



PRINCE EDWARD ISLAND BUSINESS DEVELOPMENT
ANNUAL REPORT **1999-2000**



Mandate

Prince Edward Island Business Development (PEIBD) leads the business development effort for the province. Its role is central and critical to government's overall objective of advancing sound business development initiatives.

Prince Edward Island Business Development provides leadership in the implementation and support of economic development and assists in the establishment and maintenance of profitable and wealth-creating businesses on Prince Edward Island. The corporation solicits and supports investment, creating jobs and wealth for Prince Edward Island; actively supports small business; encourages entrepreneurship and investment risk sharing; and actively promotes P.E.I. as a competitive place to do business.

Prince Edward Island Business Development has the lead role in attracting new businesses and prospective business partners to the Province. As well, the corporation provides leadership in the trade development and export initiatives of the province.

Prince Edward Island Business Development Board of Directors

as of March 31, 2000

Honourable Donald MacKinnon, Chair
Martina MacDonald
Nora Dorgan
James F. Johnston
Michael L. O'Brien



PRINCE EDWARD ISLAND
BUSINESS DEVELOPMENT

Message of the Chief Executive Officer

Honourable Donald MacKinnon
Department of Development

P.O. Box 2000
Charlottetown, PE
C1A 7N8



Dear Minister:

It gives me great pleasure to submit the Annual Report of Prince Edward Island Business Development for the fiscal year ended March 31, 2000.

As Chief Executive Officer, it is my responsibility to work with my staff to ensure that we are making sound business development decisions across the province. We work with both new and expanding businesses to encourage a positive economic climate and create meaningful employment opportunities in PEI.

We also work very closely with our federal partners to ensure that together, we meet the needs of businesses on PEI. We are committed to working with the private sector to ensure that economic initiatives are successfully undertaken.

PEI Business Development works to assist Island companies in a number of priority sectors to explore new market opportunities. Small business, value added food processing, information and communications technology, aerospace, biotechnology, and diversified manufacturing continue to lead our province's economic focus, each sector establishing a strong presence in markets around the world.

It is an exciting time to be in business in PEI, and Prince Edward Island Business Development will continue to support entrepreneurs in their business ventures. The staff of PEI Business Development look forward to the challenges of the next fiscal year and will work hard to meet the needs of businesses across the province.

Respectfully submitted,


Kent Scales
Chief Executive Officer

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TOTAL	41

Year in Review

In November of 1999, the Province's lead business development corporation, Enterprise PEI, became Prince Edward Island Business Development Inc. (PEIBD), establishing a more concentrated and strategic approach to undertaking business initiatives across the Island. This was the beginning of what has been a very successful year for the growth and development of the province's economy. PEIBD has played an important role in this growth with several key initiatives.

Marketing was identified as an important component of the support PEIBD could offer island businesses. To address this issue, a new marketing Director was hired to provide marketing advice and support to small Island companies and to help raise the profile of Prince Edward Island as a great place to do business.

Support for the small business sector continued to be a high priority for Prince Edward Island Business Development. During the past year, the corporation allocated additional resources to assist small business. One example of this commitment was with the Entrepreneurship Development Program, where more than 320 Islanders across the province attending sessions to learn more about starting and operating a successful business.

Areas such as aerospace, information technology, biotechnology, and diversified manufacturing all experienced growth and success. Significant achievements, such as the expansion of Watts Communications in Charlottetown, further expansions of Tube-Fab, and the establishment of Island Critical Care, each contributed to the province's positive economic climate by providing valuable employment opportunities for Islanders. Each of these companies also contributed to helping diversify PEI's economic base.

But we continue to support our traditional industries as well - and assist them in their efforts to add value. Prince Edward Island Business Development contributed \$16.9 million to the Island's food industry, assisting 135 companies in business start ups or expansions. Along with agri-food and seafood processing, the emerging Nutraceutical industry has been identified as an area of opportunity for the province.

Export development has also experienced significant growth over the past year. International trade missions have produced over \$12 million in sales and Island companies have developed long term relationships in new markets which continue to grow.

Business Parks became a high priority this year, with the province partnering with other levels of government and private developers in several new developments in strategic areas. These new sites will be instrumental in helping to attract new investment to PEI.

Several recent reports have placed PEI's economy among the top performers in the country in terms of key indicators such as retail sales, export growth and housing starts. PEIBD looks forward to seeing this trend continue.

L'année en bref

En novembre 1999, le chef de file de la province en matière de développement des entreprises pour le secteur privé, Entreprise I.-P.-É., est devenu la Société de développement des entreprises de l'Île-du-Prince-Édouard inc. (PEIBD) adoptant une approche stratégique plus intense pour appuyer les initiatives d'affaires sur l'île. C'était le début d'une année très fructueuse pour la croissance et le développement de l'économie provinciale. La Société de développement des entreprises de l'Île-du-Prince-Édouard a joué un rôle important dans cette croissance grâce à plusieurs initiatives clés.

On a découvert que le marketing est un élément important dans l'appui que la Société peut apporter à l'économie de l'île. Pour aborder cette question, on a engagé un nouveau directeur en marketing afin qu'il mette en valeur l'image de l'Île-du-Prince-Édouard comme un endroit exceptionnel pour faire des affaires, qu'il fournit des conseils en matière de marketing et qu'il appuie les petites sociétés de l'île.

L'appui au secteur de la petite entreprise continue d'être une priorité pour le développement des entreprises de l'Île-du-Prince-Édouard. L'an dernier, le secteur privé a attribué des ressources additionnelles pour aider la petite entreprise. Le Programme de développement de l'entrepreneuriat est un bon exemple de cet engagement alors que plus de 320 Insulaires de l'ensemble de la province ont participé à des sessions pour en apprendre davantage sur le démarrage et la direction d'une entreprise prospère. Tous les domaines comme l'aérospatiale, les technologies de l'information, la biotechnologie, les produits alimentaires à valeur ajoutée et les exploitations de fabrication diversifiées ont connu la croissance et le succès. Des réalisations notables telles que l'expansion de Watts Communications à Charlottetown, puis, celle de Tube-Fab, et, enfin, l'établissement de Island Critical Care, une nouvelle société qui fabrique des dégivreurs de plasma, chacun a contribué au climat économique positif de la province en fournissant des occasions d'emploi avantageuses pour les Insulaires. Chacune de ces sociétés a également contribué à favoriser la diversification de l'économie de base de l'Île-du-Prince-Édouard.

Nous continuons, toutefois, à appuyer tout autant nos industries traditionnelles et à les aider dans leurs efforts pour qu'elles prennent de la valeur. Le développement des entreprises de l'Île-du-Prince-Édouard a accordé 16,9 millions de dollars à l'industrie alimentaire de l'île, elle a aidé 135 sociétés à démarrer et à croître. Au même titre que l'industrie de transformation agro-alimentaire et celle des fruits de mer, on a reconnu la nouvelle industrie des aliments santé comme étant une zone d'intérêt pour la province.

Le développement des exportations a également connu une croissance remarquable au cours de l'an dernier. Les missions vers le commerce international ont généré plus de 12 millions de ventes et les sociétés de l'île ont développé des relations d'amitié très stables pour les nouveaux marchés en continue croissance.

Les parcs industriels sont devenus la priorité cette année et la province appuie plusieurs nouveaux développements dans des sphères stratégiques. Ces nouveaux emplacements seront déterminants pour aider à attirer de nouveaux investissements à l'I.-P.-É.

Plusieurs rapports récents ont placé l'économie de l'I.-P.-É. parmi les plus performantes au pays en ce qui a trait aux indicateurs clés tels que la vente au détail, la croissance des exportations et les mises en chantier d'habitations. La Société de développement des entreprises de l'Île-du-Prince-Édouard espère bien voir cette tendance se continuer.

DIVISIONAL REPORTS

Business Expansion Division

Lori Pendleton, DIRECTOR

Support to the small business community continues to be a high priority. Prince Edward Island Business Development participated in several initiatives to support the growth of this indigenous industry in all sectors of the province.

Small Business Employee Support Program

The Small Business Employee Support Program, a joint initiative with Human Resources Development Canada, created 230 new employment positions with Island business. In the 1999/00 fiscal period, this program provided a retention rate of 73 percent for individuals placed under the program.

Provincial Sales Tax Exemptions

Prince Edward Island is enjoying a high level of consumer confidence as a result of tax cuts and strong employment growth. The Province, determined to maintain a strong retail base, continued its marketing strategy for provincial sales tax exemptions, increasing awareness among residents and non-residents of the "NO PST" campaign, on clothing and footwear.

Self Employment Assistance Benefit

In 1999, Prince Edward Island Business Development delivered the Human Resources Development Canada (HRDC) Self Employment Assistance benefit to HRDC clients. This initiative provided a streamlined delivery process of HRDC and Prince Edward Island Business Development Inc. programs, providing for better service to the business community. As a result of this initiative, this pilot project has continued and is now providing a more comprehensive service to clients of both agencies.

Entrepreneurship Training

Recognizing that small business owners require ongoing skills training within limited time frames and cost, Prince Edward Island Business Development, in conjunction with its business partners, delivered an Entrepreneurship Development Program. The program was composed of six, 30 hour business plan preparation courses across Prince Edward Island and an additional 25 evening workshops. This series of information sessions were attended by 320 individuals. As a result of the level of interest, entrepreneurship training will be continued on an Island-wide basis.

Financial Support

The Province continues to provide cost-shared assistance for new business start-ups, capital expansion projects and a host of marketing assistance projects ranging from travel and trade shows to assistance in the development of new products and services. Particular emphasis was placed on assistance to companies seeking to expand their participation in export markets. Prince Edward Island's export growth rose to \$564 million in the 1999 calendar year, approximately 20% above the previous year.

Marketing Division

Brad Mix, DIRECTOR

Prince Edward Island Business Development's Marketing Division was established in November of 1999 to support the corporation in its marketing activities and to provide guidance to small businesses looking to develop marketing plans and increase sales opportunities.

Over the past year, the Marketing Division has supported several small companies in their marketing efforts, and will continue to provide consultative guidance to Island businesses as well as initiate larger strategic marketing initiatives for the Province.

PEI Brand Showcase at Gateway Village

A showcase of branded products from Prince Edward Island was established at Gateway Village to increase the awareness of Island brands with tourists. This initiative lead to direct sales for several Island companies, particularly with specialty wood manufacturers and food processors.

Craft Consultations

The Marketing Division, in partnership with PEIBD's Business Expansion Division, coordinated craft consultations to encourage crafts people to start or expand craft businesses in PEI. A targeted advertising campaign accompanied these consultations.

Trade Shows

Prince Edward Island Business Development has participated in several trade shows over the past year. The Marketing Division coordinated trade show booths and developed promotional material for events such as Bio 2000, Globe 2000, IDRC World Conference, Canadian Manufacturers and Exporters Conference, Softworld 2000 and Small Business Week.

Increasing Awareness of PEI as an Investment Location

Targeted print advertising was inserted in several economic development publications and sector specific magazines to encourage off Island investors to consider PEI as their next business location.

Promotional tools were developed such as a new CD ROM, investment packages and a prospecting brochure aimed at tourists visiting the Island.

PEI Business Development website, www.peibusinessdevelopment.com, has been revised to provide better assistance to PEIBD clients.

Other initiatives included:

The No PST on clothing and footwear campaign; the Atlantic Progress Top 101 event in Charlottetown; the Business Park Brochure; the inclusion of PEI's economic data in the Invest in Canada web site; the Specialty Food Distribution Tour; and a presentation workshop for Softworld 2000.

Asset Management Division

John Hughes, DIRECTOR

The Asset Management Division (AMD) is responsible for management, administration and strategic planning relating to the investment properties owned by Prince Edward Island Business Development, Gateway Village Development Inc (GVDI), Souris Food Park (SFP) and Environmental Industrial Services Inc (EISI). Additionally, the AMD is responsible for PEIBD's corporate accommodations.

Maturing Industrial Parks

The AMD manages the provincial interest in the West Royalty and Summerside Industrial Parks. The Charlottetown and Summerside based properties were established 25 years ago and are nearing full capacity. These two sites are home to more than 60 businesses, with employment in excess of 1,500 Islanders. They host a well balanced blend of international and expanding local firms. Occupancy in provincially owned facilities is at an all time high, approaching zero vacancy in the March of 2000.

New Business Parks

With growing interest on across the province in the development of higher quality investment sites, the Asset Management Division is working with our federal, municipal and private sector partners to coordinate a pan-provincial network of clustered developments in support of traditional and emerging industries. PEI Business Development (PEIBD), in cooperation with the Atlantic Canada Opportunities Agency (ACOA), partnered with the Capital Area communities of Charlottetown, Stratford and Cornwall to initiate the phased in and strategically focussed development of business ready infrastructure in the respective communities.

Partnering with Private Sector

The Asset Management Division seeks to partner with private sector investors to expand business opportunities, such as the cooperative development of a privately run West Prince Business Park in Bloomfield and the significant expanded redevelopment of the former Ark property in Spry Point.

Gateway Village

The Gateway Village retail and tourism development continues to mature and expand. With over one half million visitors annually, Gateway Village has established itself as a premiere "Welcome Centre". Gateway Village is continuing to promote a broad range of investment, with particular emphasis on specialty retail giftware, attractions and food/beverage services. Implementation of a five year development plan is underway to guide the future development of the site.

Infrastructure that Attracts Investment

Mindful of the changing infrastructure needs of new and emerging knowledge based industries, the Asset Management Division continues to monitor industry trends to ensure that PEI continues to offer business sites that further expand upon our demonstrated ability to compete successfully in local, regional and international markets. As a priority, the Asset Management Division of PEI Business Development will seek to work with federal, municipal and private investors partners in the development of the just-in-time and business ready infrastructure required to enhance our ability to attract wealth and job creating investment.

Food Development Division

Alex Rogers, DIRECTOR

The Food Development Division is tasked with the responsibility of focussing human and financial resources in an effort to help support the growth of the food processing industry on Prince Edward Island. The division places heavy emphasis on market development, strategic capital and infrastructure investment, and new opportunities for growth and diversification of the sector.

Assistance to 135 Food Projects

During the 1999/2000 fiscal year, the Food Development Division provided assistance to 135 food processing projects. Both new business start-ups and expansions were assisted over the year. Typical funding activities included market research, market development and promotion, capital assistance, working capital support, and strategic infrastructure investment. Collectively, these initiatives represent a 16.9 million dollar investment for the fiscal period in the Island food industry.

Agri-food and Seafood Processing

The Island agri-food and seafood processing sectors continue to expand processing activity in the 1999/2000 processing season. Lead by frozen potato products and lobster, there is also significant expansion in the snack food, vegetable processing, mussel processing, potato granule, fish smoking, and blueberry processing industries. For Island seafood processors, growth in lobster processing has resulted in increased competition and price for the resource which is negatively affecting processing margins and straining profitability.

Keeping up with Technology

Many of the Island's food processing operations continued efforts to bring production practices and facilities in line with increasingly stringent food safety and hygiene standards. As well, many within the sector are testing new processes and products to suit the ever changing demands of the market place. Continued support for strategic infrastructure investment will remain a priority of the division.

Export Opportunities

The promotion of Island agri-food and seafood businesses and the variety of products produced continues to increase on the world stage. Support for new market development and penetration of emerging markets continue as priorities for the Food Development Division. In the 1999/2000 fiscal year, the Food Development Division participated in 12 national and international trade show events.

A number of strategic initiatives were undertaken and/or continued during the fiscal year.

ISO 9000

In partnership with the Business Development Bank of Canada and the Food Technology Centre, The Food Development Division sponsored a group pilot project involving 6 Island food companies. The pilot project is aimed at providing training and support for the development of ISO 9000 quality management systems and implementation of the HACCP based food safety system.

Nutraceutical Industry

The emerging Nutraceutical industry has been identified as an area of opportunity for the Province. In the Fall of 1999, a Nutraceutical workshop which brought together potential stakeholders recommended that the Province develop a strategic plan for growth of the sector. The strategic plan was commissioned in January 2000. An industry development strategy will be implemented in the 2000/2001 fiscal year. In addition, the Food Division in conjunction with the Food Technology Centre has been evaluating investment in new technologies which could significantly enable the growth and development of the natural products and nutraceutical industry.

Lobster 2000TM

In conjunction with the Island seafood processing community, efforts to commercialize the Lobster 2000TM product and vacuum meat extraction technology are well underway.

Partnering for Success

The Food Development Division continues to work closely with the PEI Food and Beverage Processors Association, the PEI Seafood Processors Association, and the PEI Aquaculture Alliance. We would like to acknowledge the positive contribution that they make to the growth and development of the food industry in Prince Edward Island.

New Business Development

Allan Smith, DIRECTOR

Aerospace

By the end of the fiscal year, approximately 415 PEI residents were employed in the Island's aerospace industry, compared to 360 in 1998/99, 320 in 1997/98 and 250 in 1996/97. The associated payroll for the year was approximately \$10.4 million. The growth of the aerospace industry, which is less than eight years old, can be further illustrated by the total export sales of the industry for 1999/00 which were in excess of \$100 million.

During the past year, the major achievements were; the additional growth of Tube-Fab with its new facilities in West Royalty and Slementon Park; the completion of the Atlantic Turbines International expansion to add a second engine line; and the establishment of nationally certified aerospace training programs at the newly expanded Aerospace and Technology Centre at Slementon Park.

Further development efforts will be directed at expanding the number of firms at Slementon Park's Aerospace Centre and working with the established companies to promote their growth.

Growth in this sector over the last three years has been at a rate of 18.5 per cent.

Life Sciences

Life Sciences, including biotechnology, is a high growth sector. In fact, global sales are expected to be \$20 billion US in 2000 and grow to \$38 billion US by the end of 2005, representing an increase of more than 80%.

The highest growth area is expected to be agri-food and PEI is poised to take advantage of this growth with existing expertise and infrastructure. Over the last year, several companies located in PEI creating 85 full-time jobs for Islanders. Some of these companies include:

Island Critical Care Corporation - develops and manufactures medical devices such as the pulse-oximeter, its first in a series of products.

ARK Biomedical - manufactures a plasma-defroster for use in hospitals.

Human Health Research Institute - centre for administering and conducting clinical trials for human health; located in Stratford.

AVC Inc. - a part of the Atlantic Veterinary College, works to commercialize research and create an atmosphere of partnership for the local academic community.

Several projects were supported through PEIBD and will hopefully lead to the creation of commercial entities. One example was the establishment of the Lobster Science Center. This centre works to apply the principles of veterinary medicine to the health of individual lobsters and the lobster resource in general, thus increasing the economic and social benefits of the lobster industry.

Diversified Manufacturing

Prince Edward Island Business Development decided to target diversified (or light) manufacturing as a sector for new business development. Industry sectors that do not currently fall under the existing sectors and other light manufacturing industries will be targeted and developed within the PEI economy.

These industries will be able to benefit from the skilled and available labour force, the comparatively low operating costs, and the easy access to the North American marketplace. Some examples of potential focus include building products, low volume electronics, wood products, fabricated metal, and agricultural products.

The manufacturing sector is diversifying away from the primary resource-based industries and providing more full-year employment for Islanders. However, PEI's history provides a strong base of knowledge from which industries can vertically integrate.

Employment levels are at their highest since the early 1980's and PEI is experiencing the largest labour force growth in the country. Including all goods producing sectors, 6200 people were employed in 1999, an increase of 12.8%. These high employment levels are supported by education and training programs designed specifically for the industry.

Provincial representation was sent to various trade shows and conferences in North America to assist with the development of the strategy to attract light manufacturing companies. Some examples include the Wood Products Manufacturers Association Annual Meeting, Intermed '99, OEM Boston '99, and Globe 2000.

In May, a Provincial and Federal delegation went to the IDRC World Conference in New York City. IDRC (International Development Research Council) supports the real estate development and site selector professionals in their efforts to assist companies with their physical locations. It is anticipated that on-going participation in this organization will lead to PEI acquiring solid business opportunities wishing to expand in the future.

Information Technology

Prince Edward Island's information technology industry continued to grow and expand its influence on the Island economy in 1999/2000. The Information Technology Association of PEI reports the Province's IT industry grew to include approximately 100 companies during this period employing up to 2,200 people across numerous industrial sectors.

Total annual payroll for the provincial IT industry was estimated at \$80 million in 1999/2000 with company sales estimated at \$140 million. The export of technology goods and services from the Province now totals approximately \$45 million per year, equal to one-half of the total fish landings recorded each year on PEI.

The Province's customer service and support industry continued to lead the industry's growth in 1999/2000. Watts Communications and Online Support, two of PEI's largest customer support centres, each saw their Charlottetown-based facilities expand during this period. Employment growth attributed to these expansions and the establishment of the new Canshop.com customer relationship management centre in Montague represent overall employment growth of 540 full and part-time positions.

Over 20 delegates from some of PEI's leading IT companies and the Province represented PEI at Softworld 1999 in Vancouver, British Columbia, paving the way for a successful pitch to host Softworld 2000 in Charlottetown. Softworld is an international business development conference for the IT industry and attracts up to 800 delegates each year.

The Province continued its ongoing support of the IT industry by launching two new programs that assist companies in leveraging the marketing power of the Internet. The Web Presence Program provides Island companies with assistance to develop a basic web presence while the e-Commerce for Export Program provides PEI export-ready companies with a 50% contribution towards the development of an enhanced website offering e-commerce functionality.

Trade and Export Development

Stephen Murray, DIRECTOR

The Trade and Export Development Division is focussed on assisting companies become export ready and increasing the revenues companies earn from export sales. The Division collaborates with other Divisions within PEIBD and is an active member of Trade Team PEI. The Trade Team works to coordinate the efforts of its Provincial and Federal members.

Market Intelligence

Through consultation with clients, the Trade and Export Development Division develops and executes activities which provide information, assist with market entry or close sales. These activities range from coordinating seminars on specific topics of interest for exporting companies; providing detailed information on import regulations and, in some cases, introducing exporters to qualified buyers.

International Trade Missions

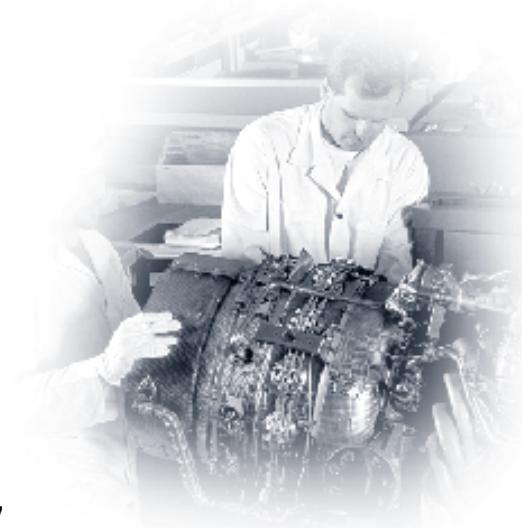
The Division has become more active in organizing and leading missions to areas of interest to PEI companies. In the past year, the Division has lead missions to Chile, Iceland, Poland, and the Czech Republic. These missions have produced over \$4 million in sales and our companies have developed long term relationships which continue to grow. PEI is now a very active participant in the Chilean aquaculture industry.

New England Export Program

Our program focussing specifically on New England has introduced Island firms to pre-screened customers in that area. Results from these missions into the northeast have been impressive both in terms of revenue and market intelligence.

International Business Development Agreement

The Trade and Export Development Division is an active participant on the Management Committee of the International Business Development Agreement, an agreement among the four Atlantic provinces and ACOA. This Cooperation Agreement supports activities which are regional in nature. This agreement has supported projects such as the craft showcase in Boston which brings craft manufacturers and retailers together and the Team Atlantic trade missions.



APPROVED FINANCIAL INCENTIVES TO ESTABLISH OR EXPAND

Island Businesses and Developmental Organizations

In Fiscal Year Ended March 31, 2000

ECONOMIC SECTOR	2000		1999	
	No.	Amount	No.	Amount
Aerospace	13	2,947,070	6	2,570,969
Biotechnology & Pharmaceuticals	9	358,715	1	32,969
Food - Agriculture	78	7,960,081	96	3,348,250
Food - Fisheries	57	8,965,632	42	15,936,006
General	24	217,123	31	524,247
Service	232	1,708,996	231	2,179,497
Film	24	1,783,177	17	1,173,480
Information Technology & Communications	54	4,475,464	28	1,688,432
Manufacturing	306	2,817,884	210	2,240,887
Tourism	61	2,400,344	23	1,116,785
	858	33,634,486	685	30,811,522

TYPE OF ASSISTANCE	2000		1999	
	No.	Amount	No.	Amount
Industrial Mall	20	227,567	25	355,581
Rental Incentive	8	72,800	19	245,160
Equity Investors Incentive	22	1,177,750	20	553,250
Enterprise Development Fund/Enterprise Assistance	68	965,322	51	760,477
Professional Services	101	46,331	65	29,501
Small Business Employee Support	230	675,923	124	399,790
Entrepreneur Loan Program*	80	1,618,525	132	2,453,880
Venture Capital Loan Program**	3	212,000	0	0
Low Interest Loan Program***	44	1,177,312	14	282,085
Loan	9	5,927,000	0	0
Loan Guarantees	11	7,160,000	2	7,600,000
Capital/Micro Business Assistance	78	830,974	66	420,610
Marketing & Trade Assistance	138	887,632	123	749,510
Infrastructure Fund/Sectorial Program	40	12,129,660	30	11,870,709
Small Business Equity Investments	1	150,000	12	3,410,000
Tax Incentives - Slemon Park	5	375,690	2	1,680,969
	858	33,634,486	685	30,811,522

* Repayable loans through participating financial institutions. Interest free for first year only.

** Venture Capital loans of up to \$100,000 with interest only payable in the first year following which the investment is amortized over the balance of the approved term in regularly scheduled payments of interest and

principal. After the retirement of the investment, PEIBD requires the take out of the common share equity position.

*** Low Interest Loans for which PEIBD pays an annual interest rebate for up to five years applied against term debt.



PRINCE EDWARD ISLAND BUSINESS DEVELOPMENT INC.
(formerly Enterprise P.E.I.)

CONSOLIDATED FINANCIAL STATEMENTS

March 31,2000

May 16, 2000

Auditors' Report

To the Minister of Development

We have audited the consolidated balance sheet of **Prince Edward Island Business Development Inc.** as at March 31,2000 and the consolidated statements of revenues and expenditures, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we 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 our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31,2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

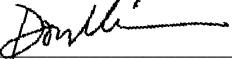
PricewaterhouseCoopers LLP

Chartered Accountants

CONSOLIDATED BALANCE SHEET

	As at March 31, 2000	2000	1999
		\$	\$
ASSETS			
Current assets			
Cash (note 3)	3,248,974	4,693,400	
Accounts receivable (notes 4,13 and 19)	1,522,351	1,734,711	
Grant receivable	51,100	31,303	
Short-term loans receivable (note 5)	2,421,566	-	
Prepaid expenses	1,958	33,432	
Inventory (note 13)	399,011	475,693	
Work in progress	13,540	-	
Due from the Province of Prince Edward Island (note 6) – current operations	<u>4,669,310</u>	<u>765,582</u>	
	<u>12,327,810</u>	<u>7,734,181</u>	
Due from Province of Prince Edward Island (note 6) – provision for possible losses	3,494,435	4,046,935	
Investment in non-marketable securities (note 7)	7,207,013	10,250,514	
Deferred development costs (note 8)	206,945	-	
Loans receivable , less current portion (note 5)	2,515,000	-	
Property holdings (note 9)	2,691,046	2,901,049	
Capital assets (note 10)	13,464,165	14,096,091	
Funds held in trust (notes 3 and 11)	16,336,395	17,860,343	
Net investment in leases (note 12)	<u>1,007,321</u>	<u>1,007,320</u>	
	<u>59,250,130</u>	<u>57,896,433</u>	
LIABILITIES			
Current liabilities			
Demand loans (notes 13 and 19)	2,570,000	160,000	
Accounts payable and accrued liabilities (note 19)	13,544,807	7,743,107	
Deferred revenue	9,781	113,730	
Current portion of notes payable and long-term debt	<u>1,302,797</u>	<u>1,215,838</u>	
	<u>17,427,385</u>	<u>9,232,675</u>	
Funds held in trust (note 11)	16,336,395	17,860,343	
Notes payable and long-term debt , less current portion (note 14)	13,651,743	17,430,179	
Deferred credits (note 15)	<u>10,342,293</u>	<u>11,899,381</u>	
	<u>57,757,816</u>	<u>56,422,578</u>	
Contingencies (note 16)			
Shareholders' Equity			
Contributed surplus (note 19)	1,786,248	1,786,248	
Deficit	<u>(293,934)</u>	<u>(312,393)</u>	
	<u>1,492,314</u>	<u>1,473,855</u>	
	<u>59,250,130</u>	<u>57,896,433</u>	

Approved by the Corporation



MINISTER

STATEMENT OF DEFICIT

For the year ended March 31, 2000

	2000	1999
	\$	\$
RETAINED EARNINGS (DEFICIT) –		
Beginning of year	(312,393)	204,211
Excess revenue (expenditure) for the year	18,849	(512,669)
	<u>(293,544)</u>	<u>(308,458)</u>
Excess revenue repayable to Province of Prince Edward Island (note 6)	(390)	(3,935)
Deficit – End of year	<u>(293,934)</u>	<u>(312,393)</u>

CONSOLIDATED STATEMENT OF REVENUES AND EXPENDITURES

For the year ended March 31, 2000

	2000	1999
	\$	\$
REVENUE		
Grant – Province of P.E.I.	26,074,200	18,264,324
– Other	117,766	169,060
Interest from borrowers	51,129	24,052
Interest from deposits	12,617	30,434
Property operations	1,214,668	943,315
Miscellaneous	14,100	14,100
Project revenues	2,473,462	1,655,598
Retail operations (Schedule)	<u>223,419</u>	<u>273,617</u>
	<u>30,181,361</u>	<u>21,374,500</u>
EXPENDITURES		
Administration	449,826	370,000
Project costs	1,434,064	792,614
Corporate management	1,034,138	835,431
Asset management	1,294,821	1,638,725
Business expansion activities	533,382	586,833
Food Development	289,254	169,285
New Business Development activities	445,121	335,160
Trade Development activities	241,990	203,687
Programs	19,991,274	11,970,411
Charlottetown Civic Centre Inc.	100,000	177,775
P.E.I. Lending Agency Operating Grant	-	600,000
Development organizations	3,570,246	3,408,292
Interest on funds borrowed	90,153	56,911
Retail operations (Schedule)	108,583	170,978
Amortization of capital assets	2,136,748	2,211,889
Amortization of deferred credits	<u>(1,557,088)</u>	<u>(1,640,822)</u>
	<u>30,162,512</u>	<u>21,887,169</u>
EXCESS REVENUE (EXPENDITURES) FOR THE YEAR	<u>18,849</u>	<u>(512,669)</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31, 2000

	2000 \$	1999 \$
Cash provided by (used in)		
Operating activities		
Excess revenue (expenditures) for the year	18,849	(512,669)
Items not affecting working capital		
Amortization of deferred credits	(1,557,088)	(1,640,822)
Amortization – property holdings and capital assets	2,136,748	2,211,889
Gain on disposal of property holdings	-	(3,166)
Decrease in due from the Province of Prince Edward Island – provision for possible losses	552,500	7,045,969
Reduction in carrying value of investment in non-marketable securities	-	(287,405)
Net change in non-cash working capital items	1,151,009	6,813,796
– increase in grant receivable	(19,797)	(22,638)
– decrease in accounts receivable	212,420	4,843,745
– decrease in deferred revenue	(103,949)	(43,809)
– decrease in prepaid expenses	31,474	53,998
– increase (decrease) in accounts payable and accruals	5,801,700	(1,390,733)
– increase in due from Province of P.E.I.– current operations	(3,904,118)	(3,408,196)
– decrease in inventory	63,142	646,607
	<u>3,231,881</u>	<u>7,492,770</u>
Financing activities		
Increase in demand loans	2,410,000	160,000
Increase in deferred credits	-	45,581
Decrease in leased property (net)	-	7,283,772
Decrease in mortgage loans receivable (net)	-	74,895,425
Increase (decrease) in funds held in trust	(1,523,948)	6,512,762
Decrease in notes payable (net)	(3,691,477)	(77,390,145)
Increase in net investment in lease	(1)	(1,000,000)
Increase in contributed surplus	-	450,000
	<u>(2,805,426)</u>	<u>10,957,395</u>
Investing activities		
Increase in deferred development costs	(206,945)	-
Purchase of capital assets	(1,165,181)	(2,840,583)
Decrease in capital assets on commencement of lease	-	954,419
Additions to and purchases of property holdings	(281,138)	(752,779)
Reductions of and proceeds on disposal of property holdings	151,500	23,762
Decrease (increase) in investment in non-marketable securities	3,043,501	(6,382,441)
Increase in loans receivable (net)	(4,936,566)	-
	<u>(3,394,829)</u>	<u>(8,997,622)</u>
Increase (decrease) in cash and funds held in trust	(2,968,374)	9,452,543
Cash and funds held in trust – Beginning of year	22,553,743	13,101,200
Cash and funds held in trust – End of year	19,585,369	22,553,743

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2000

1. STATUS OF THE CORPORATION

Prince Edward Island Business Development Inc. is a Crown corporation incorporated under the Enterprise P.E.I. Act. Its financial results are included in the public accounts of the Province of Prince Edward Island.

Some tourism and lending related activities of the Province of Prince Edward Island were carried on in part by Prince Edward Island Business Development Inc. from April 1, 1998 to December 31, 1998.

On December 23, 1998, Tourism PEI Inc. was incorporated pursuant to the Companies Act of Prince Edward Island and was continued as Tourism PEI under the Tourism PEI Act. With the approval of Treasury Board, the tourism related transactions of Prince Edward Island Business Development Inc. for the period April 1, 1998 to December 23, 1998 and the related assets and liabilities as at December 23, 1998 were transferred to Tourism PEI Inc.

On December 31, 1998, the Lending Agency Act was proclaimed, creating the P.E.I. Lending Agency, the successor to the lending services division of Prince Edward Island Business Development Inc. with the approval of Treasury Board. The transactions of the lending division of Prince Edward Island Business Development Inc. from April 1, 1998 to December 31, 1998, and the related assets and liabilities as at December 31, 1998 were transferred to the P.E.I. Lending Agency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles.

(A) GENERAL

These consolidated financial statements include the accounts of the wholly-owned subsidiaries, F.T.C. Enterprises Limited, Environmental Industrial Services Inc., Corporate Services Ltd., Souris Food Park Development Corporation, Gateway Village Development Inc., Solanum – P.E.I., A Canadian Potato Systems Company Inc. and Island Products Holding Inc., all having March 31, 2000 year ends.

(B) INVENTORY

Inventory is valued at the lower of cost, determined on the first-in, first-out basis, and net realizable value.

(C) DUE FROM THE PROVINCE OF PRINCE EDWARD ISLAND

i) Current operations

Excess revenue (expenditures) for the year for the parent company, Prince Edward Island Business Development Inc., is recorded as an amount due to (from) the Province of Prince Edward Island.

Prince Edward Island Business Development Inc. records as revenue the annual budgeted provision for current year's possible losses. The budgeted provision for possible losses is established as part of the normal budget process and is updated to reflect known changes as they become evident during the year. Any variance of the actual provision recorded in the corporation's accounts from the updated budgeted provision is recorded as an amount "Due to (from) the Province of Prince Edward Island – Current Operations" (note 6).

ii) Allowance for possible losses

The annual allowance for possible losses (expense or recovery) is recorded as an amount "Due from the Province of Prince Edward Island – Allowance for Possible Losses". The "Due from Province of Prince Edward Island – Allowance for Possible Losses" is reduced when a write-off is recognized by both Prince Edward Island Business Development Inc. and the Province, with notes payable reduced correspondingly. During the year, Prince Edward Island Business Development Inc. recorded bad debt recovery of \$552,500 (1999 - \$769,517) and write-offs of nil (1999 - \$2,913,504) in the allowance for possible losses.

(D) ALLOWANCE FOR POSSIBLE LOSSES

An allowance is maintained which is considered adequate to absorb all credit and investment related losses and off-balance sheet items including guarantees. The allowance is deducted from the applicable asset on the balance sheet, except for guarantees. The

allowance for guarantees is included in accounts payable.

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 total \$3,361,935 (1999 - \$3,931,935). The accumulated allowances for losses on specific off-balance sheet items totalling \$482,500 (1999 - \$400,000) are not included in the provision.

The corporation reviews its investments and advances, leased property 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 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.

A general provision of \$50,000 (1999 - \$115,000) includes accumulated allowances for losses which are prudent in nature and cannot be specifically identified. The general provision is based on past performance of similar loans, the level of the specific provision, management's judgement, the economic climate and the maturity and financial strength of the investee.

(E) INVESTMENT IN NON-MARKETABLE SECURITIES

Investment in and advances to private companies are recorded on the balance sheet at one-half of cost, under the Small Business Equity Program, except for three preferred share investments. The remaining one-half of these Small Business Equity Program investments are accounted for as a business development expense on the statement of revenue and expenditures in the year the investment is made. Any recovery exceeding the balance in share investment is taken into revenue when received.

The three preferred share investments are being carried at estimated realizable value.

The investments in private companies are either common shares or non-redeemable preferred shares.

Advances – Venture Capital Debt Program are recorded at cost.

Investments in private companies and advances – Venture Capital Debt program are written down to reflect estimated realizable value when an impairment in their carrying value becomes evident or an allowance is established. Write downs are included in business development expense.

It is not practical within constraints of timeliness and cost to determine the fair 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 and advances is based on expected future cash flows.

(F) CAPITAL ASSETS AND AMORTIZATION

i) Property holdings

Property holdings are reported at the lower of cost, net of government grants, and estimated realizable value.

Office furniture and equipment and computer equipment are fully expensed in the year of acquisition, except for F.T.C. Enterprises Limited and Gateway Village Development Inc. which recorded these items as a capital asset at cost. The amount expensed during the year ended March 31, 2000 was \$127,091 (1999 - \$78,334). Proceeds on the sale of industrial sites are recorded as a reduction in the carrying value of the asset. Buildings held for resale and industrial malls are amortized using the straight-line method at the annual rates of 7% and 4%.

ii) Capital assets – property for development

Property for development is recorded at cost and will be transferred to a capital asset when the property has been developed or sold if that property is to be developed by a third party. Soft costs related to a property for development will be capitalized and amortized over the estimated life of the project commencing upon completion of the development of the property.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2000

(iii) Amortization

Capital assets are amortized using the straight-line method at annual rates ranging from 5% to 50% as indicated in note 10.

A full year's amortization is recorded in the year of acquisition.

(iv) Estimated realizable value

Estimated realizable value for industrial sites is the expected proceeds on resale and for industrial malls it is the property tax assessed value.

Estimated realizable value for land, buildings and equipment held for resale under lease purchase option is its property tax assessed value.

The reduction from cost to estimated realizable value is recorded as a provision for possible losses.

(G) NET INVESTMENT IN LEASES

The company's subsidiaries accumulate costs of constructing assets, that are to be classified as capital leases, as assets under capital lease, and the related grants as deferred credits until the lease term begins. When the lease term begins, the assets under capital lease and deferred credits are removed from the balance sheet and a net investment in leases is recorded. The net investment in leases represents the minimum lease payments receivable over the term of the lease plus the purchase option.

(H) PROGRAMS ASSISTANCE PAYABLE

Provincially funded non-cost shared program assistance is expensed and included in accrued liabilities when approved and accepted. Federal-Provincial cost shared programs are expensed when the funds are disbursed.

(I) VACATION PAY AND PENSION LIABILITY

Prince Edward Island Business Development Inc. does not record accrued vacation pay as this is normally a non-cash expenditure that is funded through operating grants from the Province. To record the accrued vacation liability at March 31, 2000 of \$145,387 (1999 - \$88,811), Prince Edward Island Business Development Inc. would also have to record an offsetting receivable from the Province as the Province funds any excess expenses for the year. However, the Province will not recognize this liability until such time that it becomes payable. A subsidiary company has recorded accrued vacation pay in order to match expenses to revenue derived from project recoveries.

Most of the corporation's staff are members of the Province of Prince Edward Island pension plan. Pension obligations are liabilities of the Province and not the corporation and no liability for these costs has been accrued by the corporation.

(J) DEFERRED CREDITS

Prince Edward Island Business Development Inc. subsidiaries have adopted the policy that contributions received towards the acquisition of capital assets are being deferred and amortized to income on the same basis as the related capital assets are amortized.

(K) REVENUErecognition

Prince Edward Island Business Development Inc. subsidiaries follow the percentage-of-completion method of accounting for revenue and expenditures on project contracts. The percentage-of-completion method records the organization's revenue based on the expenditures incurred and work completed on each contract in progress as at the balance sheet date.

Work in progress in excess of progress billings is recorded at year end to appropriately recognize revenue under the percentage-of-completion basis of accounting when work in progress is in excess of actual billings generated. Billings generated in excess of the related work in progress at year end are recorded as deferred revenue.

(L) INTEREST EXPENSE

Interest paid by Prince Edward Island Business Development Inc. is included as part of the

program expense to which it relates. Included in expenses is interest expense for 2000 as follows:

	2000	1999
	\$	\$
Interest on short-term borrowings	69,350	20,920
Interest on long-term debt	1,013,432	1,103,118
	<hr/>	<hr/>
	1,082,782	1,124,038

(M) MANAGEMENT ESTIMATES

The presentation of financial statements in conformity with generally accepted accounting principles 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 reported period.

(N) ESTIMATED REALIZABLE VALUE OF FINANCIAL INSTRUMENTS

Estimated realizable value (fair value) is subjective in nature requiring a variety of valuation techniques and assumptions. The company's financial instruments are not exchangeable and it is difficult and often not practical to determine their estimated realizable value. Where it is possible to estimate realizable value, the company assumes that it will not sell the assets or the liabilities, taking into account only changes in credit risk as credit risk is the main cause of change in the estimated realizable value of the company's financial instruments. Credit risk is defined as the risk that the note holder will fail to discharge an obligation in whole or in part resulting in a financial loss to this company.

3. MARKET VALUE OF INVESTMENT

Cash and funds held in trust of \$19,585,369 (1999 - \$22,553,743) consist of portfolio investments and cash having a quoted market value of \$19,264,833 (1999 - \$22,598,167). The majority of marketable securities have a fixed value and it is expected that most securities will be held until they mature.

4. ACCOUNTS RECEIVABLE

The accounts receivable have been reduced by an allowance for possible losses of \$136,341 (1999 - \$796,066).



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2000

5. LOANS RECEIVABLE

	2000	1999
	\$	\$
Short-term loans receivable		
Short-term loans receivable and loans due on demand with various interest rates due within the next fiscal year	<u>2,421,566</u>	-
Long-term loans receivable		
4% loan receivable, with interest payable quarterly and principal due on February 1, 2005	2,500,000	-
9.25% loan receivable, with principal and interest payable monthly beginning September 15, 2000, maturing June 15, 2005	50,000	-
9.5% loan receivable, with principal and interest due March 28, 2002	15,000	-
Less: Allowance for possible losses	2,565,000	-
	50,000	-
	<u>2,515,000</u>	-

6. DUE TO (FROM) THE PROVINCE OF PRINCE EDWARD ISLAND

	2000	1999
	\$	\$
Current operations		
Excess revenue for the year (non-consolidated) repayable to the Province of P.E.I.	(390)	(3,935)
Excess of current year's forecast provision for possible losses over actual provision for possible loss	552,500	769,517
Operating grant from Province of P.E.I.	<u>4,117,200</u>	-
	<u>4,669,310</u>	<u>765,582</u>
Provision for possible losses		
Balance – beginning of year	4,046,935	7,729,956
Current year's recovery	(552,500)	(769,517)
Less: Write-offs during the year	-	(2,913,504)
	<u>3,494,435</u>	<u>4,046,935</u>
Balance – End of year	<u>8,163,745</u>	<u>4,812,517</u>

7. INVESTMENT IN NON-MARKETABLE SECURITIES

	2000	1999
	\$	\$
Investment in private companies		
Small business equity program investments	3,184,231	4,040,231
Venture capital equity program investments	262,000	176,500
Less: Allowance for possible losses	<u>3,446,231</u>	<u>4,216,731</u>
	<u>1,906,030</u>	<u>2,656,031</u>
	<u>1,540,201</u>	<u>1,560,700</u>
Investment in preferred shares of private corporations	<u>5,434,812</u>	<u>8,364,814</u>
Advances – Venture Capital Debt Program		
Advances to private companies – bearing interest at variable rates, repayable on performance	1,039,000	835,000
Less: Allowance for possible losses	807,000	510,000
	<u>232,000</u>	<u>325,000</u>
	<u>7,207,013</u>	<u>10,250,514</u>

8. DEFERRED DEVELOPMENT COSTS

Net deferred development costs were accumulated by a subsidiary, F.T.C Enterprises Limited, from several development projects. The costs consist of patent applications, prototype production tests and various other costs. Management has entered into negotiations with third parties for the sale of the intellectual property rights associated with these projects and consider the potential recovery sufficient to fully recover the carrying value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2000

9.PROPERTY HOLDINGS

	2000	1999		
	Cost \$	Accumulated Amortization and grants \$	Net \$	Net \$
Industrial sites	3,401,402	2,938,096	463,306	550,806
Industrial malls	<u>3,559,520</u>	<u>3,135,350</u>	<u>424,170</u>	<u>599,444</u>
	<u>6,960,922</u>	<u>6,073,446</u>	<u>887,476</u>	<u>1,150,250</u>
Land, buildings and equipment held for resale or under lease purchase options			2,402,475	1,835,638
Less: Allowance for possible losses – land, buildings and equipment held for resale			3,289,951	2,985,888
			<u>598,905</u>	<u>84,839</u>
			<u>2,691,046</u>	<u>2,901,049</u>

10.CAPITAL ASSETS

	2000	1999			
	Accumulated rate %	Cost \$	Accumulated Amortization and grants \$	Net \$	Net \$
F.T.C. Enterprises Limited					
Building	5 SL	2,524,959	1,315,263	1,209,696	1,335,242
Pilot plant and laboratory equipment	5 and 10 SL	1,406,414	1,322,482	83,932	84,930
Laboratory supplies	50 SL	120,525	120,525		
Computer and audio visual equipment	33 1/3 SL	420,650	366,238	54,412	24,008
Office furniture and equipment	20 SL	<u>157,458</u>	<u>140,072</u>	<u>17,386</u>	<u>15,247</u>
		<u>4,630,006</u>	<u>3,264,580</u>	<u>1,365,426</u>	<u>1,459,427</u>
Souris Food Park Development Corporation					
Land		242,898		242,898	242,898
Land improvements	8 SL	2,511,881	602,852	1,909,029	2,109,980
Waste treatment	– soft costs	8 SL	91,764	14,682	77,082
	– equipment	20 SL	2,909,310	1,163,724	1,745,586
Soft costs		8 SL	1,934,724	464,334	1,470,390
Equipment		20 SL	<u>145,517</u>	<u>87,310</u>	<u>58,207</u>
		<u>7,836,094</u>	<u>2,332,902</u>	<u>5,503,192</u>	<u>6,477,227</u>
Gateway Village Development Inc.					
Land		1		1	1
Building	– Phase I	5 SL	3,095,313	438,503	2,656,810
	– Phase II	5 SL	1,656,309	165,630	1,490,679
Land improvements	– Phase I	10 SL	816,742	231,411	585,331
	– Phase II	10 SL	357,244	70,836	286,408
Interpretative Centre		20 SL	1,072,275	607,577	464,698
Retail fixtures	– Phase I	20 SL	73,735	41,783	31,952
	– Phase II	20 SL	90,064	36,026	54,038
Signage		20 SL	<u>12,798</u>	<u>2,560</u>	<u>10,238</u>
		<u>7,174,481</u>	<u>1,594,326</u>	<u>5,580,155</u>	<u>6,159,437</u>
Environmental Industrial Services Inc.					
Property for development –					
land		929,085		929,085	
soft costs		<u>86,307</u>	<u>-</u>	<u>86,307</u>	<u>-</u>
		<u>1,015,392</u>	<u>-</u>	<u>1,015,392</u>	<u>-</u>
SL – straight line		<u>20,655,973</u>	<u>7,191,808</u>	<u>13,464,165</u>	<u>14,096,091</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31,2000

11. FUNDS HELD IN TRUST

Under the terms of an agreement between Corporate Services Ltd., Prince Edward Island Government Economic Development Fund (No. II) Inc.,(Island Fund II),Prince Edward Island Government Economic Development Fund (No. III) Inc.,(Island Fund III),Prince Edward Island Government Economic Development Fund (No. IV) Inc.,(Island Fund IV), and Prince Edward Island Government Economic Development Fund (No. V) Inc.,(Island Fund V),Corporate Services Ltd.is to act as the Escrow Agent for investors of a \$30,000,000 venture capital fund offering for each of the funds, except for Island Fund IV which has a \$35,000,000 venture capital fund offering.

Corporate Services Ltd.receives the subscription forms from potential investors and holds the funds in trust until the commencement date. The commencement date is to be established within 100 days of receipt of twelve subscriptions. On the commencement date, the Escrow Agent shall:

- Advance to Island Fund II,Island Fund III,Island Fund IV or Island Fund V
 - 70% of subscription proceeds to be reinvested;
 - 10% of subscription proceeds to be used to cover offering and operating costs;
- Interest earned on the account while the funds are in escrow is the property of the specific fund.
- Establish a repayment account to retain on deposit the remaining 20% of the subscription proceeds to be invested in a liquid,high-rate investment account for the purpose of refunding rejected investors. Interest earned on the repayment account accrue to the benefit of the specific projects, Island Investment Development Inc.,or Island Fund IV or V as applicable, and not Corporate Services Ltd.

12. NET INVESTMENT IN LEASES

The net investment in leases represents the minimum lease payments over the term of the lease plus purchase options receivable. The net investment in leases consists of the following:

Environmental Industrial Services Inc.

Environmental Industrial Services Inc.has entered into agreements to lease its three properties on terms that require these leases to be accounted for as capital leases. In accounting for the capital leases, the capital assets and related deferred credits have been removed and recorded as net investment in leases . The net investment in leases consists of the following:

- McCain Foods Limited – 10 year lease term for the period from February 20,1991 to December 31,2000,with the lessee paying all operating costs, an annual lease payment of nil and a purchase option of \$20.
- Cavendish Farms – 8-year lease term for the period from January 1,1994 to December 31,2001,with the lessee paying all operating costs, an annual lease payment of nil and a purchase option of \$10.
- Both leases have the option to be extended as an additional 10 years at the expiration of the lease term at the option of the lessee.
- Small Fry – 9-year lease term for the period from December 22,1996 to December 31,2005,with the lessee paying all operating costs, an annual lease payment of nil and a purchase option of \$7,260.

Souris Food Park Development Corporation

Souris Food Park Development Corporation has entered into agreements to lease its two properties on terms that require these leases to be accounted for as capital leases. When the company entered into the capital leases for capital property that it owned,the capital assets and related deferred credits were removed and the company recorded a net investment in lease.

The net investment in leases represents the minimum lease payments over the term of the lease plus purchase options receivable. The net investment in leases consists of the following:

- Polar Foods International Inc– 5-year lease term for the period from February 1, 1997 to January 31,2002,\$1 per year with a purchase option of \$1.
- AgraWest Investments Ltd.– 5-year lease term for the period from June 16,1997 to June 15,2002,\$5 per year with a purchase option of \$1,000,000.

13. SECURITY FOR DEMAND LOAN

An assignment by a subsidiary of inventory, book debts and fire insurance on inventory have been pledged as security for a demand loan in the amount of \$70,000. Prince Edward Island Business Development Inc.has a demand loan of \$2,500,000 for which no security has been pledged.

14.NOTES PAYABLE AND LONG-TERM DEBT

	2000	1999
	\$	\$
Notes payable – short-term promissory notes	1,765,592	1,950,000
– long-term	12,243,948	15,696,017
\$1,000,000 ACOA non-interest bearing loan due February 1,2006,repayable \$45,000 February 1,2001 and \$180,000 February 1,2002 through 2006	945,000	1,000,000
Less: Current portion	14,954,540	18,646,017
	<u>1,302,797</u>	<u>1,215,838</u>
	<u>13,651,743</u>	<u>17,430,179</u>

Short-term promissory notes are issued to 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.

The notes payable – long-term are issued to the Province of Prince Edward Island and have various repayment terms and interest rates ranging from 5.53% to 8.50%.

The aggregate amount of principal payments required in each of the next five years to meet retirement provisions is as indicated below. Certain notes becoming due during the next five years have been assumed to be refinanced under similar terms:

	\$
Year ending March 31,	2001
	1,302,797
2002	1,531,384
2003	1,295,228
2004	1,381,764
2005	1,475,181



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2000

15. DEFERRED CREDITS

		2000	1999		
		Cost \$	Accumulated Amortization and grants \$	Net \$	Net \$
F.T.C. Enterprises Limited					
Building		2,349,320	1,248,847	1,100,473	1,217,939
Pilot plant and laboratory equipment		998,071	998,071	-	-
Computer and audio visual equipment		25,169	25,169	-	-
Office furniture and equipment		53,063	53,063	-	-
		<u>3,425,623</u>	<u>2,325,150</u>	<u>1,100,473</u>	<u>1,217,939</u>
Souris Food Park Development Corporation					
Federal		7,212,126	2,146,966	5,065,160	5,961,635
Provincial		623,973	185,941	438,032	515,592
		<u>7,836,099</u>	<u>2,332,907</u>	<u>5,503,192</u>	<u>6,477,227</u>
Gateway Village Development Inc.					
Building – Phase I		3,095,313	438,504	2,656,809	2,811,575
Land improvements		816,743	231,410	585,333	667,007
Interpretative Centre		1,072,001	607,467	464,534	678,934
Retail fixtures		73,735	41,783	31,952	46,699
		<u>5,057,792</u>	<u>1,319,164</u>	<u>3,738,628</u>	<u>4,204,215</u>
		<u>16,319,514</u>	<u>5,977,221</u>	<u>10,342,293</u>	<u>11,899,381</u>

16. CONTINGENT LIABILITIES

- a) As of March 31, 2000, Prince Edward Island Business Development Inc. was contingently liable under loan guarantees in the amount of \$12,406,039 (1999 - \$11,278,617) for which Prince Edward Island Business Development Inc. has included \$482,500 (1999 - \$400,000) in its allowance for possible losses. This portion of the allowance for possible losses is recorded as an accounts payable.
- b) F.T.C. Enterprises Limited has guaranteed loans of \$25,000 of one of the private corporations in which it has invested.
- c) Island Products Holding Inc. has been named as a defendant in a claim by a former supplier of product. Management believes there is no basis to the claim; however, the outcome of the claim is uncertain and any liability resulting from the claim is undeterminable at this time. No provision has been made in the accounts for future possible losses that may result from this claim.

17. COMMITMENTS

F.T.C. Enterprises Limited has entered into a twenty-five year lease expiring November 2013 with the University of Prince Edward Island for the lease of land upon which the corporation constructed its facilities. The lease cost is \$1 per year and is renewable for a further term of twenty-five years for the same annual consideration.

The corporation has committed under the Venture Capital program to invest \$171,000 (1999 - \$342,000) in the Atlantic Canada Fund. The commitment expires March 11, 2006.

18. OPERATING AGREEMENTS

Environmental Industrial Services Inc. has agreements with McCain Foods Limited, Irving Pulp & Paper Limited and Small Fry Snack Foods Inc. to operate wastewater treatment facilities until December 2000, 2001 and 2002, respectively, and stipulate that the companies shall pay Environmental Industrial Services Inc. a user fee equal to the operating costs of the facilities excluding interest and amortization charges. The companies pay these operating costs directly and accordingly a user fee has not been charged by Environmental Industrial Services Inc.

Environmental Industrial Services Inc. is responsible for operating the Brudenell Water and Sewer Utility on behalf of the Province of Prince Edward Island. Environmental Industrial Services Inc. pays the operating costs of the Utility and recovers these costs from the users of the utility on a pro-rata basis based on usage.

During the year, the company recovered \$1,583 (1999 - nil) in costs from a related party, Tourism PEI, which is a provincial Crown corporation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2000

19.RELATED PARTY TRANSACTIONS

BALANCE SHEET

Accounts receivable

Included in accounts receivable is \$234,727 (1999 - \$251,635) due from the Province of Prince Edward Island.

Funded held in trust

The funds held in trust are due to Island Investment Development Inc., a Crown corporation.

Accounts payable

Included in accounts payable and accrued liabilities is \$2,688 (1999 - \$124,967) in accrued interest payable to Province of Prince Edward Island and \$2,296,658 (1999 - \$1,961,214) due to Island Investment Development Inc., a Crown Corporation.

Demand loan

A demand loan in the amount of \$70,000 is due to a related company, P.E.I.Lending Agency, a Crown Corporation of the Province of Prince Edward Island.

Capital assets

The Province of P.E.I.transferred land to Gateway Village Development Inc.in 1997. In accordance with the terms of the transfer, the exchange and carrying amounts of the land was established as \$1.

Contributed surplus

Gateway Village Development Inc.and F.T.C. Enterprises Limited have received \$1,786,248 in funds from the Province of Prince Edward Island through Prince Edward Island Business Development Inc.that have been accounted for as contributed surplus. This contribution has not been eliminated on consolidation.

STATEMENT OF REVENUE AND EXPENDITURES

Revenue

Included in grant revenue is a grant of \$357,000 (1999 - \$135,226) paid to Solanum – PEI, A Canadian Potato Systems Company Inc.from the Province of Prince Edward Island.

Interest expense

Included in expenses is \$1,054,846 (1999 - \$1,157,199) in interest paid to Province of Prince Edward Island.

Asset Management expense

Included in Asset Management expense is nil (1999 - \$450,000) in grants paid to a wholly-owned subsidiary. This amount has been recorded as contributed surplus by the subsidiary.

Miscellaneous revenue

The corporation provides office premises to two other Crown Corporations of the Province of Prince Edward Island, Tourism PEI and Golf Links P.E.I.Inc,for nil consideration. Tourism PEI provided management services to Corporate Services Ltd.for consideration of \$14,100 (1999 - \$14,100). Tourism PEI is a Crown Corporation of the Province of P.E.I.and Golf Links P.E.I.Inc. is a subsidiary of Tourism PEI.

The above transactions were recorded in the normal course of operations and measured on the same terms as transactions with unrelated parties.

20.COMPARATIVE FIGURES

Certain comparative figures presented for the 1999 fiscal year have been restated to conform with the financial statement presentation adopted for the current year.

SCHEDULE OF RETAIL OPERATIONS

For the year ended March 31, 2000

	2000	1999
	\$	\$
Revenue		
Sales		
– Island Store	565,250	611,167
– Golf Store	16,498	96,665
	<u>581,748</u>	<u>707,832</u>
Cost of goods sold		
– Island Store	340,609	343,292
– Golf Store	17,720	90,923
	<u>358,329</u>	<u>434,215</u>
Gross margin		
	<u>223,419</u>	<u>273,617</u>
Expenditures		
Office supplies	1,013	2,831
Electricity, fuel,common area	3,056	6,627
Bank charges and interest	13,403	18,303
Cash overage	(1,007)	(1,920)
Telecommunications	1,613	1,816
Packaging	8,053	9,172
Advertising and promotion	1,472	8,518
Professional fees	-	6,895
Salaries and benefits	73,222	106,989
Travel	2,497	8,540
Dues and fees	725	113
Product development	1,579	-
Maintenance and cleaning	2,957	3,094
	<u>108,583</u>	<u>170,978</u>



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