



2018-2019 Annual Report



financepei

94 Euston Street | Charlottetown, PE | <http://financepei.ca>



Matthew MacKay was elected to the Prince Edward Island Legislature on April 23, 2019 as the representative for District 20, Kensington – Malpeque. He was sworn in as Minister of Economic Growth, Tourism and Culture on May 9, 2019.

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Message from the Minister

September 30, 2019

The Honourable Antoinette Perry

Lieutenant Governor of Prince Edward Island

May It Please Your Honour:

Pursuant to the Annual Reporting Framework of the Financial Administration Act governing Crown Corporations requiring the Annual Report to be issued by September 30, I am pleased to present to you the Annual Report of Finance PEI for the fiscal year ending March 31, 2019.

Sincerely yours,

Hon. Matthew MacKay

Minister of Economic Growth, Tourism and Culture

Message from the Chairperson

September 17, 2019

The Honourable Matthew MacKay

*Minister of Economic Growth, Tourism and Culture
Province of Prince Edward Island*

Dear Minister:

I take pleasure in presenting you with the Annual Report for the fiscal year ending March 31, 2019.

This Annual Report is being presented pursuant to the Finance PEI Act.

Sincerely yours,



Cora Lee Dunbar

Chairperson, Board of Directors - Finance PEI

Message from the CEO

September 17, 2019

The Honourable Matthew MacKay

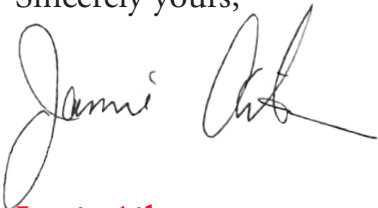
*Minister of Economic Growth, Tourism and Culture
Province of Prince Edward Island*

Dear Minister:

I present to you the Annual Report for the fiscal year ending March 31, 2019.

The Annual Report is being presented pursuant to the Finance PEI Act.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Jamie Aiken". The signature is fluid and cursive, with a large initial "J" and "A".

Jamie Aiken

Chief Executive Officer - Finance PEI

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Executive Summary

Finance PEI (FPEI) is a crown corporation under the Ministry of Economic Growth, Tourism and Culture.* Finance PEI administers business financing programs for the provincial government. FPEI was created to consolidate the government's financing and strategic infrastructure services for the province of Prince Edward Island.

FPEI, along with its subsidiary companies, is the leading financing and strategic infrastructure division for the province of Prince Edward Island.

FPEI consists of three divisions including:

- Commercial and Resource Lending,
- Developmental Lending, and
- Strategic Initiatives and Properties.

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

- Small Business
- Manufacturing and Processing
- Information Technology
- Bioscience
- Aerospace
- Renewable Energy
- Agriculture
- Fisheries / Aquaculture
- Tourism

The priority sectors for financing in FPEI include *Small Business, Manufacturing and Processing, Information Technology, Agriculture, Fisheries and Aquaculture, and Tourism*. FPEI's priorities include businesses involved in exporting to domestic and international markets, import replacement, and value-added processing. Small and medium sized businesses are the key generators that drive PEI's economy and access to financial capital is critical for those businesses to prosper and grow to their full potential.

During 2018/19, FPEI supported over 1,000 loans across PEI with a loan portfolio of approximately \$203.4M.

FPEI also administers specific programs including: *the Farmland Financing Program, the Cattle Loan Program, the Fishers Low Interest Loan Program, the Micro-Loan Program, the Entrepreneur Loan Program, the Century 2000 Fund, and the Winter Production Financing Program* which is now part of *the Micro-Loan Program*. Two new loan programs were also started in the year: the Down Payment Assistance Program and the Energy Efficiency Loan Program.

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

*Effective May 9, 2019, the Department of Economic Development and Tourism became the Department of Economic Growth, Tourism and Culture.

Résumé

Finances Î.-P.-É. est une société de la Couronne qui relève du ministère de la Croissance économique, du Tourisme et de la Culture*. Finances Î.-P.-É. administre des programmes de financement d'entreprises pour le gouvernement provincial. La société a été créée afin de regrouper les services gouvernementaux de financement et d'infrastructure stratégique pour la province de l'Île-du-Prince-Édouard.

Finances Î.-P.-É., en plus de ses filiales, est l'unité principale de financement et d'infrastructure stratégique de la province.

La société est répartie en trois divisions :

- Prêts commerciaux et de ressources,
- Prêts au développement et
- Initiatives stratégiques et propriétés.

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

- Petite entreprise
- Fabrication et transformation
- Technologie de l'information
- Sciences biologiques
- Aérospatiale
- Énergie renouvelable
- Agriculture
- Pêches et aquaculture
- Tourisme

Les secteurs prioritaires de financement de Finances Î.-P.-É. sont les suivantes : petites entreprises, fabrication et transformation, technologie de l'information, agriculture, pêches et aquaculture et tourisme. La société cible les fabricants, les transformateurs et les fournisseurs de services, plus particulièrement les entreprises qui s'intéressent à l'exportation vers les marchés nationaux et internationaux, au remplacement des importations et à la transformation à valeur ajoutée. Les petites et moyennes entreprises sont des moteurs clés qui stimulent l'économie de l'Île-du-Prince-Édouard, et l'accès au capital financier est essentiel pour qu'elles puissent prendre de l'expansion et atteindre leur plein potentiel.

En 2018-2019, Finances Î.-P.-É. a appuyé plus de 1 000 prêts, ce qui équivaut à un portfolio de prêt d'environ 203,4 millions de dollars.

Finances Î.-P.-É. administre également des programmes précis, y compris le Programme de financement des terres agricoles, le Programme de prêts pour les éleveurs de bovins, le Programme de prêts à faible intérêt pour les pêcheurs, le Programme de microprêts, le Programme de prêts à l'entrepreneuriat, le Fonds Century 2000 et le Programme de financement pour la production hivernale, qui fait maintenant partie du Programme de microprêts. Deux nouveaux programmes de prêts ont été créés au cours de la dernière année, soit le Programme d'aide à la mise de fonds et le Programme de prêts pour l'efficacité énergétique.

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

* Le 9 mai 2019, le ministère du Développement économique et du Tourisme est devenu le ministère de la Croissance économique, du Tourisme et de la Culture.

Overview

Finance PEI (FPEI) is a crown corporation under the *Economic Growth, Tourism and Culture Ministry*. FPEI, along with its subsidiary companies, is the leading financing and strategic infrastructure division for the Province of Prince Edward Island (PEI).

The directives of FPEI include: *to source, manage and supply financial capital for strategic business opportunities; balance risk with economic return; work collaboratively with traditional finance institutions and government agencies; and operate as a professional lender.*

Legislative Responsibility

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

Objectives

FPEI operates under the following mandated objectives:

- **To provide leadership in the support and implementation of the government's development strategy;**
- **To operate as a responsible, professional lender providing prudent and necessary assistance to firms and individuals pursuing the economic development objectives of government;**
- **To provide loans and credit assistance to PEI enterprises to maintain or expand development activity on PEI;**
- **To provide loans and credit assistance to sectors of the PEI economy identified by the government as being of strategic importance for economic development;**

- **To assist in the planning and implementation of economic development projects sponsored by the government; and**
- **To provide such financial counseling assistance as may be required to borrowers from the Corporation to ensure repayment terms are fulfilled.**

Mission Statement of Finance PEI

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

Commercial and Resource Lending Division

Provides financial assistance through loan agreements in support of economic development to support enterprises that demonstrate reasonable viability; and are maintaining or expanding economic development.

Developmental Lending Division

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

Strategic Initiatives and Properties Division

Promotes the establishment of new business opportunities and encourages the expansion of existing businesses through the provision of readily accessible infrastructure.

Year in Review | Financing Portfolio

FPEI provides both term and working capital loans to eligible borrowers in the following sectors: *small business; agriculture; tourism; manufacturing and processing; aerospace; bioscience; information technology; and, fisheries and aquaculture.*

FPEI supported over 1,000 loans in 2018/19 allowing businesses to grow and prosper. Many sectors experienced significant economic growth. Some of the PEI economic indicators noted international exports were at \$1.38 billion in 2018, manufacturing shipments experienced an 8.2% growth and farm cash receipts totaled \$496.0M.

The Seafood industry in PEI, fisheries and aquaculture, represents 3% of our GDP and contributes significantly to our economy. We are more reliant on the fishery than any other province in Canada. FPEI supports 671 fishing loans with a portfolio valued at \$94.7M.

Some of the key highlights of the fisheries include:

- **The total value of fish landings decreased to \$295M in 2018 following an all-time high in 2017 (lobster landings of 39M lbs valued at \$201M).**
- **Molluscs and crustaceans continue to be the top species of the Island fishery comprising 95.3% of the total value of all fish landings.**
- **International exports increased 5.0% in 2018 to reach \$1.38 billion, a new all-time high.**
- **The top four seafood species fished and harvested on the Island are lobster, mussels, snow crab and oysters.**

We are proud to support a diverse range of businesses across PEI. Companies that we

support help communities prosper, with approximately 68% of our loans classified as rural PEI assistance.

The following analysis provides a detailed look at the portfolios and includes information and statistics for the Commercial and Resource Lending Division and the Developmental Lending Division combined.



Agriculture

The agriculture portfolio supported 108 agriculture loans representing a variety of farming operations including dairy, beef, poultry, cultivated blueberries, cranberries and potatoes. As of March 31, 2019, outstanding loans in the agriculture portfolio were approximately \$31M, an increase of approximately \$2.5M over last year. Loans are available for the purchase of farm lands and buildings, livestock, farm equipment, storage facilities, construction and repairs to barns and land improvements.

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

In April 2015 FPEI launched the Cattle Feeder Program for eligible farmers to

stimulate economic growth and expansion of the beef industry. This program supports the breeding and raising of animals destined for the Atlantic Beef Plant. In 2018-19, seven farmers participated in the program with loans outstanding of \$188,000.

The Agriculture sector had another strong year with farm cash receipts totaling \$496.0 M, which was a slight decrease of 2.0% compared to the same period in 2017. This compares to an increase of 0.1% for Canada as a whole. Direct payments to farmers saw an increase of 35.1%.

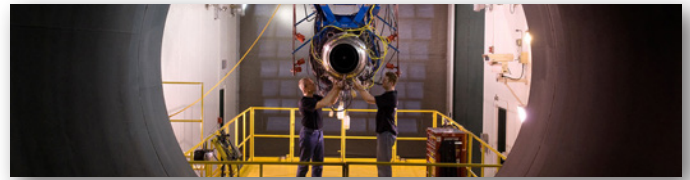


Fisheries and Aquaculture

The fisheries and aquaculture sector remains the largest sector of Finance PEI's lending portfolio.

The majority of the 671 loans offered in this program in 2018-19 represent the three major fisheries in Prince Edward Island: lobster, mussels, and oysters.

The total loan portfolio for fisheries and aquaculture was approximately \$94.7M in 2018/19, representing an increase of 7.1% over last year. In addition to the growth in the portfolio, the client base increased by 64 clients. FPEI is diligent and works closely with clients to develop effective plans that ensures repayment is achieved.



Manufacturing and Processing

FPEI provides both term financing for fixed asset acquisitions and operating capital to finance the accounts receivable and inventory for manufacturing and processing clients. In 2018/19, this portfolio had 66 loans with a total portfolio of approximately \$29.1M. This portfolio is quite diverse including businesses involved in furniture, fixture and equipment manufacturing, food and wood processing, fruit processing, as well as metal and machine fabricating.

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

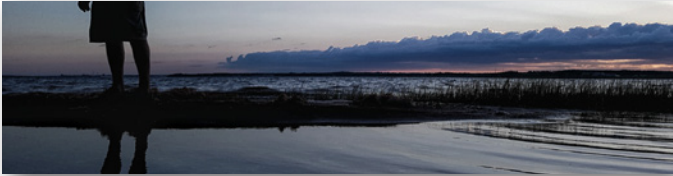
Manufacturing shipments have increased by 8.2% in 2018, which set an all time high at \$1.954 billion. Manufacturing shipments have increased every year since 2010.



Small Business

The small business program is designed to meet the special needs of local business owners for purposes such as business purchase and/or acquisition, expansion, debt consolidation, and new construction.

This loan portfolio contains 98 loans with approximately \$31M in loans outstanding, an increase of approximately \$7.5M over last year.

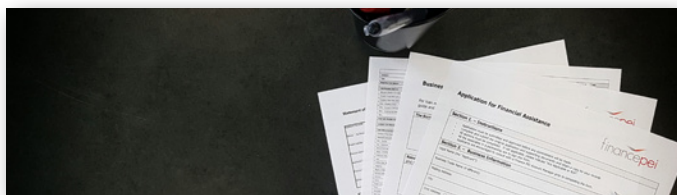


Tourism

FPEI provides capital financing to clients in this sector for the acquisition, renovation and expansion of tourism related businesses. The existing portfolio is made up primarily of loans for fixed roof accommodations (motels/cottage operations) and campgrounds. This portfolio supports 47 loans, with approximately \$19M in loans outstanding.

Projects to expand the shoulder tourist season and the development of integrated recreational complexes are encouraged. Loans may be granted for accommodation units which are converted to other uses during the off-season period.

Tourism has remained positive on the island this year. For the second year in a row, the total overnight stays in PEI exceeded 1 million stays.



Examples of categories eligible for this new financing program are: trades, qualification recognition, small-scale food production, business start-up, and winter production financing.

Loan Write-Offs

Government lending provides important support to island businesses as we expand, develop new products, and grow our economy. At the same time, good government means ensuring Islanders are kept informed of these investments and any change in status. As part of our ongoing commitment to enhance transparency, FPEI is publishing loan write-offs within annual reports. At the end of 2018/19 the loan portfolio was \$203,318,087 with \$1,337,875 loans written off during the year. This represents less than 0.66% of the portfolio.

Entrepreneur Loan

The Entrepreneur Loan Program that was launched in 2013 is an initiative of the Province of Prince Edward Island designed to help increase the availability of financing for the purpose of helping new businesses get started and established firms make improvements and expand. More specifically, the Program is designed to assist small businesses throughout the Province by providing entrepreneurs with up to \$100,000 in financing for business ventures with solid business plans and markets. The program supported 40 entrepreneurs in 2018/19 with a portfolio totaling \$886,000.

Micro-Loan Program

In March 2016, the Micro-Loan Program was implemented to support entrepreneurship on Prince Edward Island. The initiative helps assist entrepreneurs with financing and working capital requirements with FPEI providing loans up to a maximum of \$15,000 per applicant for new and expanding businesses to further respond to the needs of local entrepreneurs. The program supported 36 entrepreneurs with loans of \$283,000.

Down Payment Assistance Program

Under the Province's "Housing Action Plan" issued in July 2018, Finance PEI was tasked with developing and implementing a pilot program to assist Prince Edward Islander's with modest incomes, who pre-qualify for an insured mortgage, to purchase their first home. Eligible participants can apply to receive an interest-free repayable loan of up to 5% of the purchase price of a home, to a maximum loan of \$11,250. The Down Payment Assistance Program (DPAP) launched in October 2018 and supported 25 first-time homebuyers with loans totaling \$178,000. This represents \$3.5M of housing purchased by these new homeowners during 2018/19.

Energy Efficiency Loan Program

In November 2018, the Energy Efficiency Loan Program (EELP) was launched to provide funding to PEI homeowners who were approved applicants under either of efficiencyPEI's Energy Efficiency Equipment Rebate or Home Insulation Rebate programs. This program assists with the up-front costs associated with the purchase and installation of products and/or building envelope upgrades that will improve the energy efficiency of the homeowners' existing primary year-round residence. Between November 2018 and March 2019, the program supported 10 households with new loans totaling \$64,000.

Year in Review | Strategic Initiatives and Properties



The Strategic Initiatives and Properties Division is responsible for all real estate held by Finance PEI and its subsidiary companies. The portfolio includes properties, land and business parks as well as the agency's corporate offices located at 94 Euston Street in Charlottetown. In addition to corporate offices, the properties include:

- **Atlantic Technology Centre in Charlottetown**
- **BioCommons Research Park in West Royalty**
- **Fabrication Yard in Borden-Carleton**
- **Gateway Village Business Park in Borden-Carleton**
- **Slemon Park in Summerside**
- **Souris Food Park in Souris**
- **West Prince Business Park in Bloomfield**
- **Summerside Business Park**
- **West Royalty Business Park**
- **Bloomfield Business Park**
- **Georgetown (341 Georgetown Rd)**

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

Appendix A | Board of Directors

Cora Lee Dunbar | Chairperson

General and Small Business

David Keedwell*

Deputy Minister | *Department of Economic Development and Tourism*

Dan Campbell*

Secretary | *Treasury Board*

Jamie Aiken

CEO | *Finance PEI (non-voting member)*

Brian Annear

Tourism

Muncey Harris

Agriculture

Harold Publicover

Fisheries

Ricky Sanderson

Agriculture

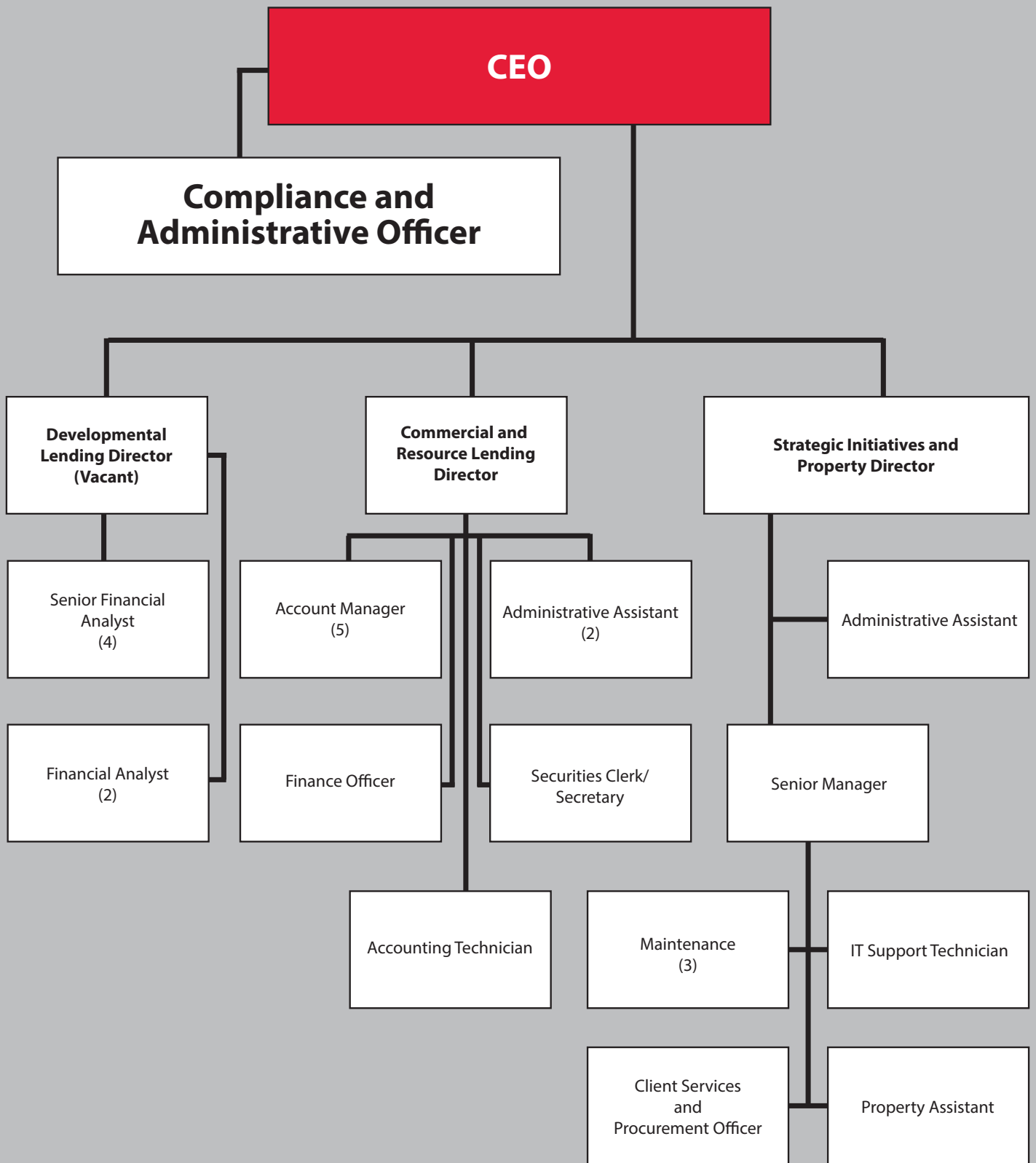
Laird King

Agriculture

* On May 9, 2019, changes were made to senior management. On the board, David Keedwell was replaced with Erin McGrath-Gaudet and Dan Campbell was replaced with Cindy Harris.

** Gordon MacInnis, John Sullivan and Donald Godfrey's terms as board members expired December 31, 2018.

Appendix B | Organizational Chart



Appendix C | Audited Financial Statements

Finance PEI

Consolidated Financial Statements
March 31, 2019

Management's Report

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

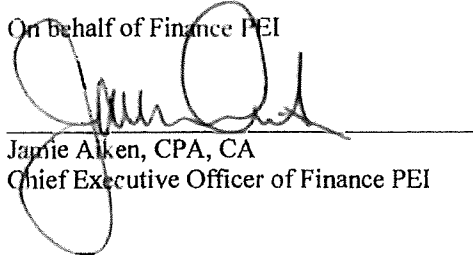
The consolidated financial statements are prepared by management in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. A summary of the significant accounting policies is disclosed in note 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 Finance PEI on matters of financial reporting and internal controls. Management provides the Board with internal consolidated financial statements on a monthly basis and externally audited consolidated 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 Corporation. 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 Finance PEI



Jamie Aiken, CPA, CA
Chief Executive Officer of Finance PEI

Member of The AC Group of Independent Accounting Firms

June 13, 2019

Independent Auditor's Report

To the Board of Directors of Finance PEI

Opinion

We have audited the accompanying consolidated financial statements of Finance PEI, which comprise the consolidated statement of financial position as at March 31, 2019, and the consolidated statements of operations, accumulated surplus, changes in net financial assets (debt) and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Finance PEI as at March 31, 2019, and the consolidated results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of Finance PEI in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing Finance PEI's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Finance PEI or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Finance PEI's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Finance PEI's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Finance PEI's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Finance PEI to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Arsenault Best Cameron Ellis

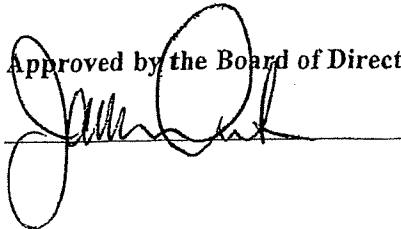
Chartered Professional Accountants

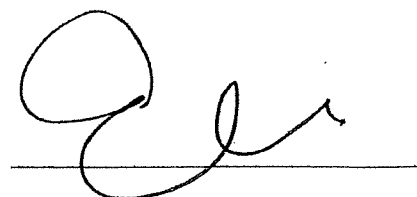
Finance PEI

Consolidated Statement of Financial Position
As at March 31, 2019

	2019	2018
	\$	\$
Assets		
Financial assets		
Cash	2,290,792	1,346,939
Accounts receivable (notes 2 and 11)	725,447	674,354
Loans receivable (notes 3 and 11)	177,145,723	170,262,680
Advances to related companies (note 11)	39,292	163,150
Due from the Province of Prince Edward Island (note 11)	11,163,650	11,163,650
Investment in private companies (note 4)	139,813	120,001
	<u>191,504,717</u>	<u>183,730,774</u>
Liabilities		
Accounts payable and accrued liabilities (note 11)	1,744,307	1,586,738
Deferred revenue	1,270,821	1,262,893
Advances from related companies (note 11)	14,830,066	14,578,417
Short-term notes payable (note 5)	12,195,122	19,695,142
Long-term debt (note 6)	152,840,920	148,767,362
	<u>182,881,236</u>	<u>185,890,552</u>
Net financial assets (debt)	<u>8,623,481</u>	<u>(2,159,778)</u>
Contingent liabilities (note 9)		
Non-financial assets		
Prepaid expenses	86,134	111,348
Net investment in lease (note 7)	620,249	646,053
Foreclosed properties (note 8)	277,902	312,727
Property holdings (notes 6 and 11) (Schedule 2)	28,811,242	30,486,228
	<u>29,795,527</u>	<u>31,556,356</u>
Accumulated surplus	<u>38,419,008</u>	<u>29,396,578</u>

Approved by the Board of Directors


Director


Director

(3)

Finance PEI

Consolidated Statement of Accumulated Surplus
For the year ended March 31, 2019

	2019	2018
	\$	\$
Accumulated surplus - Beginning of year	29,396,578	26,253,017
Operating surplus	9,022,430	3,143,561
Accumulated surplus - End of year	<u>38,419,008</u>	<u>29,396,578</u>

Finance PEI

Consolidated Statement of Operations
For the year ended March 31, 2019

	Budget (Unaudited) \$	Actual 2019 \$	Actual 2018 \$
Revenue			
Interest from borrowers	9,250,000	9,576,461	9,133,100
Interest from deposits	130,000	29,116	32,166
Property operations (note 11)	4,275,000	4,381,243	4,298,621
Post-receivership income	-	13,282	1,390
Management fees (note 11)	500,000	500,000	500,000
Gain on sale of property holdings	-	366,135	-
Miscellaneous	25,000	241,899	126,697
	<u>14,180,000</u>	<u>15,108,136</u>	<u>14,091,974</u>
Expenses (notes 6 and 11) (Schedule 1)			
Administration (note 1)	640,700	817,502	665,095
Lending operations	4,894,000	5,613,242	5,030,579
Property operations (note 1)	4,789,500	5,014,089	5,262,960
Provision for (recovery of) possible losses	1,400,000	(5,359,127)	(10,221)
	<u>11,724,200</u>	<u>6,085,706</u>	<u>10,948,413</u>
Operating surplus	<u>2,455,800</u>	<u>9,022,430</u>	<u>3,143,561</u>

Finance PEI

Consolidated Statement of Changes in Net Financial Assets (Debt) For the year ended March 31, 2019

	2019	2018
	\$	\$
Annual surplus	9,022,430	3,143,561
Acquisition of property holdings	(868,520)	(4,027,989)
Amortization of property holdings	1,496,041	1,360,794
Loss (gain) on disposal of property holdings	(366,135)	31,380
Proceeds on disposal of property holdings	1,413,600	1,352,802
Transfer to foreclosed properties	-	(2,064,881)
Transfer of provision to foreclosed properties	-	2,129,795
Payments received on foreclosed properties	-	313,171
Increase (decrease) in provision on foreclosed properties	44,800	(90,552)
Additions to foreclosed properties	(9,975)	-
	1,709,811	(995,480)
Decrease (increase) in prepaid expenses	25,214	(1,998)
Decrease in net investment in lease	25,804	24,843
	1,760,829	(972,635)
Decrease in net debt	10,783,259	2,170,926
Net debt - Beginning of year	(2,159,778)	(4,330,704)
Net financial assets (debt) - End of year	8,623,481	(2,159,778)

Finance PEI

Consolidated Statement of Cash Flows For the year ended March 31, 2019

	2019	2018
	\$	\$
Cash provided by (used in)		
Operating activities		
Operating surplus	9,022,430	3,143,561
Items not affecting cash		
Amortization	1,496,041	1,360,794
Change in net investment in lease	25,804	24,843
Recovery of possible losses	(5,359,127)	(10,221)
Loss (gain) on disposal of property holdings	(366,135)	31,380
	<u>4,819,013</u>	<u>4,550,357</u>
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable	(117,278)	257,911
Decrease (increase) in prepaid expenses	25,214	(1,998)
Increase in accounts payable and accrued liabilities	157,569	2,440
Increase (decrease) in deferred revenue	7,928	(3,343)
	<u>4,892,446</u>	<u>4,805,367</u>
Financing activities		
Increase in advances from related companies	251,649	669,203
Repayment of short-term notes payable	(7,500,020)	(863,476)
Increase in long-term debt	25,600,000	16,200,000
Repayment on long-term debt	(21,526,442)	(14,101,712)
	<u>(3,174,813)</u>	<u>1,904,015</u>
Investing activities		
Increase in loans receivable	(1,632,743)	(3,889,545)
Decrease (increase) in advances to related companies	123,858	(123,858)
Additions to and purchases of property holdings	(868,520)	(4,027,989)
Reductions and proceeds on disposal of property holdings	1,413,600	1,352,802
Additions to foreclosed properties	(9,975)	(2,064,881)
Payments received on investment in private companies	200,000	-
Payments received on foreclosed properties	-	313,171
Decrease in foreclosed properties	-	2,039,243
	<u>(773,780)</u>	<u>(6,401,057)</u>
Change in cash	943,853	308,325
Cash - Beginning of year	1,346,939	1,038,614
Cash - End of year	<u>2,290,792</u>	<u>1,346,939</u>

Finance PEI

Notes to Consolidated Financial Statements
March 31, 2019

1 Summary of significant accounting policies

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

a) General

These consolidated financial statements include the accounts of the wholly-owned subsidiaries, Atlantic Technology Centre Inc., P.E.I. Infrastructure Inc. and 100417 P.E.I. Inc., all having March 31, 2019 year ends.

b) Financial instruments

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

c) Cash

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

d) Accounts receivable

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

e) Loans receivable

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

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

f) Due from Province of Prince Edward Island

The amount due from Province of Prince Edward Island is funding receivable related to the allowance for possible credit losses.

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2019

g) Investments in private companies

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

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

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

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

h) Property holdings, foreclosed properties and amortization

i) Property holdings

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

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

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

Included in property operations expense is amortization of \$1,427,696 (2018 - \$1,292,996). Included in administration expenses is amortization of \$68,345 (2018 - \$67,798).

ii) Foreclosed properties

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

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

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2019

iii) Fair value

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

i) Net investment in lease

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

j) Allowance for possible losses

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

The allowance consists of specific and general provisions.

Specific provisions include the accumulated allowances for losses on particular assets required to reduce the book values to estimated realizable amounts. Specific provisions for loans receivable, accounts receivable, investments in private companies and foreclosed properties total \$18,318,008 (2018 - \$25,625,322).

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

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

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

A general provision of \$13,881,263 (2018 - \$13,239,608) includes accumulated allowances for losses which are prudential in nature and are not specifically identified. The general provision is based on past performance of similar assets, the level of the specific provision, management's judgment, the economic climate and the maturity and financial strength of the investee.

k) Employee pension plan

The Corporation's staff are members of the Province of Prince Edward Island pension plan. The pension plan obligation is a liability of the Province and not Finance PEI and no liability for these costs has been accrued by the Corporation at March 31, 2019.

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2019

l) Post retirement benefits

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

m) Deferred revenue

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

n) Revenue recognition

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

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

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

Government contributions and interest from deposits are recorded in the period earned.

o) Government transfers

Government transfers are the transfer of assets from senior levels of government that are not the result of an exchange transaction, are not expected to be repaid in the future, or the result of a direct financial return. Government transfers are recognized in the financial statements as revenue in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates on the amounts can be determined.

p) Management estimates

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

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

Finance PEI

Notes to Consolidated Financial Statements
March 31, 2019

2 Accounts receivable

	2019	2018
	\$	\$
Trade accounts receivable	909,629	911,740
HST receivable	76,978	159,891
Other	595,983	393,681
	<hr/>	<hr/>
Allowance for doubtful accounts	1,582,590	1,465,312
	(857,143)	(790,958)
	<hr/>	<hr/>
	725,447	674,354
	<hr/>	<hr/>
<i>Continuity of allowance for possible losses</i>		
Beginning of year	790,958	608,367
Add: provision recorded	66,185	182,591
	<hr/>	<hr/>
	857,143	790,958
	<hr/>	<hr/>

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2019

3 Loans receivable

				2019	2018
	Total	Allowance for possible losses General	Allowance for possible losses Specific	Net	Net
	\$	\$	\$	\$	\$
Working capital loans					
Agriculture	3,551,380	1,400,000	1,401,097	750,283	605,553
Tourism	2,076,084	133,386	-	1,942,698	2,065,321
Manufacturing and processing	2,332,312	130,318	299,801	1,902,193	1,961,487
Fisheries	1,731,737	-	-	1,731,737	1,252,750
Small business	3,311,322	237,562	635,245	2,438,515	1,662,300
	<u>13,002,835</u>	<u>1,901,266</u>	<u>2,336,143</u>	<u>8,765,426</u>	<u>7,547,411</u>
Long-term loans					
Agriculture	27,065,647	3,389,615	3,755,886	19,920,146	17,927,187
Tourism	16,576,785	386,000	404,348	15,786,437	21,205,817
Manufacturing and processing	26,767,094	1,655,306	2,086,530	23,025,258	24,657,736
Fisheries and aquaculture	92,935,824	5,275,000	1,378,759	86,282,065	81,410,583
Small business	26,913,175	1,274,076	2,319,435	23,319,664	17,385,110
Shipbuilding/Shipping	10,000	-	10,000	-	-
Eco energy	46,727	-	-	46,727	128,836
	<u>190,315,252</u>	<u>11,979,997</u>	<u>9,954,958</u>	<u>168,380,297</u>	<u>162,715,269</u>
	<u>203,318,087</u>	<u>13,881,263</u>	<u>12,291,101</u>	<u>177,145,723</u>	<u>170,262,680</u>

Working capital loans are repayable over various terms to a maximum of 5 years with interest rates ranging from 4.45% to 7.95%.

Long-term loans are repayable over various terms to a maximum of 10 years with interest rates ranging from 4.00% to 8.11%.

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

Finance PEI

Notes to Consolidated Financial Statements
March 31, 2019

Continuity of allowance for possible losses

	2019	2018
	\$	\$
Allowance for possible losses - Beginning of year	31,422,669	34,278,736
Less: Loans written off	-	(795,067)
Add: Provision recorded during year	4,272,569	2,191,583
Less: Transferred to foreclosed properties	-	(2,129,795)
Less: Recoveries during year	(9,522,874)	(2,122,788)
	<hr/>	<hr/>
Allowance for possible losses - End of year	26,172,364	31,422,669

4 Investment in private companies

	2019	2018
	\$	\$
Investment in private companies		
Small Business and Venture Capital Equity Program investments	438,910	438,910
Less: Allowance for possible losses	(438,910)	(438,910)
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
Investment in preferred shares of private companies	382,812	482,812
Less: Allowance for possible losses	(242,999)	(362,811)
	<hr/>	<hr/>
	139,813	120,001
	<hr/>	<hr/>
	139,813	120,001

Continuity of allowance for possible losses

	2019	2018
	\$	\$
Allowance for possible losses - Beginning of year	801,721	891,721
Less: Recovery during the year	(119,812)	(90,000)
	<hr/>	<hr/>
Allowance for possible losses - End of year	681,909	801,721

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2019

5 Short-term notes payable

	2019	2018
	\$	\$
Demand note payable to Island Investment Development Inc.	6,998,482	6,998,502
Demand notes payable to Province of Prince Edward Island	5,196,640	12,696,640
	<u>12,195,122</u>	<u>19,695,142</u>

The demand notes payable to Island Investment Development Inc. includes a \$15,000,000 available operating line of credit with an outstanding balance at March 31, 2019 of \$6,998,482 (2018 - \$6,998,502).

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

Interest paid by Finance PEI is included in the expenditure category to which it relates. Included is interest for 2019 in the amount of \$352,136 (2018 - \$214,528).

Demand notes payable are issued by the Province of Prince Edward Island and Island Investment Development Inc. 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.

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2019

6 Long-term debt

	2019	2018
	\$	\$
4.00% note payable to Island Investment Development Inc., no specific repayment terms	556,846	556,846
4.00% note payable to Island Investment Development Inc., no specific repayment terms	1,430,499	1,430,499
4.00% note payable to Island Investment Development Inc., due April 2018, repayable \$8,165 monthly including principal and interest	1,034,945	1,089,478
6.01% note payable, due December 2024, repayable \$88,025 monthly including principal and interest	5,135,014	5,862,874
5.54% note payable, due December 2024, repayable \$7,969 monthly including principal and interest	470,797	538,614
3.46% note payable to Province of Prince Edward Island, due March 31, 2031, repayable in \$32,366 quarterly payments including principal and interest	1,270,653	1,350,806
3.23% note payable to Province of Prince Edward Island, due June 1, 2032, repayable in \$342,453 annual payments including principal and interest	3,808,411	4,020,986
2.31% note payable to Province of Prince Edward Island, due August 22, 2032, repayable in \$260,127 quarterly payments including principal and interest	3,488,785	4,435,002
3.03% note payable to Province of Prince Edward Island, due November 30, 2023, repayable in \$189,252 quarterly payments including principal and interest	3,337,261	-
Notes payable to Province of Prince Edward Island with interest rates from 1.65% to 3.45%, maturing at various dates between 2019 and 2024	<u>132,307,709</u>	<u>129,482,257</u>
	<u>152,840,920</u>	<u>148,767,362</u>

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

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

All other notes payable are unsecured.

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2019

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

	\$
Year ending March 31, 2020	17,966,766
2021	37,808,658
2022	23,650,331
2023	24,500,118
2024	43,908,291

Interest paid by Finance PEI and its subsidiaries in the amount of \$3,688,355 (2018 - \$3,570,992) is included in the expenditure category to which it relates.

7 Net investment in lease

Net investment in lease representing the purchase option receivable from a lessee, due December 2035.

The net investment in this lease is recorded at the net present value of the total lease payments using a discount rate of 3.75%, calculated as follows:

	2019	2018
	\$	\$
Total of lease payments to be received to December 2035	850,030	900,030
Less: Portion representing interest at 3.75%	<u>(229,781)</u>	<u>(253,977)</u>
Net present value of net investment in lease	<u>620,249</u>	<u>646,053</u>

8 Foreclosed properties

	2019	2018
	\$	\$
Foreclosed projects - land, buildings and equipment held for resale	4,944,409	6,312,309
Less: Allowance for possible losses	<u>(4,666,507)</u>	<u>(5,999,582)</u>
	<u>277,902</u>	<u>312,727</u>

Finance PEI

Notes to Consolidated Financial Statements
March 31, 2019

Continuity of allowance for possible losses

	2019	2018
	\$	\$
Allowance for possible losses - Beginning of year	5,999,582	3,960,339
Add: Provision recorded during the year	44,800	21,476
Add: Transferred from loans receivable	-	2,129,795
Less: Recovery during the year	-	(112,028)
Less: Write-offs during the year	(1,377,875)	-
	<hr/>	<hr/>
Allowance for possible losses - End of year	4,666,507	5,999,582

9 Contingent liabilities

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 has been ongoing since 1996.

10 Commitments

Loans approved but not disbursed at March 31, 2019 total \$6,534,022 (2018 - \$6,803,849).

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2019

11 Related party account balances and transactions

Related parties

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

Statement of Financial Position

	2019	2018
	\$	\$
Advances to related companies:		
Biocommons Development Inc.	39,292	39,292
Island Investment Development Inc.	-	123,858
	<u>39,292</u>	<u>163,150</u>
Advances from related companies:		
Innovation PEI	11,153,660	11,146,934
Island Investment Development Inc.	1,156,172	-
Prince Edward Island Century 2000 Fund Inc.	2,520,234	3,431,483
	<u>14,830,066</u>	<u>14,578,417</u>

The advances to/from related companies and due from the Province of Prince Edward Island, are non-interest bearing and have no specific terms of repayment. Innovation PEI and Island Investment Development Inc. are provincial Crown corporations. Prince Edward Island Century 2000 Fund Inc. is a subsidiary of a provincial Crown corporation. Biocommons Development Inc. is a non-profit company with a similar Board of Directors as P.E.I. Infrastructure Inc.'s Board of Directors.

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

	2019	2018
	\$	\$
Accounts receivable:		
Due from Province of Prince Edward Island	94,714	147,039
Due from related companies	200,000	-
Accounts payable and accrued liabilities:		
Due to Province of Prince Edward Island	168,513	154,437
Due to related companies	750,864	747,707

Property holdings

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

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2019

Statement of operations

Included in property operations revenue is \$553,696 (2018 - \$552,004) from related parties.

During the year, management fees of \$500,000 (2018 - \$500,000) were received from Island Investment Development Inc., a provincial Crown corporation.

Included in expenditures is \$3,408,549 (2018 - \$3,021,653) in interest paid to Province of Prince Edward Island and \$160,720 (2018 - \$196,872) in interest paid to Island Investment Development Inc., a provincial Crown corporation.

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

Other

During the prior year, a loan receivable in the amount of \$1,512,557 was transferred from Prince Edward Island Century 2000 Fund Inc. to Finance PEI at its carrying amount.

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

Slemon Park Corporation is a wholly-owned subsidiary of Island Investment Development Inc.

12 Financial risk management objectives and policies

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

(a) Credit risk

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

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

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2019

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

	2019	2018
	\$	\$
Accounts receivable	725,447	674,354
Loans receivable	177,145,723	170,262,680
Advances to related companies	39,292	163,150
Due from the Province of Prince Edward Island	11,163,650	11,163,650
Investment in subsidiaries and private company	139,813	120,001
	<u>189,213,925</u>	<u>182,383,835</u>

(i) Loans receivable

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

Credit is approved by staff and the company's Board of Directors with loans in excess of \$1 million requiring approval by Treasury Board and loans in excess of \$2.5 million requiring approval by Executive Council. The company factors the financial strength of each borrower, the security available, their position in industry and past payment history when assessing all potential loans.

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

	0 - 60 days	60 - 120 days	+120 days	Total
	\$	\$	\$	\$
As at:				
March 31, 2019	297,698	442,701	6,689,864	7,430,263
March 31, 2018	138,918	211,838	6,182,091	6,532,847

(b) Liquidity risk

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

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2019

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

	Under 1 year \$	Between 1 - 5 years \$	Over 5 years \$	2019 Total \$
Accounts payable and accrued liabilities	1,744,307	-	-	1,744,307
Advances from related companies	14,830,066	-	-	14,830,066
Short-term notes payable	12,195,122	-	-	12,195,122
Long-term debt	17,966,766	129,867,398	5,006,756	152,840,920
	<u>46,736,261</u>	<u>129,867,398</u>	<u>5,006,756</u>	<u>181,610,415</u>

	Under 1 year \$	Between 1 - 5 years \$	Over 5 years \$	2018 Total \$
Accounts payable and accrued liabilities	1,586,738	-	-	1,586,738
Advances from related companies	14,578,417	-	-	14,578,417
Short-term notes payable	19,695,142	-	-	19,695,142
Long-term debt	31,756,586	110,524,601	6,486,175	148,767,362
	<u>67,616,883</u>	<u>110,524,601</u>	<u>6,486,175</u>	<u>184,627,659</u>

(c) Market risk

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

i) Interest rate risk

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

Finance PEI

Notes to Consolidated Financial Statements

March 31, 2019

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

	Net interest income change \$	Interest expense change \$
Impact of		
1% increase in interest rates	69,369	228,296
1% decrease in interest rates	(69,369)	(228,296)

(d) Operational risk

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

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

(e) Capital management

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

Finance PEI

Consolidated Schedule of Expenses by Type
For the year ended March 31, 2019

Schedule 1

	2019						
	Salaries Benefits	Operating Goods & Services	Property Operations	Lending Operations	Interest Expense	Amortization	Total
	\$	\$	\$	\$	\$	\$	\$
Expenses							
Administration	335,170	413,987	-	-	-	68,345	817,502
Lending operations	1,299,089	-	-	311,996	4,002,157	-	5,613,242
Property operations	516,602	123,418	2,908,038	-	38,335	1,427,696	5,014,089
Provision for possible losses	-	-	16,559	(5,375,686)	-	-	(5,359,127)
	2,150,861	537,405	2,924,597	(5,063,690)	4,040,492	1,496,041	6,085,706

	2018						
	Salaries Benefits	Operating Goods & Services	Property Operations	Lending Operations	Interest Expense	Amortization	Total
	\$	\$	\$	\$	\$	\$	\$
Expenses							
Administration	250,262	346,916	-	-	119	67,798	665,095
Lending operations	1,227,585	-	-	179,968	3,623,026	-	5,030,579
Property operations	563,797	127,519	3,098,156	-	180,492	1,292,996	5,262,960
Provision for possible losses	-	-	-	(10,221)	-	-	(10,221)
	2,041,644	474,435	3,098,156	169,747	3,803,637	1,360,794	10,948,413

Finance PEI

Schedule of Property Holdings

As at and for the year ended March 31, 2019

Schedule 2

	Cost				Accumulated amortization			2019	
	Beginning \$	Additions \$	Disposals \$	Disposals/Ending \$	Beginning \$	Amortization \$	Disposals/adjustments \$	Ending \$	Net book value \$
General									
Land	981,500	-	-	981,500	-	-	-	-	981,500
Land improvements	44,765	-	-	44,765	44,765	-	-	44,765	-
Building	3,275,679	52,419	-	3,328,098	1,264,248	126,636	-	1,390,884	1,937,214
	4,301,944	52,419	-	4,354,363	1,309,013	126,636	-	1,435,649	2,918,714
Property holdings held for resale									
Land	1,584,302	120,869	-	1,705,171	-	-	-	-	1,705,171
Buildings	1,200,000	12,434	-	1,212,434	240,000	48,251	-	288,251	924,183
	2,784,302	133,303	-	2,917,605	240,000	48,251	-	288,251	2,629,354
Industrial Sites									
Land	4,104,442	52,999	(1,047,465)	3,109,976	-	-	-	-	3,109,976
Land improvements	2,789,802	-	-	2,789,802	2,745,255	5,429	-	2,750,684	39,118
Leasehold improvements	1,001,339	-	-	1,001,339	367,401	70,094	-	437,495	563,844
Building	30,296,556	539,433	-	30,835,989	10,161,681	1,217,596	-	11,379,277	19,456,712
Equipment	7,196,512	90,366	-	7,286,878	7,165,319	28,035	-	7,193,354	93,524
	45,388,651	682,798	(1,047,465)	45,023,984	20,439,656	1,321,154	-	21,760,810	23,263,174
	52,474,897	868,520	(1,047,465)	52,295,952	21,988,669	1,496,041	-	23,484,710	28,811,242

Finance PEI

Schedule of Property Holdings

As at and for the year ended March 31, 2018

Schedule 2

	Cost						Accumulated amortization			2018
	Beginning \$	Additions \$	Disposals \$	Ending \$	Beginning \$	Amortization \$	Disposals \$	Ending \$	Net book value \$	
General										
Land	981,500	-	-	981,500	-	-	-	-	981,500	
Land improvements	44,765	-	-	44,765	44,765	-	-	44,765	-	
Building	3,229,973	45,706	-	3,275,679	1,138,743	125,505	-	1,264,248	2,011,431	
	4,256,238	45,706	-	4,301,944	1,183,508	125,505	-	1,309,013	2,992,931	
Property holdings held for resale										
Land	1,584,302	-	-	1,584,302	-	-	-	-	1,584,302	
Buildings	1,200,000	-	-	1,200,000	192,000	48,000	-	240,000	960,000	
	2,784,302	-	-	2,784,302	192,000	48,000	-	240,000	2,544,302	
Industrial Sites										
Land	4,069,575	34,867	-	4,104,442	-	-	-	-	4,104,442	
Land improvements	2,789,802	-	-	2,789,802	2,739,101	6,154	-	2,745,255	44,547	
Leasehold improvements	1,001,339	-	-	1,001,339	297,307	70,094	-	367,401	633,938	
Building	26,384,487	3,912,069	-	30,296,556	9,071,609	1,090,072	-	10,161,681	20,134,875	
Equipment	7,161,165	35,347	-	7,196,512	7,144,350	20,969	-	7,165,319	31,193	
	41,406,368	3,982,283	-	45,388,651	19,252,367	1,187,289	-	20,439,656	24,948,995	
Test cell	4,937,000	-	(4,937,000)	-	3,552,818	-	(3,552,818)	-	-	
	53,383,908	4,027,989	(4,937,000)	52,474,897	24,180,693	1,360,794	(3,552,818)	21,988,669	30,486,228	