



Annual Report

2013-2014



Message from the Minister

September 23, 2014



The Honourable H. Frank Lewis
Lieutenant Governor of Prince Edward Island

May It Please Your Honour:

Pursuant to the Annual Reporting Framework of the Financial Administration Act governing Crown Corporations, I am pleased to present to you, the Annual Report of Finance PEI for the fiscal year ending March 31, 2014.

As the Minister responsible for Finance PEI, I am pleased with the results the Agency has accomplished in the past year in the interests of supporting and growing the economy.

Sincerely yours,

A handwritten signature in blue ink that reads "Allen F. Roach".

Allen F. Roach
Minister of Innovation and Advanced Learning

Message from the Chairman

September 23, 2014

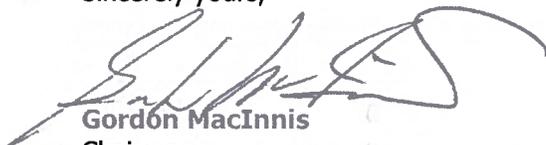
The Honourable Allen F. Roach
Minister of Innovation and Advanced Learning
Province of Prince Edward Island

Dear Minister:

I take pleasure in presenting you with the Annual Report for the fiscal year ending March 31, 2014.

This annual report is being presented pursuant to the Finance PEI Act.

Sincerely yours,



Gordon MacInnis
Chairman
Board of Directors
Finance PEI

Message from the CEO

September 23, 2014

The Honourable Allen F. Roach
Minister of Innovation and Advanced Learning
Province of Prince Edward Island

Dear Minister:

I present you with the Annual Report for the fiscal year ending March 31, 2014.

This annual report is being presented pursuant to the Finance PEI Act.

Sincerely yours,



Jamie Aiken
Chief Executive Officer
Finance PEI

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Executive Summary

Finance PEI (“FPEI”) is a crown corporation under the Ministry of Innovation and Advanced Learning. FPEI was created to consolidate the government’s financing and strategic infrastructure services for the Province of Prince Edward Island. FPEI, along with its subsidiary companies, is the lead financing and strategic infrastructure division for the Province of Prince Edward Island. This report covers the activities of FPEI from April 1, 2013 to March 31, 2014.

The directives of FPEI include: to source, manage and supply financial capital for strategic business opportunities; balance financial risk with economic return; work collaboratively with traditional finance institutions and government agencies; and, operate as a professional lender. The lending and investment activities of FPEI are focused on assisting those businesses in the primary, small business, and strategic industrial sectors with emphasis on businesses involved in exporting to domestic and international markets, import replacement, and value added processing.

Clients of FPEI are provided with innovative financial solutions that generally involve multiple stakeholders, including conventional lenders and other business development agencies. Innovative financial solutions are achieved by using a variety of financial products depending on the client’s specific needs, including capital and working capital loans, equity investments, and loan guarantees. Also, as part of its non-conventional approach to commercial lending, FPEI can act as a financial intermediary, utilizing staff expertise in banking and accounting to assist clients to assemble financial packages for their projects with other lenders and government agencies.

FPEI provides both term and working capital loans to eligible borrowers in the following sectors:

Small Business
Aerospace
Agriculture
Tourism

Manufacturing and Processing
Information Technology
Fisheries / Aquaculture

FPEI has more than 1,500 clients with a loan portfolio exceeding \$210 million. The largest sector of the loan portfolio remains the fisheries and aquaculture industry with loans totaling close to \$90 million dollars.

FPEI also administers specific programs, including the Entrepreneur Loan program, the Fisher’s Low Interest Loan program, and the Winter Production Financing program.

In addition, FPEI is responsible for operations of various facilities and properties owned by the Province, including business parks, land and buildings.

Sommaire

Finances Î.-P.-É. est une société de la Couronne qui relève du ministère de l'Innovation et des Études supérieures. Finances Î.-P.-É. a été créée afin de regrouper les services gouvernementaux de financement et d'infrastructure stratégique pour la province de l'Île-du-Prince-Édouard. Finances Î.-P.-É., en plus de ses filiales, est l'unité principale de financement et d'infrastructure stratégique de la province.

Les responsabilités de Finances Î.-P.-É. sont les suivantes : assurer, gérer et fournir de l'aide financière pour établir des possibilités d'affaires stratégiques; équilibrer les risques financiers avec un bon rendement économique; travailler avec des institutions financières et des organismes gouvernementaux traditionnels et servir de prêteur. Les activités liées aux prêts et à l'investissement de Finances Î.-P.-É. sont axées sur la possibilité d'appuyer des commerces dans les secteurs primaires, stratégiques et industriels ainsi que les petites entreprises, surtout celles qui s'intéressent à l'exportation vers les marchés nationaux et internationaux, au remplacement des importations et à la transformation à valeur ajoutée.

On offre aux clients de Finances Î.-P.-É. des solutions financières novatrices, qui comprennent souvent plusieurs intervenants, dont des prêteurs traditionnels et d'autres agences de développement des entreprises. Les solutions financières novatrices sont conçues en utilisant une variété de produits financiers selon les besoins spécifiques du client, ce qui peut comprendre des prêts à terme et des prêts pour les fonds de roulement, des placements en action et des garanties d'emprunt. De plus, dans le cadre de son approche originale pour les prêts commerciaux, Finances Î.-P.-É. peut agir en tant qu'intermédiaire financier, se servant de l'expertise du personnel en services bancaires et comptables afin d'aider ses clients à préparer un programme de financement avec d'autres prêteurs et d'autres organismes gouvernementaux.

Finances Î.-P.-É. offre des prêts à terme et des prêts pour les fonds de roulement aux emprunteurs admissibles des secteurs suivants :

Petites entreprises
Aérospatiale
Agriculture
Tourisme

Fabrication et transformation
Technologie de l'information
Pêche/Aquaculture

Finances Î.-P.-É. compte plus de 1 500 clients, ce qui équivaut à un portfolio de prêt qui vaut plus de 210 millions de dollars. Le secteur le plus important du portfolio de prêt demeure l'industrie de la pêche et de l'aquaculture, représentant un total d'environ 90 millions de dollars en prêts.

Finances Î.-P.-É. administre également des programmes précis, y compris le Programme de prêts à l'entrepreneuriat, le Programme pour les pêcheurs à faible revenu et le Programme de financement pour la production hivernale.

De plus, Finances Î.-P.-É. est responsable des opérations de diverses infrastructures et propriétés qui appartiennent à la province, y compris les parcs commerciaux, les terres et les bâtiments.

Pour obtenir tout autre renseignement, veuillez communiquer avec Angie Cormier par courriel à adcormier@gov.pe.ca ou par téléphone au 902-368-5368.

Overview

Finance PEI (“FPEI”) is a crown corporation under the Ministry of Innovation and Advanced Learning. FPEI, along with its subsidiary companies, is the lead financing and strategic infrastructure division for the Province of Prince Edward Island (“PEI”). The directives of FPEI include: to source, manage and supply financial capital for strategic business opportunities; balance financial risk with economic return; work collaboratively with traditional finance institutions and government agencies; and, operate as a professional lender.

Legislative Responsibility

FPEI is responsible for administering the *Finance PEI Act*.

Objectives

FPEI operates under the following mandated objectives:

- To provide leadership in the support and implementation of the government’s development strategy;
- To operate as a responsible, professional lender providing prudent and necessary assistance to firms and individuals pursuing the economic development objectives of government;
- To provide loans and credit assistance to PEI enterprises to maintain or expand development activity on PEI;
- To provide loans and credit assistance to sectors of the PEI economy identified by the government as being of strategic importance for economic development;
- To assist in the planning and implementation of economic development projects sponsored by the government; and,
- To provide such financial counseling assistance as may be required to borrowers from the Corporation to ensure repayment terms are fulfilled.

Mission Statement of Finance PEI

FPEI has three divisions, each of which has their own mission statement.

The Commercial and Resource Lending division provides financial assistance through loan agreements in support of economic development to support enterprises that demonstrate reasonable viability; and are maintaining or expanding economic development.

The Developmental Lending division provides financing, strategic investment, and loan guarantees in support of businesses that create, maintain, or expand priority sectors with emphasis on businesses involved in exporting to domestic and international markets, import replacement, and value-added processing.

The Strategic Initiatives and Properties division promotes the establishment of new business opportunities and encourages the expansion of existing businesses through the provision of readily accessible infrastructure.

Year in Review - Financing Portfolio

FPEI provides both term and working capital loans to eligible borrowers in the following sectors: small business; aerospace; agriculture; tourism; manufacturing and processing; information technology; and, fisheries and aquaculture. The 2013-2014 fiscal year saw both the total value of the financing portfolio and the total number of clients served increase slightly. Most sectors saw a slight increase in the overall funds outstanding and the following analysis provides a more detailed look at the larger portfolios and includes information and statistics for the Commercial and Resource Lending division and the Developmental Lending division combined.

Agriculture

The agriculture portfolio contains over 90 clients representing a variety of farming operations including dairy, beef, poultry, cultivated blueberries, cranberries and potatoes. As of March 31, 2014, outstanding loans in the agriculture portfolio totaled over \$42 million, representing an increase of close to \$5 million over the prior year. Loans are available for the purchase of farm lands and buildings, livestock, farm equipment, storage facilities, construction and repairs to barns and land improvements.

Operating credit is also available for annual cropping expenses such as seed, fertilizer, spray materials, fuels, repairs to machinery, labour, living allowances, and utilities. This type of credit is short-term and is repayable in full on an annual basis.

Fisheries and Aquaculture

The fisheries and aquaculture sector remains the largest sector of Finance PEI's lending portfolio. Most of the 456 borrowers in this portfolio represent the three major fisheries in Prince Edward Island: lobster, mussels, and oysters. The total loan portfolio for fisheries and aquaculture totaled close to \$83 million, representing an increase of close to \$5 million over last year.

In the fall of 2013 the province reintroduced the Low Interest Loan Program to all fishing Areas, mainly due to the low shore price that had been experienced by the fishers. The original program, released in 2007, targets assistance to fishers who have suffered from rising operational costs and a decrease in shore price. Qualified fishers receive an interest rate of 4% over a 6 year period. FPEI will be accepting applications for this program from Island fishers until June 30, 2014.

FPEI has considerable loan exposure to this sector and maintains a higher level of risk. As such, FPEI is diligent and works closely with clients in developing effective plans that ensure repayment is achieved while being mindful of lower shore prices and how it may impact Island fishing families.

Manufacturing and Processing

FPEI provides both term financing for fixed asset acquisitions and operating capital to finance the accounts receivable and inventory for manufacturing and processing clients. This portfolio has 60 clients and is quite diverse including businesses involved in furniture, fixture and equipment manufacturing, food and wood processing, fruit processing, as well as metal and machine fabricating.

Capital loans are provided for fixed asset acquisitions and are amortized over the life expectancy of the asset. Working capital loans are provided for the purpose of acquiring inventory and access to capital primarily against contracts and signed purchase orders.

Portfolio volumes in terms of dollar value and clients served remained fairly consistent over the prior year.

Small Business

The small business program is designed to meet the special needs of local business owners who serve a local clientele. Loans are provided in this category for purposes such as business acquisition, expansion, debt consolidation, and new construction. Financing to the 85 borrowers in this program are of a capital nature for the acquisition, renovations, or expansion of real property assets. Working Capital loans are not provided to businesses within this sector.

This sector is subject to swings in economic activity and continual changes in the marketplace. Over the last several years there has been gradual recovery from the economic downturn of 2008. During this recovery period Government infrastructure spending helped offset some of the job losses created by the downturn, but as the economy has regained some strength, this spending has somewhat abated.

The amount of the portfolio outstanding decreased by approximately \$2.8 million since last year, attributable mostly to the normal amortization of the loans, although there was also a small decrease in the number of clients served in this portfolio.

Tourism

FPEI provides capital financing to clients in this sector for the acquisition, renovation and expansion of tourism related businesses. The existing portfolio is made up primarily of loans for fixed roof accommodations (motels/cottage operations) and campgrounds. Close to 50 clients make up this portfolio, with close to \$32 million currently outstanding in loans.

Projects to expand the shoulder tourist season and the development of integrated recreational complexes are encouraged, such as the numerous events to be held throughout 2014 in celebration of 150th Anniversary of the Charlottetown Conference. Loans may be granted for accommodation units which are converted to other uses during the off-season period.

Entrepreneur Loan

The newly revised Entrepreneur Loan Program that was launched in 2013 is an initiative of the Province of Prince Edward Island designed to help increase the availability of financing for the purpose of helping new businesses get started and established firms make improvements. More specifically, the Program is designed to assist small businesses throughout the Province providing entrepreneurs with up to \$100,000 in financing for business ventures with solid business plans and markets. 5 loans are currently sourced for a total of close to \$100,000 directly through Finance PEI with terms up to a maximum of 7 years. Interest is charged at a floating rate of TD Bank prime plus 3%.

Winter Production Financing

The Winter Production Financing Program provides financial assistance to Prince Edward Island craft and giftware manufacturers for inventory production. There are currently 23 clients in this portfolio with close to \$200,000 in loans outstanding. The primary objective of this program is to provide new and expanding craft and giftware manufacturers in all areas of Prince Edward Island with the financing required to increase production of their products during the winter months for sale in the peak selling periods.

Year in Review - Strategic Initiatives and Properties

The Strategic Initiatives and Properties division is responsible for all real estate held by FPEI and its subsidiary companies. The portfolio includes business parks, land, and buildings, including FPEI's corporate offices located at 94 Euston Street in Charlottetown. Some of the more notable properties held in the portfolio include the Atlantic Technology Centre in Charlottetown, The BioCommons Research Park in West Royalty, the Fabrication Yard in Bordon, the Pooles Corner Business Park, the Souris Food Park, and the West Prince Business Park.

FPEI also owns a 22,270 sq ft building in the Summerside Business Park which is available to lease to the general public, and two buildings and 3 vacant lots in the West Royalty Industrial Park. During the year the two buildings owned by FPEI in the Bloomfield became fully occupied, with an existing business there expanding, as well as a new business moving in. FPEI continues to hold lots there for further development.

The land holdings of FPEI includes approximately 10 acres surrounding Gateway Village in Bordon for future development, as well as land in Malpeque Bay, Cousins Shore, St. Peters, Borden-Carleton, Brudnell, and Lakeside.

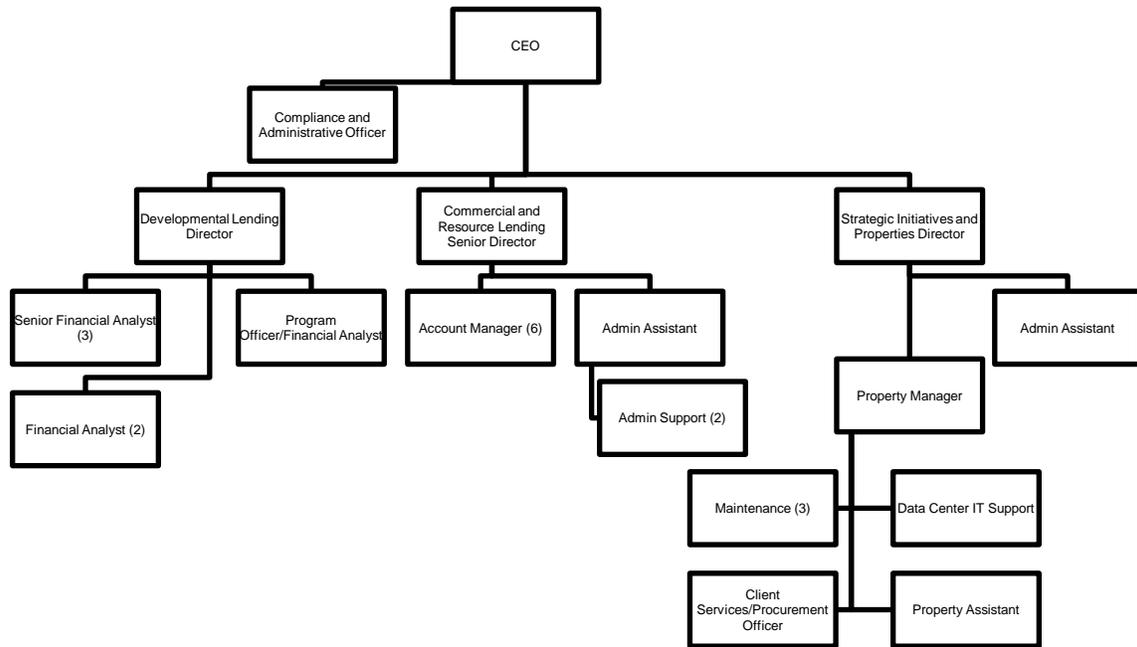
Appendix A

Board of Directors

Gordon MacInnis	Chairman, Charlottetown, PE
Neil Stewart	Deputy Minister, Department of Innovation and Advanced Learning
Jamie Aiken	CEO Finance PEI (non-voting member)
Doug Clow	Secretary to Treasury Board
Louis Callaghan	Cardigan, PE
John Sullivan	Montague, PE
Laird King	Montague, PE
Donald Godfrey	Meadowbank, PE
Louise Arsenault	Howland Road, PE

Appendix B

Organizational Chart



Appendix C

Audited Financial Statements

Finance PEI

Consolidated Financial Statements
March 31, 2014



June 26, 2014

Independent Auditor's Report

To the Board of Directors of Finance PEI

We have audited the accompanying consolidated financial statements of **Finance PEI**, which comprise the consolidated statement of financial position as at March 31, 2014, and the consolidated statements of operations, accumulated surplus, changes in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 the auditor's 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, the auditor considers internal controls 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 controls. 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 in our audit is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of **Finance PEI** as at March 31, 2014, and the consolidated results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

ArsenaultBestCameronEllis

Chartered Accountants

Finance PEI

Consolidated Statement of Financial Position As at March 31, 2014

	2014	2013
	\$	\$
Assets		
Financial assets		
Cash	6,758,298	4,123,868
Accounts receivable (notes 2 and 11)	411,800	1,805,626
Accrued interest receivable	393,720	469,106
Loans receivable (note 3)	177,176,436	173,473,217
Advances to related companies (note 11)	1,332,439	1,139,292
Due from the Province of Prince Edward Island	11,163,650	11,163,650
Investment in private companies (note 4)	290,002	360,001
	<u>197,526,345</u>	<u>192,534,760</u>
Liabilities		
Accounts payable and accrued liabilities (note 11)	1,393,522	2,100,788
Deferred revenue	1,281,632	293,457
Advances from related companies (note 11)	14,005,225	12,223,133
Short-term notes payable (note 5)	32,203,502	29,118,621
Long-term debt (note 6)	156,014,948	169,062,587
	<u>204,898,829</u>	<u>212,798,586</u>
Net debt	<u>(7,372,484)</u>	<u>(20,263,826)</u>
Contingent liabilities (note 9)		
Non-financial assets		
Prepaid expenses	127,077	124,833
Net investment in lease (note 7)	914,030	871,030
Foreclosed properties (note 8)	423,508	12,272,042
Property holdings (note 11) (Schedule 2)	28,592,625	27,918,290
	<u>30,057,240</u>	<u>41,186,195</u>
Accumulated surplus	<u>22,684,756</u>	<u>20,922,369</u>

Approved by the Board of Directors

Director

(2)

Director

Finance PEI

Consolidated Statement of Accumulated Surplus For the year ended March 31, 2014

	2014 \$	2013 \$
Accumulated surplus - Beginning of year	20,922,369	-
Transferred from P.E.I. Lending Agency (note 13)	-	1,727,924
Transferred from Innovation PEI subsidiaries (note 13)	-	7,697,466
Operating surplus for the year	<u>1,762,387</u>	<u>11,496,979</u>
Accumulated surplus - End of year	<u>22,684,756</u>	<u>20,922,369</u>

Finance PEI

Consolidated Statement of Operations For the year ended March 31, 2014

	Budget (Unaudited) \$	Actual 2014 \$	Actual 2013 \$
Revenue			
Grants from Province of Prince Edward Island	-	-	807,000
Government contributions	-	-	160,082
Interest from borrowers	10,657,500	9,877,299	10,506,672
Interest from deposits	30,000	42,961	44,274
Property operations (note 11)	3,775,000	4,648,182	3,920,383
Service fees	275,000	361,560	364,030
Post-receivership income	-	20,009	196,032
Management fees (note 11)	-	500,000	500,000
Investment income	-	19,200	17,600
Miscellaneous	45,000	91,981	47,850
	<u>14,782,500</u>	<u>15,561,192</u>	<u>16,563,923</u>
Expenses (note 11) (Schedule 1)			
Administration	590,500	597,948	444,860
Lending operations	6,663,400	7,074,625	8,092,281
Property operations (note 1)	4,653,300	5,214,407	4,811,931
Provision for (recovery of) possible losses	1,160,000	911,825	(8,416,380)
Grant to related company	-	-	134,252
	<u>13,067,200</u>	<u>13,798,805</u>	<u>5,066,944</u>
Operating surplus	<u>1,715,300</u>	<u>1,762,387</u>	<u>11,496,979</u>

Finance PEI

Consolidated Statement of Changes in Net Debt For the year ended March 31, 2014

	2014 \$	2013 \$
Annual surplus	1,762,387	11,496,979
Acquisition of property holdings	(2,079,117)	(3,172,267)
Amortization of property holdings	1,267,357	1,035,844
Gain on disposal of property holdings	(771,639)	-
Proceeds on disposal of property holdings	909,064	-
Additions to foreclosed properties	(3,506,631)	(17,142,840)
Increase (decrease) in provision for foreclosed properties	(1,017,333)	3,312,708
Payments received on foreclosed properties	12,989,574	-
Disposal of foreclosed properties	3,382,924	1,577,753
	11,174,199	(14,388,802)
Change in net investment in lease	(43,000)	(43,000)
Increase in prepaid expenses	(2,244)	(120,697)
	11,128,955	(14,552,499)
Decrease (increase) in net debt	12,891,342	(3,055,520)
Net debt - Beginning of year	(20,263,826)	-
Net debt transferred in during the year (note 13)	-	(9,768,077)
Decrease in advances from related company due to the transfer from Innovation PEI (note 13)	-	(7,440,229)
Net debt - End of year	(7,372,484)	(20,263,826)

Finance PEI

Consolidated Statement of Cash Flows For the year ended March 31, 2014

	2014	2013
	\$	\$
Cash provided by (used in)		
Operating activities		
Operating surplus	1,762,387	11,496,979
Items not affecting cash		
Amortization	1,267,357	1,035,844
Change in net investment in lease	(43,000)	(43,000)
Provision for (recovery of) possible losses	911,825	(8,416,380)
Loss on sale of property holdings	(771,639)	-
	<u>3,126,930</u>	<u>4,073,443</u>
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable	1,393,826	(23,781)
Decrease (increase) in accrued interest receivable	75,386	(39,408)
Increase in prepaid expenses	(2,244)	(120,697)
Increase (decrease) in accounts payable and accrued liabilities	(707,266)	478,178
Increase (decrease) in deferred revenue	988,175	(198,397)
	<u>4,874,807</u>	<u>4,169,338</u>
Financing activities		
Increase in advances to related companies	(193,147)	(140,648)
Increase in advances from related companies	1,782,092	2,085,251
Decrease in investment in private companies	69,999	206,620
Increase in short-term notes payable	11,250,000	7,900,000
Repayment of short-term notes payable	(8,165,119)	(10,850,000)
Increase in long-term debt	19,280,000	18,323,051
Repayment on long-term debt	(32,327,639)	(23,737,717)
	<u>(8,303,814)</u>	<u>(6,213,443)</u>
Investing activities		
Additions to and purchases of property holdings	(2,079,117)	(3,172,267)
Reductions and proceeds on disposal of property holdings	909,064	-
Additions to foreclosed properties	(3,506,631)	(17,142,840)
Disposal of foreclosed properties	3,382,924	1,577,753
Decrease (increase) in loans receivable	(4,615,044)	20,513,151
Payments received on foreclosed properties	12,989,574	-
Decrease in foreclosed properties	(1,017,333)	-
	<u>6,063,437</u>	<u>1,775,797</u>
Change in cash	2,634,430	(268,308)
Cash - Beginning of year	4,123,868	-
Cash transferred in (note 13)	-	4,392,176
Cash - End of year	<u>6,758,298</u>	<u>4,123,868</u>
Supplementary disclosure		
Interest and dividends received	9,953,815	10,484,864
Interest paid	5,699,394	6,696,016

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2014

Finance PEI is a Crown corporation established by a proclamation of the Finance PEI Act effective April 1, 2012. P.E.I. Lending Agency, Innovation PEI Lending Services division and Innovation PEI Strategic Initiatives and Properties division transferred their assets, liabilities and surplus to Finance PEI effective April 1, 2012. Finance PEI's financial results are included in the public accounts of the Province of Prince Edward Island.

1 Summary of significant accounting policies

The financial statements of the corporation have been prepared in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board of CPA Canada. The following is a summary of significant accounting policies used in the preparation of these statements

a) General

These consolidated financial statements include the accounts of the wholly-owned subsidiaries, Atlantic Technology Centre Inc., P.E.I. Biocommons Inc. and 100417 P.E.I. Inc., all having March 31, 2014 year ends.

b) Cash

Cash is comprised of cash on hand and cash in banks and is recorded at cost.

c) Financial instruments

The Corporation's financial instruments consists of cash, accounts receivable, accrued interest receivable, loans receivable, advance to related companies, due from the Province of Prince Edward Island, investment in private companies, accounts payable and accrued liabilities, advances from related companies, short-term notes payable and long-term debt.

All financial assets and financial liabilities are initially recognized at fair value and subsequently measured at cost or amortized cost.

d) Accounts receivable

Accounts receivable arise from tenant rents, trade sales, staff advance and Harmonized Sales Tax receivable. An allowance for doubtful accounts has been calculated through discussions with management, assessment of the other circumstances influencing the collectibility of amounts, and using historical loss experience. Amounts deemed uncollectible are written off and deducted from the carrying value of the receivable. Amounts subsequently recovered from accounts previously written off are credited to the allowance account in the period of recovery.

e) Loans receivable

Loans are recorded at amortized cost less an allowance for possible losses.

An impaired loan is a loan where in management's opinion there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Allowances for possible losses are calculated on loans receivable as outlined in note 1j).

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2014

f) Due from Province of Prince Edward Island

The amount due from Province of Prince Edward Island is funding to be received for the allowance for possible credit losses. The due from the Province of Prince Edward Island is reduced when a write-off is recognized by Finance PEI and the Province with notes payable reduced correspondingly. This amount is also reduced by any payment received from the Province for guarantees.

g) Investments in private companies

Investment in private companies, except for two preferred share investments not considered to be concessionary, are recorded at one-half of cost. An expense of 50% was charged to development programs when the funds were invested. The remaining cost is reduced by any applicable allowance for possible losses. Any recovery exceeding the balance in share investment is taken into revenue when received.

The two investments in preferred shares of private companies that are not being carried at one-half of their cost are being carried at the lower of cost and estimated realizable value.

Investment in private companies are reviewed annually for potential declines in value and are written down or an allowance is recorded if a decline in value is considered evident. Write downs are included in lending operations expense.

It is not practical within the constraints of timeliness and cost to determine the fair market value of the investment in private companies as these investments are in closely held private companies that have no organized financial market. The estimated realizable value of these investments is based on expected future cash flows.

h) Property holdings, foreclosed properties and amortization

i) Property holdings

Property holdings are reported at the lower of cost and estimated realizable value. Property holdings are amortized using the straight-line method at the following annual rates:

Land improvements	10%
Leasehold improvements	7%
Buildings	14 - 30 years
Equipment	20%, 33% and 100%
Test cell	5%

Proceeds on the sale of land included in industrial sites is recorded as a reduction in the carrying value of the asset.

Included in property operations expense is amortization of \$1,267,357 (2013 - \$1,035,844).

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2014

ii) Foreclosed properties

Foreclosed properties are carried at the lower of cost of the impaired asset prior to realization of the related security and the underlying estimated realizable value of the security.

Reductions from the carrying value of the impaired asset to estimated realizable value is recorded as a provision for possible losses.

iii) Fair value

Fair value for land, buildings and equipment held for resale or under lease purchase options and industrial malls, is its property tax assessed value. Fair value for industrial sites is the expected proceeds on resale. Fair value for the test cells is the net cost to construct the assets supported by payments under a long-term lease agreement. If property and equipment carrying value should exceed fair value, additional amortization or a writedown is provided.

i) Net investment in leases

Net investment in leases represents the net present value of the minimum lease payments receivable over the term of the lease plus the purchase option for leases with a deferred purchase option.

j) Allowance for possible losses

An allowance for possible losses is maintained which is considered adequate to absorb all credit and investment related losses of financial position items including guarantees. The allowance is deducted from the applicable asset on the statement of financial position, except for guarantees. The allowance for guarantees is included in accounts payable and accrued liabilities.

The allowance consists of specific and general provisions.

Specific provisions include the accumulated allowances for losses on particular assets required to reduce the book values to estimated realizable amounts. Specific provisions for loans receivable and investments in private companies and foreclosed properties total \$28,641,621 (2013 - \$31,597,274).

The Corporation does not accrue interest on a loan receivable once a specific provision has been recorded against the loan.

The Corporation reviews its loans portfolio, investments and advances, foreclosed properties and property holdings and guarantees on an ongoing basis to assess whether an allowance or write-off is required.

A variety of methods are used to determine the amount expected to be recovered from investments in and advances to private companies and property holdings, including estimated future cash flows and the estimated fair value of the underlying security and value of any collateral security taken.

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2014

A general provision of \$10,633,256 (2013 - \$10,311,283) includes accumulated allowances for losses which are prudential in nature and are not specifically identified. The general provision is based on past performance of similar assets, the level of the specific provision, management's judgment, the economic climate and the maturity and financial strength of the investee.

k) Employee pension plan

The Corporation's staff are members of the Province of Prince Edward Island pension plan. The pension plan obligation is a liability of the Province and not Finance PEI and no liability for these costs has been accrued by the Corporation at March 31, 2014.

l) Post retirement benefits

The Corporation provides retirement benefits to eligible employees. The benefit is based on one week's salary per year of service to a maximum of 26 weeks and is expensed on an accrual basis.

m) Deferred revenue

Contributions received and not expended on land purchases and grants to finance infrastructure costs and contributions to occupants of the Biocommons park are recorded as deferred revenue.

During the current year, nil (2013 - \$160,082) of deferred revenue was recognized as revenue to offset nil (2013 - \$134,252) in grants to fund infrastructure costs and nil (2013 - \$25,830) in land improvement purchases.

n) Revenue recognition

Grants from the Province of Prince Edward Island, federal government contributions and investment income are recorded in the period earned.

Interest on loans from borrowers is recognized as revenue in the period earned except where a loan is classified as impaired. Interest earned on an impaired loan is recognized as revenue only when it has been received.

Revenue from property operations are recorded when collection is reasonably assured and all other significant conditions of service are met.

Revenue from service fees, post-receivership income and management fees are recorded when earned and collection is reasonably assured.

o) Government transfers

Government transfers are the transfer of assets from senior levels of government that are not the result of an exchange transaction, are not expected to be repaid in the future, or the result of a direct financial return. Government transfers are recognized in the financial statements as revenue 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 on the amounts can be determined.

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2014

p) Management estimates

The presentation of financial statements in conformity with Canadian public sector standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the year. Actual results could differ from the following estimates:

- The amount recorded regarding the allowance for possible credit losses is subject to management's assessment of the performance of the company's loans receivable and investments as well as the valuation of the assets placed as security;
- The amount recorded for amortization of property holdings on the statement of operations is subject to management's assessment of the estimated useful life of the company's property holdings; and
- The recognized amounts of potential claims and liabilities depend on management's assessment of future costs and the probability these events will occur.

2 Accounts receivable

The accounts receivable have been reduced by an allowance for possible losses of \$425,984 (2013 - \$111,408).

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2014

3 Loans receivable

				2014	2013
	Total	Allowance for possible losses General	Allowance for possible losses Specific	Net	Net
	\$	\$	\$	\$	\$
Working capital loans					
Agriculture	3,362,212	1,311,996	1,925,000	125,216	672,656
Tourism	852,704	19,290	50,000	783,414	1,002,462
Manufacturing and processing	4,732,503	82,075	2,476,083	2,174,345	4,678,579
Fisheries	1,607,159	29,354	-	1,577,805	1,989,760
Small business	1,993,653	69,960	641,123	1,282,570	2,157,938
	12,548,231	1,512,675	5,092,206	5,943,350	10,501,395
Long-term loans					
Alternative Heating program	187	-	-	187	1,126
Agriculture	28,779,143	600,000	-	28,179,143	19,254,041
Tourism	30,180,155	525,000	5,235,000	24,420,155	22,077,931
Manufacturing and processing	16,127,724	686,965	4,055,437	11,385,322	13,232,227
Fisheries	78,453,873	5,230,193	215,000	73,008,680	66,496,944
Aquaculture	112,018	-	-	112,018	91,869
Small business	24,436,236	355,479	897,666	23,183,091	26,512,225
Blueberry	1,601,839	1,350,000	25,000	226,839	349,295
Cranberry	499,993	-	475,000	24,993	56,875
Shipbuilding/Shipping	3,267,140	351,428	10,000	2,905,712	5,682,854
Renewable energy	4,598	-	-	4,598	35,319
Eco energy	2,040,104	-	-	2,040,104	3,015,982
Other	14,653,428	21,516	8,889,668	5,742,244	6,165,134
	200,156,438	9,120,581	19,802,771	171,233,086	162,971,822
	212,704,669	10,633,256	24,894,977	177,176,436	173,473,217

Working capital loans are repayable over various terms to a maximum of 5 years with interest rates ranging from 3% to 12.68%.

Long-term loans are repayable over various terms to a maximum of 10 years with interest rates ranging from 3% to 8.5%.

Security for working capital loans and long-term loans consists of promissory notes, land, building, inventory and personal guarantees from the borrowers.

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2014

Continuity of allowance for possible losses

	2014	2013
	\$	\$
Allowance for possible losses - Beginning of year	36,794,580	-
Add: Transferred in from P.E.I. Lending Agency	-	41,622,858
Add: Transferred in from Innovation PEI	-	9,685,309
Add: Provision recorded during year	3,219,203	4,020,550
Less: Transferred to foreclosed properties	(2,712,397)	(18,534,137)
Less: Recoveries during year	(1,773,153)	-
	<hr/>	<hr/>
Allowance for possible losses - End of year	35,528,233	36,794,580
	<hr/>	<hr/>

4 Investment in private companies

	2014	2013
	\$	\$
Investment in private companies		
Small Business and Venture Capital Equity Program investments	438,910	438,910
Less: Allowance for possible losses	(438,910)	(438,910)
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
56,000 common shares of Slemon Park Corporation at cost	1	1
Investment in preferred shares of private companies	772,812	1,192,811
Less: Allowance for possible losses	(482,811)	(832,811)
	<hr/>	<hr/>
	290,002	360,001
	<hr/>	<hr/>
	290,002	360,001
	<hr/>	<hr/>

Continuity of allowance for possible losses

	2014	2013
	\$	\$
Allowance for possible losses - Beginning of year	1,271,721	-
Less: Transferred in from Innovation PEI	-	1,478,341
Less: Recovery during the year	(350,000)	(206,620)
	<hr/>	<hr/>
Allowance for possible losses - End of year	921,721	1,271,721
	<hr/>	<hr/>

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2014

5 Short-term notes payable

	2014	2013
	\$	\$
Demand note payable to Island Investment Development Inc.	6,998,502	6,998,621
Demand notes payable to Province of Prince Edward Island	25,205,000	22,120,000
	<u>32,203,502</u>	<u>29,118,621</u>

The demand notes payable to Island Investment Development Inc. includes a \$15,000,000 available operating line of credit with an outstanding balance of \$6,998,502 (2013 - \$6,998,621).

The demand note to Island Investment Development Inc. is secured by a promissory note for \$15,000,000 and a revolving credit agreement. The demand notes to Province of Prince Edward Island are unsecured.

Interest paid by Finance PEI is included in the expenditure category to which it relates. Included is interest for 2014 in the amount of \$362,797 (2013 - \$381,959).

Demand notes payable are issued by the Province of Prince Edward Island with interest set monthly based on the Province's short-term lending rate in existence at the first day of the month. These notes are renewed on an ongoing basis with interest payable monthly.

6 Long-term debt

	2014	2013
	\$	\$
4.00% note payable to Island Investment Development Inc.	556,846	556,846
4.00% note payable to Island Investment Development Inc.	1,430,499	1,430,499
4.00% note payable to Island Investment Development Inc., due April 2018, repayable \$8,165 monthly including principal and interest	1,290,798	1,323,051
6.62% Bank of Nova Scotia mortgage, repayable \$40,333 monthly plus interest, maturing August 2017	6,493,667	6,977,667
6.01% note payable, due December 2024, repayable \$88,025 monthly including principal and interest	8,379,205	8,920,538
5.54% note payable, due December 2024, repayable \$7,969 monthly including principal and interest	775,683	827,286
Notes payable to Province of Prince Edward Island with interest rates from 2.26% to 3.84%, maturing at various dates between 2014 and 2019	137,088,250	149,026,700
	<u>156,014,948</u>	<u>169,062,587</u>

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2014

Island Investment Development Inc. is a provincial Crown corporation. The repayment terms of the \$556,846 and \$1,430,499 loans are to be determined at a future date.

The 6.62% mortgage is secured by a full guarantee provided by the Province of Prince Edward Island.

The 6.01% and 5.54% notes payable are secured by a general security agreement covering certain property holdings with a net book value of nil.

All other notes payable are unsecured.

The aggregate amount of principal payments estimated to be required in each of the next five years to meet retirement provisions is as follows:

	\$
Year ending March 31, 2015	51,126,409
2016	23,850,720
2017	25,507,586
2018	29,950,896
2019	17,729,877

Interest paid by Finance PEI and its subsidiaries are included in the expenditure category to which it relates. Included is interest on long-term debt in the amount of \$5,399,041 (2013 - \$6,321,882).

7 Net investment in lease

Net investment in lease representing the purchase option receivable from a lessee, due July 1, 2015.

The net investment in this lease is recorded at the net present value of the total lease payments using a discount rate of 5.5%, calculated as follows:

	2014 \$	2013 \$
Total of lease payments to be received to July 1, 2015	1,000,030	1,000,030
Less: Portion representing interest at 5.5%	<u>(86,000)</u>	<u>(129,000)</u>
Net present value of net investment in lease	<u>914,030</u>	<u>871,030</u>

8 Foreclosed properties

	2014 \$	2013 \$
Foreclosed projects - land, buildings and equipment held for resale	3,248,431	16,114,298
Less: Allowance for possible losses	<u>(2,824,923)</u>	<u>(3,842,256)</u>
	<u>423,508</u>	<u>12,272,042</u>

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2014

Continuity of allowance for possible losses

	2014	2013
	\$	\$
Allowance for possible losses - Beginning of year	3,842,256	-
Add: Transfer in from P.E.I. Lending Agency	-	529,549
Add: Transferred from loans receivable	2,712,397	18,534,137
Less: Recovery during the year	(184,224)	(12,230,310)
Less: Write-offs during the year	(3,545,506)	(2,991,120)
Allowance for possible losses - End of year	<u>2,824,923</u>	<u>3,842,256</u>

9 Contingent liabilities

- a) A counterclaim has been commenced against the Corporation in response to an action for a deficiency remaining after realization on collateral held by the P.E.I. Lending Agency. The claimant has not provided any details as to the nature and extent of damages or loss for which they seek compensation. There is no liability recorded in these financial statements as it is management's opinion that no liability is likely to arise as a result of this counterclaim. The counterclaim is presently still ongoing.
- b) The Corporation is contingently liable under loan guarantees at March 31 as follows:

	2014	2013
	\$	\$
Loan guarantees	<u>1,241,037</u>	<u>1,378,243</u>

The Corporation is also contingently liable under entrepreneur loan program guarantees of \$221,648 for which a provision for possible losses of has not been included in the financial statements.

The above guarantees have various expiry dates ranging from July 2019 to May 2023.

The guarantees are secured by various assets and proceeds from liquidation are expected to cover the net carrying amount of the guarantees.

10 Commitments

Loans approved but not disbursed at March 31, 2014 total \$4,259,807 (2013 - \$8,921,749).

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2014

11 Related party account balances and transactions

Related parties

The related companies are provincial Crown corporations or subsidiaries of provincial Crown corporations.

Balance sheet

Balance sheet

	2014	2013
	\$	\$
Advances to related companies:		
F.T.C. Enterprises Limited	18,147	-
Biocommons Development Inc.	864,292	864,292
Island Investment Development Inc.	450,000	150,000
Prince Edward Island Century 2000 Fund Inc.	-	125,000
	<hr/>	<hr/>
	1,332,439	1,139,292
Advances from related companies:		
Innovation PEI	11,267,579	9,723,133
Island Investment Development Inc.	2,500,000	2,500,000
Prince Edward Island Century 2000 Fund Inc.	237,646	-
	<hr/>	<hr/>
	14,005,225	12,223,133

The advances to/from related companies are non-interest bearing and have no specific terms of repayment. Innovation PEI and Island Investment Development Inc. are provincial Crown corporations. Prince Edward Island Century 2000 Fund Inc. and F.T.C. Enterprises Limited are subsidiaries of provincial Crown corporations. Biocommons Development Inc. is a non-profit company with a similar Board of Directors as P.E.I. Biocommons Inc.'s Board of Directors. P.E.I. Biocommons Inc is a wholly owned subsidiary of Finance PEI.

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2014

Included in accounts receivable, accounts payable and accrued liabilities are the following amounts due from/due to related parties:

	2014	2013
	\$	\$
Accounts receivable:		
Due from Province of Prince Edward Island	59,052	989,960
Accounts payable and accrued liabilities:		
Due to Province of Prince Edward Island	109,180	125,944
Due to related companies	429,486	365,826
	<u>538,666</u>	<u>491,770</u>

Property holdings

The Province of Prince Edward Island conveys land to the Corporation periodically to be used for development purposes. The exchange and carrying amounts of land when transferred into the Corporation is nil.

Statement of operations

Included in property operations revenue is \$510,903 (2013 - \$533,666) from related parties.

During the year, management fees of \$500,000 (2013 - \$500,000) were received from Island Investment Development Inc., a provincial Crown corporation.

Included in expenditures is \$4,469,461 (2013 - \$5,470,985) in interest paid to Province of Prince Edward Island and \$156,839 (2013 - \$177,032) in interest paid to Island Investment Development Inc., a provincial Crown corporation.

During the year, a grant of nil (2013 - \$134,252) was expensed to Biocommons Developments Inc.

The above transactions were recorded in the normal course of operations and measured at exchange amounts.

Other

The Corporation rents land for the annual amount of \$2,120 plus applicable taxes from Slemon Park Corporation under a fifty-year lease agreement, effective for the term September 28, 2001 to September 28, 2051.

100417 P.E.I. Inc., a wholly-owned subsidiary of Finance PEI, owns 56% of the common shares of Slemon Park Corporation. 100417 P.E.I. Inc has not consolidated Slemon Park Corporation into its operations as 100417 P.E.I. Inc. does not have voting control of Slemon Park Corporation.

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2014

12 Financial risk management objectives and policies

Finance PEI's principal business activities result in a statement of financial position that consists primarily of financial instruments. The principal financial risks that arise from transacting financial instruments include credit, liquidity, market and operational risk. Authority for all risk-taking activities rests with the Board of Directors (Board), which approves risk management policies, delegates' limits and regularly reviews management's risk assessments and compliance with approved policies. Qualified professionals throughout Finance PEI manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes.

(a) Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty of a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the company's loans receivable.

The company's maximum exposure to credit risk at the statement of financial position date in relation to each class of recognized financial assets is the carrying amount of those assets indicated in the statement of financial position. The maximum credit exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

The company's maximum exposure to credit risk at the reporting date was:

	2014	2013
	\$	\$
Accounts receivable	411,800	1,805,626
Accrued interest receivable	393,720	469,106
Loans receivable	177,176,436	173,473,217
Advances to related companies	1,332,439	1,139,292
Investment in subsidiaries and private company	290,002	360,001
Due from the Province of Prince Edward Island	11,163,650	11,163,650
Loan guarantees	1,241,037	1,650,587
	<u>192,009,084</u>	<u>190,061,479</u>

(i) Loans receivable

For the loans receivable portfolio, the company uses risk modelling that is customer based rather than product based. The company reviews the borrowers capacity to repay the loan rather than relying exclusively on collateral, although it is an important component in establishing credit risk. Typically, collateral consists of capital assets held by the borrower but can extend to working capital assets such as inventory when warranted. Any shortfall in collateral as compared to the carrying value of the loan is considered when analyzing the loan for the provision that needs to be applied to it.

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2014

Credit is approved by staff and the company's Board of Directors with loans in excess of \$1 million requiring approval by Treasury Board. The company factors the financial strength of each borrower, the security available, their position in industry and past payment history when assessing all potential loans.

A loan is considered past due when a party has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired:

	0 - 60 days \$	60 - 120 days \$	+120 days \$	Total \$
As at:				
March 31, 2014	738,266	488,172	8,427,370	9,653,808
March 31, 2013	293,801	446,025	9,109,146	9,848,972

(b) Liquidity risk

Liquidity risk is the risk that the company may not be able to meet its financial obligations as they come due. Specifically, the company needs to ensure it has adequate resources to repay all accounts payable and accrued liabilities, advances from related companies, notes payable and mortgages as they come due. The company's approach to manage liquidity risk is to closely monitor its cash flows and forecast the expected receipts and obligations.

The table below analyzes the company's financial liabilities into relevant groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

	Under 1 year \$	Between 1 - 5 years \$	Over 5 years \$	2014 Total \$
Accounts payable and accrued liabilities	1,393,522	-	-	1,393,522
Advances from related companies	14,005,225	-	-	14,005,225
Short-term notes payable	32,203,502	-	-	32,203,502
Long-term debt	51,126,409	97,039,079	7,849,460	156,014,948
	<u>98,728,658</u>	<u>97,039,079</u>	<u>7,849,460</u>	<u>203,617,197</u>

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2014

	Under 1 year \$	Between 1 - 5 years \$	Over 5 years \$	2013 Total \$
Accounts payable and accrued liabilities	2,100,788	-	-	2,100,788
Advances from related companies	12,223,133	-	-	12,223,133
Short-term notes payable	29,118,621	-	-	29,118,621
Long-term debt	39,856,634	121,523,969	7,681,984	169,062,587
	<u>83,299,176</u>	<u>121,523,969</u>	<u>7,681,984</u>	<u>212,505,129</u>

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates and equity prices will affect the company's income or the value of its holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. For the Corporation, mismatches in the balances of assets, liabilities and off-statement of financial position financial instruments that mature and reprice in varying reporting periods generate interest rate risk. These mismatches will arise through the ordinary course of business as the Corporation manages member portfolios of loans and deposits with changing term preferences and through the strategic positioning of the credit union to enhance profitability.

The following table provides the potential impact of an immediate and sustained 1% increase or decrease in interest rates on net interest income, assuming no further hedging is undertaken. These measures are based on assumptions made by management. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and the Corporation's management initiatives.

	Net interest income change \$	Interest expense change \$
Impact of		
1% increase in interest rates	67,503	322,035
1% decrease in interest rates	(67,503)	(322,035)

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2014

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

(e) Capital management

The primary objective of Finance PEI's capital management is to ensure that it maintains a healthy financial position in order to support its business. Finance PEI manages its capital structure and makes changes to it in light of changes in economic conditions.

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2014

13 Transfer from P.E.I. Lending Agency and Innovation PEI

The Finance PEI Act established Finance PEI as a Crown corporation with an effective date of April 1, 2012. All of the assets and liabilities of the P.E.I. Lending Agency, the Innovation PEI Lending Services Division, the Innovation PEI Strategic Initiatives and Properties Division and three subsidiaries of Innovation PEI became the property of Finance PEI. The three subsidiaries are Atlantic Technology Centre Inc., P.E.I. Biocommons Inc. and 100417 P.E.I. Inc.

	Innovation PEI subsidiaries	Divisions of Innovation PEI	PEI Lending Agency	Total
	\$	\$	\$	\$
Financial assets				
Cash	3,757,068	-	635,108	4,392,176
Accounts receivable	14,451	360,741	1,406,353	1,781,545
Accrued interest receivable	-	429,698	-	429,698
Loans receivable	-	14,495,474	167,968,426	182,463,900
Advances to related companies	998,644	1,179,983	-	2,178,627
Due from the Province of Prince Edward Island	-	11,163,650	-	11,163,650
Investment in subsidiaries and private companies	1	360,298	-	360,299
	<u>4,770,164</u>	<u>27,989,844</u>	<u>170,009,887</u>	<u>202,769,895</u>
Liabilities				
Accounts payable and accrued liabilities	1,144,961	334,137	143,513	1,622,611
Advances from related companies	3,877,633	-	-	3,877,633
Deferred revenue	491,854	-	-	491,854
Short-term notes payable	-	12,618,621	19,450,000	32,068,621
Long-term debt	7,461,667	18,307,473	148,708,113	174,477,253
	<u>12,976,115</u>	<u>31,260,231</u>	<u>168,301,626</u>	<u>212,537,972</u>
Net financial assets (debt)	<u>(8,205,951)</u>	<u>(3,270,387)</u>	<u>1,708,261</u>	<u>(9,768,077)</u>
Non-financial assets				
Prepaid expenses	4,136	-	-	4,136
Net investment in lease	-	828,030	-	828,030
Foreclosed properties	-	-	19,663	19,663
Property holdings	15,899,281	9,882,586	-	25,781,867
	<u>15,903,417</u>	<u>10,710,616</u>	<u>19,663</u>	<u>26,633,696</u>
Net assets	<u>7,697,466</u>	<u>7,440,229</u>	<u>1,727,924</u>	<u>16,865,619</u>

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2014

The net assets transferred in from P.E.I. Lending Agency and Innovation PEI subsidiaries were recorded by Finance PEI as accumulated surplus. The net assets transferred in from Innovation PEI was recorded by Finance PEI as an advance from Innovation PEI.

Finance PEI

Non-consolidated Schedule of Expenses by Type For the year ended March 31, 2014

Schedule 1

2014

	Salaries Benefits \$	Operating Goods & Services \$	Property Operations \$	Lending Operations \$	Interest Expense \$	Amortization \$	Total \$
Expenses							
Administration	329,180	268,768	-	-	-	-	597,948
Property operations	621,264	78,802	2,772,275	-	517,716	1,224,350	5,214,407
Allowance for credit losses and guarantee payments	-	-	-	911,825	-	-	911,825
Lending operations	1,419,944	-	-	409,573	5,245,108	-	7,074,625
	2,370,388	347,570	2,772,275	1,321,398	5,762,824	1,224,350	13,798,805

2013

	Salaries Benefits \$	Operating Goods & Services \$	Property Operations \$	Lending Operations \$	Interest Expense \$	Amortization \$	Total \$
Expenses							
Operating	226,677	218,183	-	-	-	-	444,860
Property operations	722,017	93,256	2,470,827	-	489,987	1,035,844	4,811,931
Allowance for (recovery of) credit losses and guarantee payments	-	-	-	(8,416,380)	-	-	(8,416,380)
Lending operations	1,240,821	-	-	637,605	6,213,855	-	8,092,281
Grant to related company	-	-	134,252	-	-	-	134,252
	2,189,515	311,439	2,605,079	(7,778,775)	6,703,842	1,035,844	5,066,944

Finance PEI

Schedule of Property Holdings

As at and for the year ended March 31, 2014

Schedule 2

	Cost				Accumulated amortization				2014
	Beginning \$	Additions \$	Transfers \$	Disposals/ Ending \$	Beginning \$	Amortization \$	Disposals \$	Ending \$	Net book value \$
General									
Land	981,500	-	-	981,500	-	-	-	-	981,500
Land improvements	44,765	-	-	44,765	44,765	-	-	44,765	-
Building	1,666,770	12,733	-	1,679,503	784,565	66,925	-	851,490	828,013
	2,693,035	12,733	-	2,705,768	829,330	66,925	-	896,255	1,809,513
Property holdings held for resale									
Land	1,434,302	150,000	-	1,584,302	-	-	-	-	1,584,302
Buildings	2,700,000	-	-	2,700,000	530,580	153,000	-	683,580	2,016,420
	4,134,302	150,000	-	4,284,302	530,580	153,000	-	683,580	3,600,722
Industrial Sites									
Land	4,122,902	-	(85,518)	4,037,384	-	-	-	-	4,037,384
Land improvements	2,743,635	26,013	-	2,769,648	2,719,094	3,624	-	2,722,718	46,930
Leasehold improvements	997,297	502	-	997,799	17,321	69,828	-	87,149	910,650
Building	20,789,066	1,846,217	(54,429)	22,580,854	5,898,048	691,046	(2,522)	6,586,572	15,994,282
Equipment	7,047,083	43,652	-	7,090,735	6,986,239	36,084	-	7,022,323	68,412
	35,699,983	1,916,384	(139,947)	37,476,420	15,620,702	800,582	(2,522)	16,418,762	21,057,658
Test cell	4,937,000	-	-	4,937,000	2,565,418	246,850	-	2,812,268	2,124,732
	47,464,320	2,079,117	(139,947)	49,403,490	19,546,030	1,267,357	(2,522)	20,810,865	28,592,625

Finance PEI

Schedule of Property Holdings

As at and for the year ended March 30, 2013

Schedule 2

	Cost				Accumulated amortization				2013
	Beginning \$	Transferred in \$	Additions \$	Ending \$	Beginning \$	Transferred in \$	Amortization \$	Ending \$	Net book value \$
General									
Land	-	981,500	-	981,500	-	-	-	-	981,500
Land improvements	-	44,765	-	44,765	-	44,765	-	44,765	-
Building	-	1,666,770	-	1,666,770	-	717,891	66,674	784,565	882,205
	-	2,693,035	-	2,693,035	-	762,656	66,674	829,330	1,863,705
Property holdings held for resale									
Land	-	1,334,302	100,000	1,434,302	-	-	-	-	1,434,302
Buildings	-	1,500,000	1,200,000	2,700,000	-	425,580	105,000	530,580	2,169,420
	-	2,834,302	1,300,000	4,134,302	-	425,580	105,000	530,580	3,603,722
Industrial Sites									
Land	-	4,122,902	-	4,122,902	-	-	-	-	4,122,902
Land improvements	-	2,717,805	25,830	2,743,635	-	2,709,378	9,716	2,719,094	24,541
Leasehold improvements	-	166,702	830,595	997,297	-	5,835	11,486	17,321	979,976
Building	-	19,821,081	967,985	20,789,066	-	5,323,483	574,565	5,898,048	14,891,018
Equipment	-	6,999,226	47,857	7,047,083	-	6,964,695	21,544	6,986,239	60,844
	-	33,827,716	1,872,267	35,699,983	-	15,003,391	617,311	15,620,702	20,079,281
Test cell									
	-	4,937,000	-	4,937,000	-	2,318,559	246,859	2,565,418	2,371,582
	-	44,292,053	3,172,267	47,464,320	-	18,510,186	1,035,844	19,546,030	27,918,290