Trade & Export
Second year in a row exceeding 1 Billion in international Exports. Page 13

Ignition
Ignition Fund applications have more than doubled since its initial launch 2 years ago. Page 9

StartUp Zone
The new StartUp Zone business incubator. Page 8

Emerging Sectors
Two Advanced Marine Companies expanding in Charlottetown thanks to new tax rebate. Page 15
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Telephone: 902-368-6300
Toll-free: 1-800-563-3734 (North America)

Facsimile: 902-368-6301
Address: 94 Euston Street, PO Box 910, Charlottetown, Prince Edward Island, C1A 7L9 Canada

@Innovation_Pei
www.innovationpei.com
LETTER FROM THE CEO

September 26, 2016

Honourable J. Heath MacDonald
Minister of Economic Development and Tourism
PO Box 2000
Charlottetown, PE C1A 7B8

Dear Minister MacDonald,

Please accept this annual report for the fiscal year ending March 31, 2016, summarizing Innovation PEI’s (IPEI) activities and highlighting some of the overall successes of the Prince Edward Island economy during that period.

Innovation PEI, the lead economic development agency for the Province, fosters strategic partnerships with industry, academia, and other government and non-governmental agencies, to further grow a prosperous and vibrant economy with the goal of sustainable employment opportunities for Islanders.

Highlights from this fiscal year include:

• $28,806,074 was approved to support 806 projects
• For every $1 Innovation PEI invested in PEI companies, another $3.50 was leveraged from other public and private sources
• Awarded Ignition Fund to ten Island companies, after receiving almost twice as many applications than the previous round.
• Strengthened collaboration with other government entities that impact industry. For example:
  • Finance PEI introduced a new micro-loan program to provide loans of up to $15,000 for qualified new and expanding businesses.
  • Ongoing work with Skills PEI on labour force and entrepreneurship supports.
• Developed and opened Ignition Startup Zone to incubate startups pursuing innovative opportunities.
• Sales PEI supported Island exporters whose efforts resulted in a second consecutive year of record-breaking success, as the value of PEI exports increased by 15.4% in 2015
• Launched Live Lobster Holding Assistance to support the competitiveness and profitability of the industry as increased holding capacity enables better management of supply, contributing to more stable market prices.

With direction from your Department, Cabinet and our private sector Board of Directors, Innovation PEI will continue to support the growth, diversification and strength of our economy.

Respectfully submitted,

Cheryl Paynter, CA
Chief Executive Officer
Innovation PEI acts as a key entry point for individual entrepreneurs and small to medium-sized firms seeking assistance with business development initiatives. By encouraging domestic and global investment, business growth and sales in key economic sectors, IPEI’s primary goal is to strengthen the economy of Prince Edward Island by helping businesses create sustainable employment opportunities.

CORPORATE
The Corporate Management division supports the overall mandate and initiatives of Innovation PEI and its divisions. Innovation PEI works with a board of directors appointed from diverse areas of the private sector and our post-secondary institutes to provide guidance and non-governmental perspective on the direction and activities of the agency.

GLOBAL TRADE SERVICES
Innovation PEI’s Global Trade Services division is mandated to grow revenue created from export sales and to help Prince Edward Island companies become export ready. The division offers training and support for market entry activities, market-specific information, and logistical and on-the-ground support for trade missions.

BUSINESS DEVELOPMENT AND INNOVATION
The Business Development and Innovation division is responsible for the coordination and delivery of information and to support businesses in start up, expansion, and diversification. The division provides a full range of business counselling and assistance to support the long term viability of Prince Edward Island businesses. The division also manages the innovation programs focused on encouraging innovation and new product development.

BUSINESS ATTRACTION AND EMERGING SECTORS
The Business Attraction and Emerging Sectors division is responsible for growing the strategic sectors of aerospace and defence, financial and business services, bioscience, advanced marine technology, information and communications technology, advanced manufacturing and renewable energy. The division is responsible for attracting out of province business investment to Prince Edward Island and fostering growth of existing companies in these sectors.
In 2015, the Canadian economy experienced modest GDP growth of 1.2 per cent, the slowest rate of growth in the country since 2009. This follows a 2.5 per cent increase in 2014 and a 2.2 per cent increase in 2013. According to the International Monetary Fund, global growth is projected at 3.4 percent in 2016 and 3.6 percent in 2017.

The Prince Edward Island Economy continues on a strong footing with provincial GDP advancing 1.5 per cent in 2007 chained dollars in 2015, following a 1.5 per cent increase in 2014 and growth of 2.1 per cent in 2013. Nationally, real GDP by industry rose 0.9 per cent in 2015. Reaching a record $4.7 billion in 2015, the Island GDP has averaged $4.5 billion over the last five years.

In 2015, international exports from Prince Edward Island increased by 16% and reached a record $1.3 billion. This was the fifth consecutive increase since 2010, and the second year that PEI exports exceeded one billion dollars in sales.

Accommodation and Food Services grew for the fourth year in a row with a 3.5 per cent increase over 2014 reflecting a 2.7 per cent hike in room nights sold. Campgrounds realized a 4.7 per cent increase in site nights sold and an overall increase in occupancy by 1.2 per cent. Traffic to the Island via the ferry and the Confederation Bridge increased 7.9 and 3.2 per cent respectfully. The number of people flying into PEI via the Charlottetown airport increased by 1,033 passengers, or 0.7 per cent.

The Population was estimated to be 146,447 on July 1, 2015. This represents a yearly increase of 285 persons, or 0.2 per cent growth since July 1, 2014. Prince Edward Island was the only province in the Atlantic region to see an increase.

Migration continues to figure prominently in Prince Edward Island’s population. After an increase of 62.2 per cent in 2013-14, international immigration declined by 4.6 per cent. From July 2014 to June 2015, 1,336 immigrants arrived on PEI compared to 1,400 the previous year. With 156 emigrants leaving the Island, the net international migration for 2014/2015 was 1,180. There were 1,428 births and 1,338 deaths on Prince Edward Island from July 1, 2014 to June 30, 2015, resulting in natural increase (births minus deaths) of 90.

Employment on Prince Edward Island averaged 73,200 people in 2015, a decrease of 1.1 per cent from the same period in 2014. With a total labour force of 81,700, the Island’s participation rate was 67.6 per cent. The sectors experiencing the most growth were Accommodations and Food Services (9.1%), Public Administration (5.7%) and Manufacturing (7.1%). Notable losses were realized in the Construction sector (-10%), Education Services (-5.7%) and Agriculture (-13.5%).

The Annual Labour Force Survey re-
leased by Statistics Canada in January 2016, depicted Manitoba leading the country in employment growth for 2015 through the addition of 9,700 jobs. British Columbia and Alberta followed with 27,800 and 26,500 jobs. Average weekly wages increased 38.2 per cent since 2005, slightly higher than the national average of 31.2 per cent. On Prince Edward Island, those employed in the Public Administration sector received the highest wages followed by Manufacturing and Construction.

While Prince Edward Island experienced slow job growth, PEI led the country in wage growth. PEI is committed to continuing a steady increase in wages which will see PEI leading the Atlantic Provinces in minimum wage levels by the close of 2016.

**Housing Starts** were up 13.9 per cent through the first three quarters of 2015. By year’s end, total starts were up 9.2 per cent over the previous year with apartments showing the most growth with a 27 per cent increase over 2014. Commercial building permits were down by 12,778 while industrial permits were up slightly by 2,129. Since 2010, PEI has averaged 50,527 commercial building permits and 17,012 industrial building permits.

**The Value of Non-Residential Investment** increased by 8 per cent from 2013 to 2014 but declined by 29 per cent by 2015. While total investment fell in the second quarter, except for the government and institutional components, investments in industrial, commercial and institutional continued on an upward trend through the third and fourth quarters.

**Island Farmers and Fishers** seeded 89,500 acres of potatoes, harvested 89,000 producing approximately 24.8 million hundredweight, slightly lower than the 2014 harvest by 390 million. Farm cash receipts dipped 2.0 per cent in 2015, with a total value of $466 million. Lobster landings have been increasing steadily since 2010. Landings increased 8.1 per cent to 32.2 million pounds with an overall value of $150 million in 2015, a record for Island fishers.

*Unless otherwise specified, all data sources from Statistics Canada.*
BUSINESS DEVELOPMENT AND INNOVATION

Entrepreneurship and Small Business

The Business Development and Integration Division works with local businesses and entrepreneurs, to grow the economy of PEI from within. The economy of PEI is largely driven by small and medium enterprises (SMEs). As defined by Statistics Canada, a small business has up to 99 employees; a medium business has 100-499 employees. In particular, small businesses are key to PEI’s economic success. The SME category for the Island totaled 5,921 employer businesses at the end of 2015; of those, 5,838 were small businesses.

- In 2015, SMEs accounted for 92.7% of private employment in PEI. #1
- In 2014, Island businesses with fewer than 50 employees were responsible for 26% of PEI’s GDP. #2
- PEI and BC lead the country in the entry of new business firms. #3
- Prince Edward Island is a close second in the category of most SMEs relative to the working age population (15 years and above). PEI has 48.7 SMEs per 1,000 population, following Alberta (50). #1

#1 Statistics Canada Business Register, Dec. 2015
#2 British Columbia’s Statistical Service, Small Business Profile, 2015
#3 Innovation Report Card, Provincial and Territorial ratings, Conference Board of Canada, Sept. 2015

Innovation PEI recognizes the value of small business, and focuses its support efforts through the Business Development and Innovation division to assist in the growth of our local businesses. Professional Business Development Officers (BDOs) located throughout
the province interact with existing and aspiring business owners to support start-ups, expansion, access to professional services, research and product development, technology upgrades, or to enter new export markets. In person interactions include individual meetings, group presentations, networking events, and client site visits.

Innovation PEI offers a variety of Financial services and assistance to support business development in Prince Edward Island.

**P.E.I. Mussel King (1994) Inc.**

P.E.I Mussel King and its subsidiary, PEI Mussel Farms Inc., produce, package and sell PEI mussels to the world. The company has a reputation for developing and producing high-quality products and was named Trade Team PEI’s 2015 Exporter of the Year. The company is now introducing an innovative new product and growing its farming operations to ensure long-term sustainability.

PEI Mussel King has developed “Mussels in Minutes!” - pre-packaged mussels in a microwavable pouch with seasonings inside, producing a ready-to-eat product in three minutes. Innovation PEI and the Government of Canada provided assistance for this product.

Community Inclusions Ltd. is a non-profit organization in Western PEI providing vocational training, employment, residential and recreational services to adults (18-65) with intellectual disabilities. Various programming is offered, and the operation of Maple House Centre and Tignish Workshop provides employment opportunities.

With funding from Government of Canada and Innovation PEI, Community Inclusions Ltd. purchased a building in the community to create a new day program and expanded bakery for Maple House Centre clients and staff to address geographic and accessibility challenges with its previous location. This has the potential to create additional employment opportunities for adults with intellectual disabilities and is a source of revenue to support the various services offered by Community Inclusions.

**Maple House Centre**

Maple House Centre, operated by Community Inclusions Inc., prepares freshly made baked goods daily in West Prince.

Atlantic Roasted Products Inc. has its roots in the family farm business. When Anthony and Anna Nabuurs ran their family hog farm they used roasted soy beans to supplement animal feed for their livestock. When they exited the industry in 2007, they established Atlantic Roasted Products Inc. and began to distribute the feed supplement to other farmers.

Through support from the Government of Canada and Innovation PEI’s Capital Assistance Support, Atlantic Roasted Products Inc will acquire new equipment and upgrade its capacity. The company will continue to service its current and growing customer base and also begin exploring export markets.
Youth entrepreneurship continues to be supported with $108,000 of funding and partnerships for the provision of JA, Student Biz, youth entrepreneurship forums, and Young Millionaires. These initiatives are key in creating a foundation of entrepreneurship among PEI’s youth.

There was an expansion to the new Student Biz program to include youth from all across the island. This program enables youth to start a business as an alternative to working in a summer job.

Additionally, the Young Millionaires program introduces youth to business and entrepreneurship. Participants develop basic business and life skills and successful participants receive grant to start up their own business.

Innovation PEI supported 4,032 students through GameForce Programming (227), Young Millionaires (154) and Junior Achievement (3,651 for 2014-15 school year) programming.
Start-up Zone

There is a buzz of excitement on the corner of Water and Queen Street in Charlottetown and it comes from the newly created Startup Zone. The bright, open-concept work space was designed to promote entrepreneurial risk-taking and bold ideas, all in an environment that fosters a community and networking culture.

The Startup Zone is a non-profit entity that was created to support entrepreneurship and the startup business community in Prince Edward Island. The 3,600 square feet of modern office space serves as an incubator to support businesses as they develop. It provides these entrepreneurs with support and mentorship, enabling them to become successful. ACOA, through its Business Development Program is supporting this project with a $500,000 contribution. The Government of PEI is investing $514,395 over the next three years to support the long term success of the Startup Zone.

Start-up Visa Program

LaunchPad PEI has been a designated entity under the Startup VISA program since January 2015. In that time, LaunchPad PEI has received 50 applications from entrepreneurs seeking support under the Start-up VISA program to relocate to Prince Edward Island. These businesses are pursuing businesses in the areas of mobile development, music production, data analytics, and cold storage to name a few. LaunchPad PEI will continue to market Prince Edward Island as a favorable location to begin a business with the assistance of the Startup VISA program.

Propel ICT Partnership

Our collective economic prosperity demands that we rejuvenate our population, grow our labour force, increase our numbers of skilled workers, and attract entrepreneurs who excel at job and wealth creation. To this end, funds have been allocated to support a common incubator platform to be managed and directed by the private sector.

Innovation PEI has entered into a support agreement with Propel ICT, a private sector led regional accelerator. The first cohort of Propel is fully subscribed and well underway with a roster deep in energy, talents and ideas.
Entrepreneurs are the engines that drive the Prince Edward Island economy. Investing in people, innovation and infrastructure is key to growing the economy, as well as increasing trade and exports to generate wealth, revenue and jobs.

The Ignition Startup Fund was launched in June of 2014 to assist eight startups on Prince Edward Island by providing them with an investment of $25,000 each to develop their businesses. Innovation PEI received 109 submissions in 2015, an increase of 63 since the first year of the program. The number of recipients also increased from eight to ten, a commitment made by Premier MacLauchlan.

These ten new and expanding companies from across Prince Edward Island received grants of $25,000 each from the Ignition Fund to help support the development and growth of their businesses. The following companies were successful in their applications to the program:

Ignition Fund Recipients 2015

Minister of Economic Development and Tourism Heath MacDonald (centre) joins the successful applicants into this year’s Ignition Fund. (L to R) Dr. Mel Crane, Precise.ai Inc.; Amber James, GradPeek; Jon Zuccolo, Affinity Immuno Inc.; Dr. Jay Adamsson, TactiCal; Gilles Daigle, SkyMetro UAV Tecnology Inc.; Tara Costello, Ahead in the Game; Minister Heath MacDonald; Gerald Chisholm, Handyman Labs Inc.; Rosemond MacDougall, Heatherdale Organic Food Products; Eric Wagner, Moth Lane Brewing; Sean Wall, Darren Blanchard and Brandon Hood, Black Whale Salt Company.
The Pilot and Discovery Fund is a competition based program to fund and support projects that are in early stage of development and have a strong potential for success. Research and development requires up-front costs that can be difficult for a small business to cover. This program helps bridge the gap between development costs incurred and revenue generated by a commercial ready product.

A total of eight projects were funded in the latest round of the Pilot and Discovery Fund.

This round’s recipients were:

**Mighty Pebble Games** is an independent video game studio located in Charlottetown, Prince Edward Island, which focuses on creating multiplayer games with innovative gameplay ideas. It will work on strengthening the development of the studio’s first game, Miner Meltdown, scheduled for release early in 2017.

**Nautilus Biosciences Canada Inc.** aims to discover and develop bioactive agents from its in-house marine microbial library. Its discovery efforts are closely aligned with the needs of industry partners who are leaders in the pharmaceutical and personal care industries, and will work on the development of a novel platform for production of anti-inflammatory terpenes.

**Allan Equipment Manufacturing Ltd.** is a PEI owned and operated designer and manufacturer of potato harvesting equipment, which has been serving the needs of its farm community by manufacturing a large variety of quality equipment for over 50 years. It will use its experience to develop and implement a cleaning module for potato harvesting equipment.

**Dr. Mark Fast – UPEI/AVC Pathology and Microbiology.** Under the direction of Dr. Mark Fast, Elanco researcher and associate professor at the Atlantic Veterinary College of UPEI, this project will develop a functional and diagnostic assay for assessing fish health and vaccine/treatment efficacy.

**Funky Finger Productions** is an independent development studio specializing in cutting edge applications and video games for iOS and Android devices. The company specializes in creating high quality applications for the industrial, educational, and entertainment sectors, such as its Pulse project. This two-part project involves the development of the Pulse Engine, a proprietary biometric technology for Apple Watch and iOS developers, and Adrenaline, a mobile gaming application designed to showcase the potential of the Pulse Engine.

**Gradpeek Inc.** is developing an online HR recruitment/screening tool designed to bring recent graduates (millennials) together with employers. The goal of the system is to reduce recruitment cycles and improve company/candidate fit. The platform will allow employers to target their audience by region, field of study, experience and work disposition. The next phase of developing this product will test and validate the Strength Survey tool.
Skip the Waiting Room Inc. specializes in healthcare technology, offering full-featured walk in clinic management tools. These tools offer clinic providers and clients with up-to-the-minute information about clinic capacity and online registration. Building on success with its existing client base, Skip the Waiting Room will implement design changes to enable expansion to other provinces in Canada.

**R & M Welding Ltd.** specializes in manufacturing and repair services for the fishing and aquaculture industry in Prince Edward Island and the Maritime region. Recognized as a successful rural enterprise, it has identified a need for new technology to reduce labour costs and improve efficiency for “off-bottom” oyster production.

## DEVELOPMENT AND COMMERCIALIZATION FUND

The Development and Commercialization Fund supports Island based businesses that have moved beyond the prototype and pilot state, have tested and developed a product and wish to move their product or service into the marketplace.

Six projects were funded under the Development and Commercialization Fund in 2015-2016.

This round’s recipients are:

**Center for Aquaculture Technologies Canada** operates as a contract research organization primarily focused on aquaculture, specifically on providing services in diagnostics and molecular biology, breeding and genetics, and fish health and nutrition. Dr. Debbie Plouffe and her team will develop and validate challenge models for important fish pathogens in recirculation.

**BamText Corp.** is an information and communications technology start-up specializing in text messaging technology for mass communication and anonymous customer feedback. Built in response to the growing popularity of customer review websites, BamText enables customers to use their mobile devices as anonymous, instant comment cards and allows business owners and managers to provide immediate response. The BamText Scalability and Enterprise Software Project will grow product offerings and meet enterprise client demands.

**Island Water Technologies Inc.** is a PEI based wastewater technology company specializing in developing self-powered, self-operating treatment solutions. As part of their unique solution they have developed a bio-computer technology platform that allows for real-time communication with the active biology in a wastewater treatment system.

**Airbly Inc.** is a technology company with an aim to simplify aircraft ownership and make flying safer. With its innovative hardware product, the Canairy™ Cockpit Monitor, Airbly will improve the management of aircraft in the aerospace sector.

WorkLinks was launched as a first-class payroll processing solution for businesses with Canadian employees. Its payroll solution has the ability to handle statutory requirements in all 13 provinces and territories and is highly customizable to meet clients’ needs, with hosted workforce management products to help small and medium sized businesses streamline their entire pay process. The development and implementation of an Electronic Funds Transfer (EFT) component will provide “end-to-end” payroll solutions for its clients.

King Ding Productions principal, Alexandre Hanley, has expertise in food safety and the development, training, and implementation of food safety programs to clients around the world. He will use his expertise to develop a virtual library to catalogue best practices to help increase food safety.

### DEVELOPMENT AND COMMERCIALIZATION FUND
Small Business Week is a forum for entrepreneurs from one end of the Island to the other to connect with each other, learn about new ways to do business, and to explore new possibilities and emerging markets.

The event was supported by the Province of Prince Edward Island through Innovation PEI, local Chambers of Commerce, and various industry associations across the Island.

Small Business Week took place from October 18th to 24th. One highlight of this year’s program was Export Day on October 20th. Local businesses heard from experts from across Canada on the global economy and how it relates to Prince Edward Island; the province’s stake in recent trade agreements; and new and emerging global opportunities for exporters. P.E.I. Mussel King, an island company, was presented with the Exporter of the Year Award for their ongoing export efforts.

There were also networking and learning events held across the Island all week, including a series on “Maximizing the Profit Potential of your Business “, presented in partnership with the Rural Action Centres.

Small Business Saturday
Islanders did their part to support Small Business on Saturday, October 24th, by celebrating the vital role that small businesses play on Prince Edward Island. People were encouraged to show appreciation for their favorite locally-owned stores by shopping locally.

Small Business Saturday is a campaign started by the CFIB to celebrate the important contribution that small, independent businesses make to their communities and the Prince Edward Island economy. There are over 6,200 businesses on the Island, the vast majority of which are small. The most recent figures show that PEI businesses contribute $953,000 per business to the Province’s GDP.

GRADUATE STUDENTS AND POST DOCTORAL FELLOWSHIP FUND

Graduate students and post doctoral fellows who are carrying out research can apply for support from Innovation PEI in one of three categories: masters students, PhD students and post doctoral fellows. Masters students can qualify for up to two years of funding at $20,000 a year, PhD students can qualify for up to three years of funding at $20,000 a year, and post doctoral fellows can qualify for up to two years of funding at $40,000 a year.

By providing essential support to both the brightest young Island scientists as well as allowing us to attract new talent to PEI, the Graduate Student and Post-Doctoral Fellowship Fund supports the pursuit of industry-relevant, quality scientific research, while also promoting career development for our youth and the economic development of the Province. The fund has been supporting graduate students and fellows since 2009.

MITACS  A pilot partnership with MITACS, enabling Prince Edward Island students to access funding through the Accelerate Internship program, ran throughout 2015-2016. Seven Island grad students were able to apply their skills in a non-academic environment where they sought solutions to business problems.
The Global Trade Services division works closely with the business development and business attraction groups in an effort to develop incremental or new export channels. This division works collaboratively across industry and government to create partnerships that will leverage all the parts and pieces of investment in export efforts to a greater focus.

**Highlights**

- Prince Edward Island exported close to $1.3 billion of goods to international markets in 2015, an all-time high.
- This followed exports of $1.12 billion in 2014, the first time exports exceeded $1 billion annually.
- Exports increased by 15.4% from 2014 to 2015, the highest percentage of all provinces

**South Eastern United States and Canadian Provinces**

Global Trade Services and its partners hosted the SEUS-CP conference where 68 companies from Prince Edward Island, New Brunswick, Nova Scotia, Newfoundland and Labrador, Quebec, Ontario, Manitoba, North and South Carolina, Georgia, Alabama, Tennessee, and Mississippi gathered for three days of intense B2B activities. Over six hundred meetings were held with great outcomes.

**New Initiatives**

Global Trade Services and its partners, through Trade Team PEI, launched the Grow Export Program. Fourteen PEI companies looking to further their exporting capacities participated in the first intake. The program offers six half-day workshops:

- Core Capacity for Export;
- Export Market Analysis;
- Export Finance;
- International Trade Law;
- Export Logistics; and
- Pricing Strategies for Export

**Incoming Buyers**

Global Trade Services and its partners supported fourteen PEI exporters in hosting potential buyers from North America, United Kingdom, Europe, and Asia.
Global Trade Services and its partners supported eleven PEI exporters to access expertise and advice in a number of key areas:

- Researching target export markets; e.g., market size, demand, competition and culturally-appropriate business conduct.
- Developing an international market entry strategy to explore the potential of export products in new markets.
- Ensuring all essential paperwork is prepared in advance, including formal/commercial entry of goods; penalties; certificate of origin; standards documentation; health/sanitary certificates.

**Workshop Series**

Global Trade Services and its partners hosted the successful Export Day where 180+ attendees from the exporting community received information on global economic trends and explored the benefits of free trade, notably the upcoming Comprehensive Economic and Trade Agreement (CETA) with the EU and its’ members.

Global Trade Services and its partners hosted a market information session on doing business with China. Forty five interested parties from the PEI exporter community attended.

**Outbound Missions**

Global Trade Services and its partners supported 71 companies to participate in twelve outbound missions to Boston, New York, Florida, European Union, United Kingdom, India, China, Hong Kong, and Brazil/Chile.

Global Trade Services and its partners supported 30+ projects where PEI exporters, from the Aerospace and Defence, Building Products / Construction, Consumer Products, Cultural Industries, Education / Training, Energy, Environmental Industries, Food / Beverages, Information Communications Technologies, Life Sciences / Biotechnology and Ocean Industries sectors participated with their Atlantic partners to pursue new business opportunities for PEI.
BUSINESS ATTRACTION AND EMERGING SECTORS

The Business Attraction and Emerging Sectors Division is responsible for growing the strategic sectors of aerospace, bioscience, advanced marine technology, information technology, advanced manufacturing and renewable energy. This division is the provincial lead for attracting foreign direct investment and out of province business investment to Prince Edward Island.

Prince Edward Island’s aerospace and defence industry is a vibrant example of the economic success that can be achieved when partners come together with a common vision in mind. The industry is a leading employer of skilled Islanders and a generator of millions of dollars worth of exports every year. Companies operating within PEI largely serve commercial aviation markets in the manufacturing and maintenance, repair & overhaul (MRO) segments.

Innovation PEI delivers the Aerospace and Defence Tax Rebate to support this sector with a full annual rebate of all PEI corporate income tax paid by qualified aerospace and defence-related companies.

To qualify, firms must meet minimum payroll and employee thresholds and be in the Aerospace and Defence sector as defined by the Province of Prince Edward Island.

The Province of Prince Edward Island is providing vital financing to support the expansion of Vector Aerospace as part of our steadfast commitment to help grow our economy and build on Island successes. Vector Aerospace is a cornerstone of this province’s aerospace industry and the second biggest private sector employer on the Island.

The financing will assist Vector with the addition of a fourth engine test cell at its Slemon Park operation allowing the

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<th>GDP: $149 million</th>
<th>Sales: $405 million</th>
<th>Employment Impact: 1,364 FTEs</th>
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<tr>
<td>Aerospace</td>
<td>65,243,000</td>
<td>73,911,000</td>
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(Products and Parts Manufacturing)

Source: Trade Data Online, accessed June 22, 2016

Vector Aerospace - Atlantic Division President Jeff Poirier and Honourable Minister Heath MacDonald join engine test cell operator Trevor Hogan (seated) in the new test cell’s control room.
company to pursue more lucrative contracts, provide uninterrupted service should one of their existing test cells be taken off line, and potentially mean more jobs for Islanders - making a positive contribution to the provincial economy and exports.

The province’s support of the project is two-fold. Through Finance PEI’s Century Fund, the province will provide $4,020,986 in repayable financing for the project over a 15 year term. The province will also provide a non-repayable contribution of $1,352,807, which will be paid out in 2017 should Vector maintain or exceed current staffing levels.

As part of the agreement, Vector Aerospace has signed a new 15 year lease with Slemon Park Corporation. That firms up the company’s commitment to stay in Slemon Park through 2030.

Vector Aerospace Engine Services Atlantic currently employs 440 workers at its Slemon Park facility. The company provides aircraft engine repair, restoration and overhaul services to companies around the world.

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**Advanced Marine Technology**

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<th>Sales: $85.5 million</th>
<th>Employment Impact: 150 FTEs</th>
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<tr>
<td>Advanced Marine Technology</td>
<td>6,959,000</td>
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Source: Trade Data Online, accessed June 22, 2016

Advanced marine technology has the potential to parallel the success of the aerospace industry in P.E.I. In 2015, advanced marine technology accounted for 8.3% of the Province’s total exports.

With the success of marine technology companies in Prince Edward Island, a cluster development initiative is underway for further development of the sector.

Our stable economy, availability of labour, new engineering school at the University of Prince Edward Island, and the marine center at Holland College are all factors in the growing success of advanced marine technology companies in Prince Edward Island.

The Advanced Marine Technology Tax Rebate supports the growth of the marine technology sector by fostering an environment to attract companies to the Island and to expand existing operations.

The ultimate goal is the development of an advanced marine technology cluster of companies that can work collaboratively to make our province a marine technology hub, thereby expanding the provincial economy, increasing exports and providing skilled, high paying jobs for Islanders.

Prince Edward Island’s advanced marine technology sector will encompass much more than shipbuilding; it will include the oil and gas industry, offshore wind and tidal energy, defence and workboats. The Province will target innovative companies who produce niche products.
Two companies that specialize in advanced marine technology manufacturing and services have expanded their operations to Charlottetown, following the announcement of the new Advanced Marine Technology Tax Rebate aimed at expanding the sector on Prince Edward Island.

Breakwater Management Services is focused on providing specialized business development and consulting services to an international client base. Breakwater will strive to provide world-class products and services that are focused on helping their advanced marine technology sector clients improve safety, reliability and energy efficiency. The company employs two people now with plans to expand to four or more over the coming months.

Nautican Research and Development Limited engineers, designs and manufactures hydrodynamic nozzles, propellers, stators and rudders for the marine industry. Their innovative designs allow ship owners to consume less fuel, achieve more power and have better control of their vessels. Nautican currently has two staff in their Charlottetown office and has plans to grow in early 2016 with a manufacturing presence of three to five employees.

Hosted by Innovation PEI, with support from the National Research Council (NRC), the Opportunities in Canada 2016 conference drew more than 50 delegates from March 13 to 15. It included our Island companies as well as those from across Canada, the United States, Europe, and the United Kingdom who have expressed interest in relocating to the province in the past year.

Island companies participating in the conference were: Nautican Research and Development; Portsmouth Atlantic; MarineNav; Aspin Kemp and Associates; and NorCan Marine. The cities of Charlottetown and Summerside, Holland College and the University of Prince Edward Island were also represented.

Although this was the first conference aimed at expanding multiple business sectors in Prince Edward Island, in previous years Innovation PEI has held events targeted at specific markets including aerospace and advanced manufacturing.

Presentations included panel discussions on the challenges faced by companies, financing, research and development, marine HR methods and successes, and setting a company apart through innovation. Individual companies also shared their experiences doing business on the Island.
SCHOOL OF MATHEMATICAL AND COMPUTATIONAL SCIENCES

In January of 2016, The University of Prince Edward Island launched the UPEI School of Mathematical and Computational Sciences.

The new School, and its related suite of majors, offers the region’s most comprehensive undergraduate programming in mathematics, computer science, and statistics.

The four year Bachelor of Science degree was created based on the growing need for university graduates to be educated in developing sophisticated mathematical and statistical techniques aligned for market needs; managing and extracting knowledge from unprecedented volumes of data; integrating mathematical and statistical methods with powerful analytical software and technology tools; and creating technology needed to enable our world.

Majors offered include: mathematics, computer science (specialization option in video game programming), statistics, actuarial science, analytics (specialization options in business analytics or data analytics), and financial mathematics.

IO SOLUTIONS EXPANSION

IO Solutions Call Center is expanding their Bloomfield call centre to accommodate a growing demand for their customer support services. The company will purchase new, specialized telephony equipment and install new workstations to support their growing workforce.

The Government of Prince Edward Island, through Innovation PEI, has invested $540,000 for employees hired over three years through the Labour Rebate program, as well as a $168,000 contribution from Skills PEI for eligible positions through the Employ PEI program, to help hire the additional employees. Employ PEI is a program of the Canada-PEI Labour Market Development Agreement.
The world of mobile gaming has grown rapidly in popularity. Over 20 million Canadians are now using a smartphone as their number one accessory, and many of them are using their phones to play games. Charlottetown-based icejam™ is poised to take advantage of this growth with its innovative playable data™ platform. By introducing real-time, real-world driven gameplay, icejam is launching a new chapter in the free-to-play mobile games story.

The company is currently working on the development of its market-defining platform that is scheduled to debut with the studio’s first game in 2016. More details about the platform and its capabilities will be announced at a later date.

Financial support from Innovation PEI and ACOA will support the company in furthering the development of its mobile games business and launching of its playable data™ platform, by assisting with marketing, equipment and product development costs.

The mobile games industry is a strong contributor to the Prince Edward Island economy, exporting millions of dollars’ worth of mobile games to gamers around the world.

## INFORMATION AND COMMUNICATIONS TECHNOLOGY

From applied research and new product development through to supporting the needs of growing businesses, Prince Edward Island’s Information and Communications Technology (ICT) sector consists of companies with development and solution specializations in many areas. The sector has particular strength in the areas of independent software vendors, healthcare, financial services, wireless and mobile applications, and gaming.

GameForce is a five day after-school program that introduces Island youth to the fundamentals of 2D & 3D video game development, including storyboards, level design, programming, animations, and sound effects. The participants are challenged to develop their math skills, artistic creativity, physics and problem solving through the introduction of the mechanics of video game development.

<table>
<thead>
<tr>
<th># of Sessions/participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elementary School After-school Program</td>
</tr>
<tr>
<td>Junior High School After-School Program</td>
</tr>
<tr>
<td>Summer Camps</td>
</tr>
</tbody>
</table>

Stats from April 1, 2015 to March 31, 2016
The Prince Edward Island Bioscience industry, identified as a key sector for future growth, includes companies in the research, development, and commercialization of bioactive-based human, animal, and fish health and nutrition products in locations across the province. IPEI delivers the Bioscience Tax Holiday to encourage existing companies to grow and focus on opportunities in the industry and to help attract new companies to the province. Qualified companies receive a tax holiday, via rebates of provincial corporate income taxes paid, for up to ten years.

Somru BioScience Inc. is an emerging biotechnology company dedicated to developing innovative antibody and ELISA based solutions to accelerate research worldwide. Somru successfully competed for a Development and Commercialization Fund award for the further development of investigational medical testing kits. These kits can be used in a clinical lab to generate results that will enable clinicians to make better decisions. This project involves scale up production of reagents, lyophilization of reagents to improve stability, and testing stabilizers to improve and increase shelf life of the test kits. Somru, located in the West Royalty Industrial Park, also received Innovation PEI support through the Marketing Assistance program.

Sekisui Renovation

Sekisui Chemical Co., Ltd. established in PEI as a result of its 2011 acquisition of Genzyme Diagnostics P.E.I.

Sekisui, located in the West Royalty Industrial Park, has grown 125 per cent and staffing has increased from 70 to 117 employees. This past year, the company signed a 12-year lease on its facility with a multi-million-dollar renovation planned to maximize space and efficiency. A new packaging line will dramatically increase capacity.

Natural Products Canada Award

A $14M federal contribution to establish Natural Products Canada Inc., a new national Centre for Commercialization and Research (CECR) that will accelerate the commercialization of new products and technologies derived from natural products was announced for PEI. The federal contribution will be matched by over $10 million from industry and other sources, for total funding of over $24M over the next five years.

The Prince Edward Island facility develops and manufactures clinical chemistry reagents and diagnostic tests, primarily for cardiovascular, liver, and infectious diseases, and diabetes. Each year, 1.5 billion clinical chemistry tests made at the P.E.I. facility are used worldwide.
BioFoodTech provides professional technical services to the food and Bio processing industries from concept to pilot to market. BioFoodTech is a 100% owned subsidiary company of Innovation PEI.

BioFoodTech delivered artisan workshops for Advanced Cheesemaking and Wild Fermentation (Kimchi and Sauerkraut). The thirty three attendees were already manufacturing or just getting started in these artisan businesses.

BioFoodTech provides accredited food safety analysis services to Prince Edward Island’s seafood and agri-food processing industry. This enables processors to export their excellent food products to national and international markets. BioFoodTech has also trained more than 200 shellfish growers, processors and handlers from coast to coast, on controlling Vibrio – bacteria that can cause foodborne illness and have devastating impacts for the molluscan shellfish industry.

Sixty people from 20 companies attended “Control of Allergens in Food Processing” workshops held in the Atlantic provinces.

Thirty seven small projects were completed for 33 clients with a one day turn around. Fifteen larger project contracts between BioFoodTech and clients were completed in 2015-16, and 18 additional project contracts were on-going at the end of the year.

MAPLE LIQUEUR FROM DEEP ROOTS DISTILLERY

In Michael Smith’s latest newsletter, he praises Mike Beamish’s latest product as “deeply flavoured Maple Liqueur that is reminiscent of toasted almonds and caramel”. It is made from the most flavourful grade of maple syrup and the distillation process intensifies the flavour even further. It is available at Mike’s orchard in Warren Grove, at PEI Liquor stores and at the Charlottetown Farmers’ Market. Mike is passionate about distilling and provided the use of his still for an artisan distillation workshop held by BioFoodTech in 2013. Mike is one of a growing number of artisan distillers in Prince Edward Island producing great products that are popular with Islanders and visitors alike. Mike is getting lots of interest from eager buyers after Michael Smith’s praise.
A new industry-led, government-supported partnership will engage primary industries, food producers, culinary experts and research institutions to expand food exports, create new products and cement Prince Edward Island’s reputation as a world-class producer of food and leading culinary destination.

Over the next three years governments will provide over $1.6 million to support the partnership’s annual cost. Approximately $900,000 will come from the Canada-PEI Growing Forward 2 Agreement, the Atlantic Canada Opportunities Agency is providing $487,950, and the remainder will be provided by the Government of Prince Edward Island.

Prince Edward Island has a food brand that is well recognized and growing. The Food Island Partnership will leverage this brand recognition to the benefit of the food industry of PEI. This partnership will also work to encourage more entrepreneurs to enter the food business and more existing companies to diversify their product range with assistance from research and development institutions like BioFoodTech and Canada’s Smartest Kitchen.

The vision is to establish Prince Edward Island as an internationally recognized place of origin for premium food products and a destination for culinary excellence. The Food Island Partnership will achieve this vision by focusing on three areas: company and product development, creating new value-added food products, and leveraging and building the reputation of the Prince Edward Island food brand.

Innovation PEI plays a key role in developing Canada’s Food Island and value added food products as demonstrated by the level of encouragement and successful food related applications to the Ignition Fund.
Management's Report

The integrity, relevance and comparability of the data in the accompanying consolidated financial statements are the responsibility of management.

The consolidated financial statements are prepared by management in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. A summary of the significant accounting policies is disclosed in note 1 to the consolidated financial statements. The preparation of consolidated financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current period cannot be finalized with a certainty until future periods.

To meet its responsibility, management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the consolidated financial statements. These systems are monitored and evaluated by management.

Management is accountable to the Board of Directors of Innovation PEI on matters of financial reporting and internal control. Management provides the Board of Directors with externally audited financial statements annually. The Board also discusses any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

The consolidated financial statements have been audited by ArsenaultBestCameronEllis, independent external auditors appointed by the Board. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the consolidated financial statements.

On behalf of Innovation PEI

Cheryl Paynter, CPA, CA
Chief Executive Officer
Independent Auditor's Report

To the Minister of Innovation and Advanced Learning

We have audited the accompanying consolidated financial statements of Innovation PEI, which comprise the consolidated statement of financial position as at March 31, 2016, and the consolidated statements of operations, accumulated surplus, changes in net financial assets 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Innovation PEI as at March 31, 2016, and the results of its operations, changes in its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants
Innovation PEI
Consolidated Statement of Financial Position
As at March 31, 2016

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Financial assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>1,041,641</td>
<td>1,096,229</td>
</tr>
<tr>
<td>Advances to related companies</td>
<td>11,474,231</td>
<td>11,638,265</td>
</tr>
<tr>
<td>Due from Province of Prince Edward Island</td>
<td>24,070,811</td>
<td>17,714,012</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>36,586,683</td>
<td>30,448,506</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank advances</td>
<td>1,682,429</td>
<td>67,357</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>29,875,743</td>
<td>25,443,709</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>31,558,172</td>
<td>25,511,066</td>
</tr>
<tr>
<td><strong>Net financial assets</strong></td>
<td>5,028,511</td>
<td>4,937,440</td>
</tr>
<tr>
<td>Trust funds (note 3)</td>
<td>2,000,000</td>
<td>-</td>
</tr>
<tr>
<td>Less: funds on deposit</td>
<td>(2,000,000)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Non-financial assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses and deposits</td>
<td>65,408</td>
<td>28,178</td>
</tr>
<tr>
<td>Property holdings (Schedule)</td>
<td>1,176,054</td>
<td>1,304,724</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,241,462</td>
<td>1,332,902</td>
</tr>
<tr>
<td><strong>Accumulated surplus</strong></td>
<td>6,269,973</td>
<td>6,270,342</td>
</tr>
</tbody>
</table>

Approved by the Board of Directors

[Signatures]

Director

(2)
Innovation PEI
Consolidated Statement of Accumulated Surplus
For the year ended March 31, 2016

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Accumulated operating surplus - Beginning of year</td>
<td>5,904,303</td>
<td>5,904,303</td>
</tr>
<tr>
<td>Annual deficit</td>
<td>(369)</td>
<td>-</td>
</tr>
<tr>
<td>Accumulated operating surplus - End of year</td>
<td>5,903,934</td>
<td>5,904,303</td>
</tr>
<tr>
<td>Contributed surplus (note 5)</td>
<td>366,039</td>
<td>366,039</td>
</tr>
<tr>
<td>Accumulated surplus - End of year</td>
<td>6,269,973</td>
<td>6,270,342</td>
</tr>
</tbody>
</table>

(3)
### Consolidated Statement of Operations

**For the year ended March 31, 2016**

<table>
<thead>
<tr>
<th></th>
<th>Budget (Unaudited)</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grant - Province of Prince Edward Island (note 5)</td>
<td>26,403,100</td>
<td>33,294,400</td>
<td>23,960,200</td>
</tr>
<tr>
<td>Federal Government funding</td>
<td>-</td>
<td>-</td>
<td>499,500</td>
</tr>
<tr>
<td>Project revenue</td>
<td>1,899,700</td>
<td>1,616,549</td>
<td>1,277,811</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>10,000</td>
<td>20,943</td>
<td>33,126</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>28,312,800</td>
<td>34,931,892</td>
<td>25,770,637</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>4,711,600</td>
<td>4,333,137</td>
<td>3,871,971</td>
</tr>
<tr>
<td>Operating</td>
<td>1,434,700</td>
<td>1,571,379</td>
<td>1,612,494</td>
</tr>
<tr>
<td>Development programs</td>
<td>21,916,500</td>
<td>28,806,074</td>
<td>20,127,192</td>
</tr>
<tr>
<td>Project costs</td>
<td>70,000</td>
<td>77,933</td>
<td>38,971</td>
</tr>
<tr>
<td>Amortization - property holdings</td>
<td>180,000</td>
<td>143,738</td>
<td>120,009</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>28,312,800</td>
<td>34,932,261</td>
<td>25,770,637</td>
</tr>
<tr>
<td><strong>Annual deficit</strong></td>
<td>-</td>
<td>(369)</td>
<td>-</td>
</tr>
</tbody>
</table>
## Consolidated Statement of Changes in Net Financial Assets

**For the year ended March 31, 2016**

<table>
<thead>
<tr>
<th></th>
<th>2016 $</th>
<th>2015 $</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual deficit</strong></td>
<td>(369)</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition of property holdings</td>
<td>(15,068)</td>
<td>(738,445)</td>
</tr>
<tr>
<td>Amortization of property holdings</td>
<td>143,738</td>
<td>120,009</td>
</tr>
<tr>
<td><strong>Change due to property holdings</strong></td>
<td>128,670</td>
<td>(618,436)</td>
</tr>
<tr>
<td>Change in prepaid expenses</td>
<td>(37,230)</td>
<td>(4,292)</td>
</tr>
<tr>
<td><strong>Increase (decrease) in net financial assets</strong></td>
<td>91,071</td>
<td>(622,728)</td>
</tr>
<tr>
<td><strong>Net financial assets - Beginning of year</strong></td>
<td>4,937,440</td>
<td>5,560,168</td>
</tr>
<tr>
<td><strong>Net financial assets - End of year</strong></td>
<td>5,028,511</td>
<td>4,937,440</td>
</tr>
</tbody>
</table>
Innovation PEI  
Consolidated Statement of Cash Flows  
For the year ended March 31, 2016

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td><strong>Cash provided by (used in)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual deficit</td>
<td>(369)</td>
<td>-</td>
</tr>
<tr>
<td>Items not affecting cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization - property holdings</td>
<td>143,738</td>
<td>120,009</td>
</tr>
<tr>
<td><strong>Net change in non-cash working capital items</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease (increase) in accounts receivable</td>
<td>54,588</td>
<td>(625,387)</td>
</tr>
<tr>
<td>Increase in prepaid expenses and deposits</td>
<td>(37,230)</td>
<td>(4,292)</td>
</tr>
<tr>
<td>Increase in accounts payable and accrued liabilities</td>
<td>4,432,034</td>
<td>1,624,909</td>
</tr>
<tr>
<td><strong>Financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease (increase) in due from Province of Prince Edward Island</td>
<td>(6,356,799)</td>
<td>624,427</td>
</tr>
<tr>
<td>Decrease (increase) in advances to related companies</td>
<td>164,034</td>
<td>(1,069,479)</td>
</tr>
<tr>
<td><strong>Investing activity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions to and purchase of property holdings</td>
<td>(15,068)</td>
<td>(738,445)</td>
</tr>
<tr>
<td><strong>Decrease in cash</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1,615,072)</td>
<td>(68,258)</td>
</tr>
<tr>
<td><strong>Cash and short-term investments (bank advances) - Beginning of year</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(67,357)</td>
<td>901</td>
</tr>
<tr>
<td><strong>Bank advances - End of year</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1,682,429)</td>
<td>(67,357)</td>
</tr>
</tbody>
</table>

(6)
Innovation PEI (the "Corporation") is a Crown corporation established under the Innovation PEI Act. Its 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 Standards 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 subsidiary, F.T.C. Enterprises Limited (operating as Bio/Food/Tech).

(b) Financial instruments

The Corporation's financial instruments consists of cash, accounts receivable, advances to related companies, due from Province of Prince Edward Island and accounts payable and accrued liabilities.

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

(c) Cash

Cash is comprised of cash on hand, cash in banks and savings accounts.

(d) Accounts receivable

Accounts receivable arise from trade sales, staff advances 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) Due from the Province of Prince Edward Island

The amount due from the Province of Prince Edward Island is the funding to be received for operating grants and other approved reimbursements.

(f) Programs assistance payable

Program assistance is expensed as development program expenditures and included in accrued liabilities when approved by the Corporation and accepted by the client except for Federal-Provincial cost shared programs and provincially-funded assistance requiring future performance criteria, which are expensed based on eligible claims.
P.E.I. labour rebate, enriched investment tax credits, specialized labour rebate and share purchase tax credit commitments that extend beyond two years are expensed in each year that performance criteria are met by the applicant.

(g) Property holdings and amortization

i) Property holdings

Property holdings are stated at cost and amortized using the straight-line method at the following annual rates:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>5%, 20%</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>10%, 20%</td>
<td></td>
</tr>
</tbody>
</table>

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

(i) 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.

(j) Employee pension plan

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 at March 31, 2016. The employer contributions to the pension for the year totaled $263,352 (2015 - $243,856).

(k) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated at the average monthly exchange rate.

Exchange differences are recognized into income in the period in which they arise.

(l) Revenue recognition and deferred revenue

Grants from the Province of Prince Edward Island are recorded in the period authorized by the Province.

Revenue for product royalties is recorded when received.

Innovation PEI's subsidiary follows 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 statement of financial position date. Unearned revenue is recorded as deferred revenue.
(m) **Government assistance**

The company receives assistance from other government entities. The company recognizes this assistance as revenue in the period when the transfer is authorized and all eligibility criteria and/or stipulations, if any, are met. The company received nil (2015 - $499,500) in assistance from Atlantic Canada Opportunities Agency. The company also received $389,000 (2015 - $175,000) in technical support and workshop funding from National Research Council aimed at improved productivity and competitiveness. This amount is included in project recoveries.

(n) **Government transfers**

Government transfers are the transfer of assets from government that are not the result of an exchange transaction, are not expected to be repaid in the future, and are not 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, eligibility criteria have been met and reasonable estimates on the amounts can be determined.

(o) **Management estimates**

The presentation of financial statements in conformity with Canadian public sector accounting 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 reported period. Actual results could differ from those estimates. The following are areas in which management makes significant accounting estimates:

- 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;
- The recognized amounts of liabilities depend on management's assessment of future costs and the probability these events will occur; and
- The revenue recognized from long term projects under the percentage of completion method is based on an assessment of each project based on costs incurred with regard to estimated overall costs of the project.

2 **Accounts receivable**

The accounts receivable have been reduced by an allowance for possible losses of $104,343 (2015 - $49,993).
3 Trust funds

On May 31, 2015, Innovation PEI entered into an agreement with McCain Foods (Canada), a division of McCain Foods Limited, on behalf of the government of Prince Edward Island to manage the "Adjustment Fund" that has been established to assist the Albany/Borden-Carleton area with mitigating lost employment and economic impacts resulting from the closure of the McCain processing facility in Albany/Borden-Carleton.

As a result, Innovation PEI has received $2,000,000 which will be disbursed to approved projects in accordance with the provisions of the agreement. Any unused portion of this fund that has not been committed to an approved project by May 13, 2018 will be returned by Innovation PEI to McCain Foods within three months after the expiration of the Term.

4 Commitments

(a) F.T.C. Enterprises Limited has entered into a twenty-five year lease expiring November 2038 with the University of Prince Edward Island for the 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.

(b) Innovation PEI has committed to disbursing as development program expenses $42,370,135 (2015 - $36,299,699) for P.E.I. labour rebate program assistance, $8,810,202 (2015 - $9,546,478) for enriched investment tax credits, $117,024 (2015 - $134,519) for specialized labour rebate and $183,026 (2015 - $325,895) for share purchase tax credit over the next four years as companies meet the required requirements.

In accordance with accounting policy, note 1f), program assistance for the labour rebate, enriched investment tax credit, specialized labour rebate program and specialized labour rebate expenses are expensed based on eligible claims.
5 Related party transactions

Related companies

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

Statement of Financial Position

Advances to related companies

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Advances to (from) related companies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance PEI</td>
<td>11,056,889</td>
<td>11,127,584</td>
</tr>
<tr>
<td>Island Investment Development Inc.</td>
<td>343,473</td>
<td>438,734</td>
</tr>
<tr>
<td>P.E.I. Biocommons Inc.</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>Atlantic Technology Centre Inc.</td>
<td>73,889</td>
<td>71,967</td>
</tr>
<tr>
<td>100417 P.E.I. Inc.</td>
<td>(100)</td>
<td>(100)</td>
</tr>
<tr>
<td></td>
<td>11,474,231</td>
<td>11,638,265</td>
</tr>
</tbody>
</table>

Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities is $62,557 (2015 - $26,416) payable to the Province of Prince Edward Island and $34,888 (2015 - $5,052) payable to the Provincial Crown corporations.

F.T.C. Enterprises Limited's property and liability insurance coverage is provided by Finance PEI, a related party. As at March 31, 2015, $13,390 (2015 - $18,465) has been recognized as prepaid insurance and is included in accounts payable and accrued liabilities.

Contributed surplus

F.T.C. Enterprises Limited received a cumulative total of $366,039 in funds from the Province of Prince Edward Island through Innovation PEI that have been accounted for as contributed surplus. This contribution has not been eliminated on consolidation.

Statement of Operations

Revenue

Included in revenue are grants from the Province of Prince Edward Island of $33,294,400 (2015 - $23,960,200).

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

b) The company has provided a loan guarantee for $25,000 to Atlantic Canada Opportunities Agency (ACOA) on behalf of a third party, in the event of a default by the borrower. No provision has accrued in the financial statements as the likelihood of this liability is not reasonably determinable at this time.

7 Financial risk management objectives and policies

Innovation 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 management, which approves risk management policies, delegates’ limits and regularly reviews management’s risk assessments and compliance with approved policies. Qualified professionals throughout Innovation 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 Corporation if a customer or counterparty of a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the company’s accounts receivable, advances to related companies and due from the Province of Prince Edward Island.

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

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td>1,041,641</td>
</tr>
<tr>
<td>Advances to related companies</td>
<td>11,474,231</td>
</tr>
<tr>
<td>Due from Province of Prince Edward Island</td>
<td>24,070,811</td>
</tr>
<tr>
<td></td>
<td>36,586,683</td>
</tr>
</tbody>
</table>
(b) Liquidity risk

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

The Corporation's financial liabilities of $31,558,172 are expected to be repaid within one year.

(c) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Corporation’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 Corporation’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.

(d) Capital management

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

Consolidated Schedule of Property Holdings
As at and for the year ended March 31, 2016

<table>
<thead>
<tr>
<th>Schedule</th>
<th>Cost</th>
<th>Accumulated amortization</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beginning $</td>
<td>Additions $</td>
<td>Disposals/ Transfers $</td>
</tr>
<tr>
<td>General</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>7,538,937</td>
<td>9,438</td>
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</tr>
<tr>
<td>Buildings</td>
<td>4,451,845</td>
<td>5,630</td>
<td>-</td>
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<tr>
<td></td>
<td>11,990,782</td>
<td>15,068</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Schedule</th>
<th>Cost</th>
<th>Accumulated amortization</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beginning $</td>
<td>Additions $</td>
<td>Disposals/ Transfers $</td>
</tr>
<tr>
<td>General</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>6,800,492</td>
<td>738,445</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>11,252,337</td>
<td>738,445</td>
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