Value
Direct Investment	<b>13,652</b>	<b>13,652</b>	-	-
Fund Investment	<b>2,791</b>	<b>2,319</b>	-	-
<b>Total Investments</b>	<b>\$16,443</b>	<b>\$15,971</b>	\$ -	\$ -

We invest in funds which are pooled investment vehicles structured as limited partnerships and financed by the limited partners. These funds invest primarily in private or public companies and are considered to be structured entities.

## 5. Property, Plant and Equipment

During the year, changes to property, plant and equipment were as follows:

<i>(in thousands of Canadian dollars)</i>	<b>Dec. 31, 2018</b>				Dec. 31, 2017			
	Computer hardware	Furniture and equipment	Leasehold improvements	Total	Computer hardware	Furniture and equipment	Leasehold improvements	Total
<b>Cost:</b>								
Balance at beginning of year	-	-	-	-	-	-	-	-
Additions	<b>74</b>	<b>90</b>	<b>460</b>	<b>624</b>	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Balance at end of year	<b>74</b>	<b>90</b>	<b>460</b>	<b>624</b>	-	-	-	-
<b>Accumulated depreciation:</b>								
Balance at beginning of year	-	-	-	-	-	-	-	-
Depreciation expense	<b>(13)</b>	<b>(5)</b>	<b>(40)</b>	<b>(58)</b>	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Balance at end of year	<b>(13)</b>	<b>(5)</b>	<b>(40)</b>	<b>(58)</b>	-	-	-	-
Carrying amount	<b>\$61</b>	<b>\$85</b>	<b>\$420</b>	<b>\$566</b>	\$ -	\$ -	\$ -	\$ -

## 6. Derivative Instruments

We use foreign exchange swaps to manage our foreign exchange risk. These instruments are commitments to exchange cash flows in different currencies where there are two exchanges; the first is made at the spot rate at inception and the second at a predetermined rate on a specified date in the future.

In any transaction there is a potential for loss. This loss potential is represented by credit risk, wherein a counterparty fails to perform an obligation as agreed upon, causing the other party to incur a financial loss, and interest rate risk and foreign exchange risk, where an exposure exists as a result of changes in interest rates or foreign exchange rates. To limit such risks, FinDev Canada only transacts these foreign exchange swaps with EDC.

Notional amounts are not recorded as assets or liabilities on our statement of financial position as they only represent the face amount of the contract to which a rate or a price is applied to determine the amount of cash flows to be exchanged.

We have transacted a 3-month foreign exchange swap to convert Canadian dollars to U.S. dollars. The notional value of the swap was \$16,769 thousand at December 31, 2018. Interest expense on the foreign exchange swap of \$80 thousand was recorded in the statement of comprehensive loss.

## 7. Related Party Transactions

### Owing to Export Development Canada

Amounts due to EDC are non-interest bearing and have no specific terms of repayment. Amounts due to EDC totaled \$6,194 thousand as at December 31, 2018.

### Derivative Instrument

FinDev Canada has transacted a 3-month foreign exchange swap with EDC.

### Administration Costs

Administration costs represent services provided to FinDev Canada by EDC which are charged on a cost-recovery basis.

## 8. Fair Value of Financial Instruments

Fair value represents our estimation of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Estimates of fair values are based on market conditions at a certain point in time and may not be reflective of future market conditions. Therefore, the estimates of the fair value of our financial instruments do not necessarily reflect the actual values that may occur should the instruments be exchanged in the market.

We have controls and policies in place to ensure that our valuations are appropriate and realistic. The models, valuation methodologies, and market-based parameters and inputs that are used are subject to regular review and validation, including a comparison with values from outside agencies.

We categorize financial instruments on the fair value hierarchy based on whether the inputs to the valuation techniques are observable or unobservable.

- *Level 1* - fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2* - fair values are determined using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3* - fair values are determined using inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The assumptions and valuation techniques that we use to estimate fair values are as follows:

### Marketable Securities

We estimate the fair value of marketable securities using observable market prices. If such prices are not available, we determine the fair value by discounting future cash flows using an appropriate yield curve. All of our marketable securities are classified as level 1.

## Derivative Instruments

Foreign exchange forwards and foreign exchange swaps are valued by discounting the notional amounts using the respective currency's yield curve and converting the amounts using the spot Canadian dollar exchange rate. All of our derivative instruments are classified as level 2.

## Investments

Our approach to fair value measurement has been developed using International Private Equity and Venture Capital Valuation Guidelines. Depending on the type of direct investment, we estimate fair value using one of the following: market-based methodologies, such as the quoted share price from available market data, price of recent investment, multiples, or industry benchmarks; income-based methodologies such as discounted cash flows; or replacement cost-based methodology such as net assets. Our fund valuations are performed using their most recent published financial statements. The valuations are established by management and approved by an independent valuation committee. The valuation methods are constantly validated and calibrated through discussions with co-investors and market participants, taking into account all known market events. All of our investments are classified as level 3.

The following table summarizes the reconciliation of Level 3 fair values between 2018 and 2017 for investments:

<i>(in thousands of Canadian dollars)</i>	<b>Dec. 31, 2018</b>	Dec. 31, 2017
Balance at beginning of year	-	-
Purchase of investments	<b>15,611</b>	-
Unrealized losses included in other expenses	<b>(448)</b>	-
Foreign exchange translation	<b>808</b>	-
Balance at end of year	<b>\$15,971</b>	-
Total losses for the year included in comprehensive income for instruments held at end of the year	<b>\$(448)</b>	\$-

In 2018, a sensitivity analysis was performed using possible alternative assumptions to recalculate the fair value of our Level 3 financial instruments. The fair value of Level 3 financial instruments is in whole or in part based on unobservable inputs. In preparing financial statements, appropriate levels for the parameters of the unobservable inputs are chosen so that they are consistent with prevailing market evidence or management judgment.

In order to perform our sensitivity analysis for our Level 3 investments, we adjusted the unobservable inputs. The unobservable inputs used to value our Level 3 investments include one or more of the following: multiple of sales, liquidity discount, multiple of EBITDA and discount rate. When multiple unobservable inputs are shocked, no netting is considered, resulting in the highest favourable or unfavourable change. The results of our analysis on our Level 3 investments ranged from an unfavourable change of \$2,730 thousand to a favourable change of \$2,730 thousand.

## 9. Share Capital

FinDev Canada's authorized share capital is \$100,000,100 consisting of 1,000,001 shares with a par value of \$100.

## 10. Other Expenses

<i>(in thousands of Canadian dollars)</i>	<b>Dec. 31, 2018</b>	Dec. 31, 2017
Unrealized loss on investment <sup>(1)</sup>	<b>458</b>	-
Foreign exchange translation loss	<b>27</b>	-
Unrealized loss on foreign exchange swaps	<b>22</b>	-
Net unrealized loss on marketable securities	<b>10</b>	-
<b>Total other expenses</b>	<b>\$517</b>	\$-

<sup>(1)</sup> FinDev Canada's fund investment disbursement completed in December 2018 included fund expenses and management fees which are recorded as unrealized losses when paid.