Public Accounts

of the Province of

Prince Edward Island

Volume III – Part B
Financial Statements of Agencies, Boards and Crown Corporations

Government Business Enterprises
and Other Reporting Entities

For the Year Ended March 31st

2021

Public Accounts

of the Province of

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2021

Introduction

The Public Accounts of the Province of Prince Edward Island are presented through the publication of Volume 1, the audited consolidated financial statements, Volume II, the financial statements of the Operating Fund and the details of revenues and expenses of the Operating Fund, and Volume III (Part A and B) which presents a reproduction of the available audited financial statements of the Province's Agencies, Boards and Crown Corporations.

Internet Address – Volumes I, II, and III (Part A and B) of the Public Accounts are available in PDF format on the Province's Website:

https://www.princeedwardisland.ca/en/topic/public-accounts

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Volume III – Part B
For the Fiscal Year Ended March 31, 2021

The financial statements of Agencies, Boards and Crown Corporations provided in Volume III (Part A and Part B) have been printed from electronic files provided by the organizations. In some cases, signatures of directors and auditors have not been provided in the electronic files.

The Charlottetown Area Development Corporation

Consolidated Financial Statements
March 31, 2021

ArsenaultBestCameronEllis
CHARTERED PROFESSIONAL ACCOUNTANTS

The Charlottetown Area Development Corporation

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For the year ended March 31, 2021

ArsenaultBestCameronEllis
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June 29, 2021

Independent Auditor's Report

To the Board of Directors of The Charlottetown Area Development Corporation

Opinion
We have audited the accompanying consolidated financial statements of The Charlottetown Area Development Corporation, which comprise the consolidated statement of financial position as at March 31, 2021, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Charlottetown Area Development Corporation as at March 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion
We conducted our audit in accordance with International Financial Reporting Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of The Charlottetown Area Development Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting 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.

In preparing the consolidated financial statements, management is responsible for assessing The Charlottetown Area Development Corporation'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 The Charlottetown Area Development Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing The Charlottetown Area Development Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 The Charlottetown Area Development Corporation'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 The Charlottetown Area Development Corporation'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 consolidated 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 The Charlottetown Area Development Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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.

Chartered Professional Accountants

The Charlottetown Area Development Corporation

Consolidated Statement of Financial Position

As at March 31, 2021

	2021 $	2020 $
Assets (note 13)		
Current assets		
Cash	5,031,875	6,385,472
Accounts receivable (notes 5 and 17)	839,621	1,441,662
Prepaid deposits and expenses	8,297	50,175
Mortgages receivable (note 6)	4,536,780	3,015,784
	10,416,573	10,893,093
Property inventory (note 7)	3,235,217	3,424,515
Mortgages receivable, less current portion (note 6)	425,798	4,923,525
Property and equipment (note 8)	40,530	38,765
Investment properties (note 9)	49,639,008	50,113,590
Investment properties under development (note 10)	4,426,495	290,425
	68,183,621	69,683,913
Liabilities		
Current liabilities		
Demand loans (notes 11 and 13)	10,326,067	13,255,067
Accounts payable and accrued liabilities (notes 12 and 17)	2,015,884	1,667,199
Current portion of long-term debt	568,376	3,836,604
	12,910,327	18,758,870
Deferred revenue (note 17)	346,568	443,264
Long-term debt, less current portion (note 13)	8,980,954	6,285,537
Deferred credits (note 14)	35,383,196	34,793,138
	57,621,045	60,280,809
Shareholders' Equity		
Capital stock (note 15)	2,500	2,500
Contributed surplus	4,526,706	4,526,706
Retained earnings	6,033,370	4,873,898
	10,562,576	9,403,104
	68,183,621	69,683,913

Approved by the Board of Directors

Melissa Kelton Director

Heather Love Director

ArsenaultBestCameronEllis
CHARTERED PROFESSIONAL ACCOUNTANTS

The Charlottetown Area Development Corporation

Consolidated Statement of Changes in Equity

For the year ended March 31, 2021

	2021 $	2020 $
Retained earnings - Beginning of year	4,873,898	3,836,279
Net earnings for the year	1,159,472	1,037,619
Retained earnings - End of year	6,033,370	4,873,898

The Charlottetown Area Development Corporation

Consolidated Statement of Comprehensive Income

For the year ended March 31, 2021

	2021 $	2020 $
Revenue		
Management fee (note 17)	147,017	152,400
Interest	137,683	156,796
Interest on investment in leases	-	14,563
Miscellaneous	25,951	35,715
	310,651	359,474
Expenses		
Concept planning	20,286	74,947
Directors' fees (note 18)	34,791	-
Doubtful accounts	36,446	100,000
Insurance	15,257	14,168
Interest and bank charges	2,625	2,414
Interest on long-term debt (note 17)	98,609	125,568
Office operations and sundry	56,935	42,030
Professional fees	126,553	71,807
Telephone	25,078	21,895
Travel	-	2,294
Wages and benefits (notes 16 and 18)	591,455	527,705
Depreciation	7,320	6,174
	1,015,355	989,002
Operating loss	(704,704)	(629,528)
Other income (expense)		
Harbourside Complex (Schedule 1)	946,710	925,364
Invesco Building (Schedule 2)	401,355	135,051
Peake's Wharf (Schedule 3)	(29,718)	128,167
CGI Building (Schedule 4)	247,196	248,814
Biocommons (Schedule 5)	395,257	294,600
Venue Site and Parking Lot (Schedule 6)	(79,599)	(64,276)
Convention Centre (Schedule 7)	(579)	(573)
Loss on sale of investment property	(16,446)	-
	1,864,176	1,667,147
Net earnings for the year	1,159,472	1,037,619

The Charlottetown Area Development Corporation

Consolidated Statement of Cash Flows

For the year ended March 31, 2021

	2021 $	2020 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	1,159,472	1,037,619
Items not affecting cash		
Depreciation of property and equipment	11,470	10,040
Depreciation of investment properties	1,117,646	1,093,349
Loss on sale of property inventory	16,446	-
Depreciation of deferred credits	(629,391)	(628,882)
	1,675,643	1,512,126
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable	602,041	(590,378)
Decrease (increase) in prepaid deposits and expenses	41,878	(31,334)
Increase (decrease) in accounts payable and accrued liabilities	348,685	(106,984)
	2,668,247	783,430
Financing activities		
Increase in long-term debt	-	7,429,000
Repayment of demand loan	(2,929,000)	(105,000)
Repayment of long-term debt	(572,811)	(1,128,401)
Increase in deferred credits- net	1,219,449	104,306
Decrease in deferred revenue	(96,696)	(96,696)
	(2,379,058)	6,203,209
Investing activities		
Increase in property inventory	(83,098)	(109,666)
Proceeds on sale of property inventory	255,950	-
Decrease in investment in leases	-	562,914
Purchase of property and equipment	(13,235)	(17,454)
Decrease (increase) in investment properties	(643,064)	12,538
Decrease (increase) in mortgages receivable	2,976,731	(7,939,309)
Increase in properties held for development	(4,136,070)	-
	(1,642,786)	(7,490,977)
Decrease in cash	(1,353,597)	(504,338)
Cash - Beginning of year	6,385,472	6,889,810
Cash - End of year	5,031,875	6,385,472

The Charlottetown Area Development Corporation

Notes to Consolidated Financial Statements
March 31, 2021

1 General information

The Charlottetown Area Development Corporation was established to provide innovation, investment, and expertise for individual projects of economic and social benefit that government or the private sector are not prepared to execute alone.

The corporation is owned by the Province of Prince Edward Island, the City of Charlottetown and the Town of Stratford and is, therefore, a non-taxable entity under the provisions of the *Income Tax Act*.

The Charlottetown Area Development Corporation's head office is located in Charlottetown, Prince Edward Island.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These financial statements have been approved for issue by the Board of Directors on June 29, 2021.

2 Summary of significant accounting policies

(a) Basis of measurement

These consolidated financial statements have been presented on the historical cost basis except for certain financial instruments as indicated in note 2(e).

(b) Basis of consolidation

These consolidated financial statements include the accounts of The Charlottetown Area Development Corporation and its wholly-owned subsidiary, Harbourside Management Services Inc.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is The Charlottetown Area Development Corporation's functional currency.

(d) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of The Charlottetown Area Development Corporation at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Foreign currency gain or loss on monetary items is the difference between cost in the functional currency at the beginning of the period or at the reporting date if a current year transaction, and the cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on the translation are recognized in the statement of comprehensive income.

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Notes to Consolidated Financial Statements

March 31, 2021

(e) Financial instruments

i) Classification and measurement of financial assets

A financial asset is classified as the following measurement categories:

Amortized cost;
Fair value through profit or loss (FVTPL); or
Fair value through other comprehensive income (FVOCI).

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The corporation's financial assets consist of cash measured at FVTPL and accounts receivable, investment in leases and mortgages receivable measured at amortized cost. The corporation's financial liabilities consist of accounts payable and accrued liabilities, demand loans and long-term debt measured at amortized cost.

ii) Fair value

Fair value of a financial asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal,or in its absence, the most advantageous market to which the corporation has access at the measurement date.

The corporation measures instruments carried at fair value under the following fair value hierarchy. The different levels have been defined as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - inputs other than quoted prices included within Level 1that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices); and
Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

iii) Impairment

An expected credit loss ("ECL") model applies to financial assets measured at amortized cost. The corporation's financial assets measured at amortized cost and subject to the ECL model consist of accounts receivable, mortgages receivable and investment in leases which has a significant low credit risk due to the nature of the counterparties involved and historical default experienced. The corporation applied the simplified approach in calculating ECL for these amounts. The impact was negligible on the carrying amounts of the corporation's financial assets on the transition date.

(f) Cash

Cash includes cash on hand and deposits held with banks.

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(g) Investment properties

Investment properties includes buildings held to earn rental income and properties that are under construction or development for future use as investment properties.

(i) Property inventory

Properties being developed for resale are accounted for in accordance with IAS 2 – Inventories and are carried at the lower of cost and net realizable value. The cost of property inventory is comprised of the original purchase, costs of conversion to prepare the property for resale and borrowing costs incurred during that period. Net realizable value is the estimated selling price in the ordinary course of business less selling costs and costs to complete development. To the extent there have been write-downs to net realizable value, the reversal of these write-downs is recognized in the subsequent period should net realizable value recover. Property inventory expected to be sold within a year is reported as a current asset.

(ii) Investment properties

Initially, investment properties are recorded at cost, including transaction costs which include transfer taxes and various professional fees. Subsequent to initial recognition, investment properties are recorded at cost less accumulated depreciation and accumulated impairment losses. The corporation allocates the amount recognized in respect of each item in investment properties to its significant components and depreciates each component separately.

Depreciation is recognized so as to write-off the cost less the residual values over the useful lives of the assets using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year-end with the effect of any changes in estimates accounted for on a prospective basis. Depreciation rates are as follows:

Land improvements	40 years
Buildings	1.33% - 4%

Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on retirement or disposal of investment properties are recognized in the income statement in the year of retirement or disposal.

(iii) Investment properties under development

The cost of development properties includes direct development costs, realty taxes and borrowing costs directly attributable to the development. Investment properties under development are recorded at cost less accumulated impairment losses.

Once development has been completed, the properties are transferred to investment properties and depreciated accordingly.

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(h) Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to The Charlottetown Area Development Corporation and the cost can be measured reliably. Repairs and maintenance costs are charged to expenses during the financial period in which they are incurred.

Depreciation is calculated using the declining balance method as follows:

Equipment	20% and 33.3%
Computer	30%
Automotive	30%

The useful lives of property and equipment are reviewed, and adjusted if appropriate, at each statement of financial position date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property and equipment were identified as impaired as at March 31, 2021.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds to the net book value of the asset and are presented as a gain or loss on disposal in the statement of comprehensive income.

(i) Retiring allowance

The Corporation provides a retiring allowance to its employees. The amount paid to eligible employees at retirement is one week of pay for each year of service and the rate of pay in effect at the retirement date. The retirement pay benefits are accrued on an annual basis, starting retroactively in 2017, and are reflected in accounts payable and accrued liabilities.

(j) Government assistance and capital donations

Grants relating to general operations are recorded as revenue in the period in which they are received or receivable. Grants relating to the delivery of specific programs are recorded as revenue in the period in which the related expenditures are made.

Government assistance received relating to property and equipment, investment properties and investment properties under development are recorded as deferred credits and are depreciated on the same basis as the related assets are being depreciated.

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(k) Revenue recognition

Revenue from rental operations is recognized over the terms of the leases when collection is reasonably assured.

Management fees - leasing is based on market rates for financing and administering rental operations and the City's three parkades.

Interest income and interest on investment in leases is recorded in the period earned.

(l) Impairment of assets

At the end of each reporting period, non-financial assets, such as investment properties, are assessed for any indication of impairment. Should the indication of impairment exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is defined as the higher of an asset's "fair value less cost to sell" and its "value in use". In assessing value-in-use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimate of future cash flows have not been adjusted.

When the carrying amount of an asset exceeds the recoverable amount determined, an impairment loss is recognized in the statement of comprehensive income. After the recognition of an impairment loss, the depreciation charge related to that asset is also revised for the adjusted carrying amount on a systematic basis over the remaining useful life of an asset. Should this impairment loss be determined to be reversed in a future period, a reversal of the impairment loss is recorded in the statement of earnings. However, the reversal of an impairment loss will not increase the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized.

(m) Related parties

A related party is a person or an entity that is related to The Charlottetown Area Development Corporation.

A person or a close member of that person's family is related to The Charlottetown Area Development Corporation if that person:

i) Has control or joint control over The Charlottetown Area Development Corporation, with the power to govern The Charlottetown Area Development Corporation's financial and operating policies;

The Charlottetown Area Development Corporation

Notes to Consolidated Financial Statements
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ii) Has significant influence over The Charlottetown Area Development Corporation, participating in financial and operating policy decisions, but not control over these policies; or

iii) Is a member of the key management personnel of The Charlottetown Area Development Corporation. Key management personnel, consistent with the definition under IAS 24, Related Party Disclosures, are persons having authority and responsibility for planning, directing and controlling the activities of The Charlottetown Area Development Corporation, directly or indirectly, including any director of The Charlottetown Area Development Corporation.

(n) Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and report amounts of assets, liabilities, revenue and expenses during the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The judgments that have the most significant effect on the amounts recognized in the financial statements are detailed in note 3.

3 Critical accounting estimates and judgments

The Charlottetown Area Development Corporation makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the period the assumptions changed. The principal areas involving a higher degree of judgment or complexity and/or area which require significant estimates are described below:

(a) Provision for losses

The expected credit loss model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans and the recognition of lifetime losses on performing loans that have experienced a significant credit risk since origination.

The determination of a significant increase in credit risk takes into account many different factors since origination, and certain other criteria, such as delinquencies. The assessment of a significant increase in credit risk requires experienced credit judgment.

In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

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(b) Estimated useful lives of property and equipment and investment properties

Management estimates the useful lives of property and equipment and investment properties based on the period during which assets are expected to be available for use. The amounts and timing of recorded depreciation expense of property and equipment and investment properties for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear and legal and other limits to use. It is possible that changes in these factors may cause changes in the estimated useful lives of The Charlottetown Area Development Corporation's property and equipment and investment properties in the future.

(c) COVID-19

Since January 31, 2020, the outbreak of COVID-19 (coronavirus) has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures have caused material disruption to businesses globally resulting in an economic slowdown, and global equity markets have experienced significant volatility. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the outcome of government and central bank interventions.

The company has concluded that these events have not had a material impact on the carrying value of assets and liabilities reported in these consolidated financial statements as at March 31, 2021. The duration and impact of the COVID-19 pandemic remains unclear at this time. Therefore, it is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the company for future periods.

The Charlottetown Area Development Corporation

Notes to Consolidated Financial Statements
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4 Financial instruments

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

		2021		2020	
		Carrying amount $	Fair value $	Carrying amount $	Fair value $
Financial assets					
Cash	Level 1	5,031,875	5,031,875	6,385,472	6,385,472
Accounts receivables	Level 2	839,621	839,621	1,441,662	1,441,662
Mortgages receivable	Level 1	4,962,578	4,962,578	7,939,309	7,939,309
		10,834,074	10,834,074	15,766,443	15,766,443
Financial liabilities					
Demand loans	Level 1	10,326,067	10,326,067	13,255,067	13,255,067
Accounts payable and accrued liabilities	Level 2	2,015,884	2,015,884	1,667,199	1,667,199
Long-term debt	Level 1	9,549,330	9,549,330	10,122,140	10,122,140
		21,891,281	21,891,281	25,044,406	25,044,406

5 Accounts receivable

	2021 $	2020 $
Trade receivable	663,282	432,838
Funding receivables	268,348	1,144,935
Other receivables	63,536	13,889
Less: Allowance for doubtful accounts	(155,545)	(150,000)
	839,621	1,441,662

Continuity of allowance for doubtful accounts

	2021 $	2020 $
Balance - beginning of year	150,000	50,000
Provision for doubtful accounts	5,545	100,000
Balance - end of year	155,545	150,000

The Charlottetown Area Development Corporation

Notes to Consolidated Financial Statements
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6 Mortgages receivable

	2021 $	2020 $
Bankers' acceptance rate plus 1.25% mortgage, due March 2022	4,500,000	4,500,000
6% mortgage, due October 2029, repayable in monthly installments of $5,256, including principal and interest	462,578	460,305
Bankers' acceptance rate plus 1.25% mortgage, received during the year	-	2,979,004
	4,962,578	7,939,309
Less: Current portion	4,536,780	3,015,784
	425,798	4,923,525

The Bankers' acceptance rates at March 31, 2021 was 0.4125% and are subject to change based on the changes in the related borrowing.

7 Property inventory

	2021 $	2020 $
Balance - beginning of year	3,424,515	3,314,849
Add: Capitalized expenditures	20,931	9,853
Add: Capitalized interest	62,167	99,813
Less: Disposals	(272,396)	-
Balance - end of year	3,235,217	3,424,515

The corporation expects these properties to be completed within their normal operating cycle for such properties, which may extend beyond one year.

The Charlottetown Area Development Corporation

Notes to Consolidated Financial Statements
March 31, 2021

8 Property and equipment

	Equipment $	Computer $	Automotive $	Total $
Cost				
Balance - March 31, 2020	749,796	147,779	35,921	933,496
Additions	5,000	8,235	-	13,235
Balance - March 31, 2021	754,796	156,014	35,921	946,731
Accumulated depreciation				
Balance - March 31, 2020	731,313	130,544	32,874	894,731
Current year depreciation	4,150	6,406	914	11,470
Balance - March 31, 2021	735,463	136,950	33,788	906,201
Carrying value				
March 31, 2020	18,483	17,235	3,047	38,765
March 31, 2021	19,333	19,064	2,133	40,530

9 Investment properties

	Land $	Land Improvements $	Buildings $	Total $
Cost				
Balance - March 31, 2020	4,902,781	3,759,202	56,350,981	65,012,964
Capitalized expenditures	8,088	568,188	66,788	643,064
Balance - March 31, 2021	4,910,869	4,327,390	56,417,769	65,656,028
Accumulated depreciation				
Balance - March 31, 2020	-	1,581,414	13,317,960	14,899,374
Depreciation	-	153,229	964,417	1,117,646
Balance - March 31, 2021	-	1,734,643	14,282,377	16,017,020
Carrying value				
March 31, 2020	4,902,781	2,177,788	43,033,021	50,113,590
March 31, 2021	4,910,869	2,592,747	42,135,392	49,639,008

The fair value of the investment properties is estimated to be $34,510,000 (2020 - $31,200,000).

The carrying value of the investment properties is reduced by the $35,383,196 (2020 - $34,793,138) balance in deferred credits to get a net book value of the investment properties of $14,255,973 (2020 - $16,244,044) for purposes of evaluating that fair value exceeds carrying value.

The Charlottetown Area Development Corporation

Notes to Consolidated Financial Statements

March 31, 2021

Independent valuations were completed by accredited appraisal firms for six of the seven investment properties in 2017 and 2018 which represented 93% of the 2019 portfolio. In 2020 three of the six investment properties appraised in 2017 and 2018 were revalued internally by management along with the property previously valued internally reducing the percentage of properties valued by accredited appraisal firms to 12%. Management's internal valuation model is based on the capitalization rate of normalized income by property using specific capitalization rates. Management determined the normalized income for each property based on current rents and assumptions about occupancy.

Investment property valuations are most sensitive to changes in the capitalization rates. The weighted average of the capitalization rate used is 6.0% with a range of 5.0% to 7.0%.

The impact of a 10% change in the capitalization rate used to value the investment properties would affect the fair value calculation as follows:

- a 10% increase in the capitalization rate would result in a fair value amount of $37,927,000.
- a 10% decrease in the capitalization rate would result in a fair value amount of $31,086,000.

10 Investment properties under development

	Land	Land improvements	Buildings	2021 Total	2020 $
	$	$	$	$	$
Balance - March 31, 2020	290,425	-	-	290,425	290,425
Additions - acquisitions	289,306	-	3,846,764	4,136,070	-
Balance - March 31, 2021	579,731	-	3,846,764	4,426,495	290,425

The Charlottetown Area Development Corporation

Notes to Consolidated Financial Statements
March 31, 2021

11 Demand loans

	2021 $	2020 $
Prime minus .1% demand loan, due on demand, interest paid monthly	2,631,601	2,631,601
Bankers' acceptance rate plus .75% stamping fee demand loan, due on demand, interest paid monthly	4,500,000	4,500,000
Bankers' acceptance rate plus .75% stamping fee demand loan, due on demand, interest paid monthly	3,194,466	2,929,000
Prime minus .1% demand loan, due on demand, repaid during the year	-	3,194,466
	10,326,067	13,255,067

The Prime rate was 2.45% at March 31, 2021. The Bankers' acceptance borrowing rate for the March 31, 2021 loans was 0.4125% plus the stamping fee.

12 Accounts payable and accrued liabilities

	2021 $	2020 $
Trade payables	959,378	371,053
Property taxes payable	288,324	283,253
HST payable (receivable)	(185,311)	115,533
Other	953,493	897,360
	2,015,884	1,667,199

The Charlottetown Area Development Corporation

Notes to Consolidated Financial Statements
March 31, 2021

13 Long-term debt

	2021 $	2020 $
Debentures		
Mortgages payable		
2.95% mortgage, due February 2022, repayable in monthly instalments of $21,578, including principal and interest	2,689,849	2,866,439
2.92% mortgage, due April 2023, repayable in monthly instalments of $16,518 including principal and interest	2,028,107	2,164,608
3.11% mortgage, due April 2023, repayable in monthly instalments of $9,410, including principal and interest	1,142,625	1,218,722
4.18% mortgage, due November 2021, repayable in monthly instalments of $6,092, including principal and interest	425,265	479,520
2.48% mortgage, due June 2030, repayable in monthly instalments of $18,568, including principal and interest	3,263,484	3,392,852
	9,549,330	10,122,141
Less: Current portion	568,376	3,836,604
	8,980,954	6,285,537

Based on the refinancing of long-term debt indicated below, the aggregate amount of principal repayments required in each of the next five years to meet retirement provisions are as follows:

	$
Year ending March 31, 2022	568,376
2023	613,908
2024	1,531,075
2025	563,346
2026	579,214

Security on long-term debt and demand loans

The 2.95%, 2.92%, 3.11%, 4.18% and 2.48% mortgages and the demand loans are secured by a general security agreement representing a first charge on all assets, continuing collateral mortgages representing a first charge on all real property known as Harbourside Complex and an undertaking not to encumber or mortgage the property at 119 Euston Street, assignment of mortgage receivable and fire insurance for Harbourside Complex and general assignment of rents representing a first charge on rents on the Harbourside Complex.

Refinancing of long-term debt

On June 8, 2021, the Corporation renewed $2,689,849 and $2,028,107 of its maturing mortgages payable. The amounts have been renewed at interest rates of 2.60% and 2.73%, respectively, and with new respective maturity dates of June 1, 2031 and June 22, 2026.

The Charlottetown Area Development Corporation

Notes to Consolidated Financial Statements
March 31, 2021

14 Deferred credits

			2021	2020
	Cost $	Accumulated depreciation $	Net $	Net $
Harbourside Complex	117,500	9,720	107,780	99,882
Peakes Wharf	619,428	374,561	244,867	259,756
CGI Building	4,124,499	1,634,199	2,490,300	2,583,708
Invesco Building	4,625,000	1,445,887	3,179,113	3,281,977
Biocommons	2,000,000	216,837	1,783,163	1,808,675
Venue Site - Event Space	1,484,582	732,945	751,637	780,281
Convention Centre	27,119,979	2,456,607	24,663,372	24,991,252
Venue Site - Parking lot	1,068,638	255,674	812,964	847,056
BioScience Incubator project	1,350,000	-	1,350,000	140,551
	42,509,626	7,126,430	35,383,196	34,793,138

During the year, $1,219,450 (2020 -$140,551) in deferred credit additions was the result of receiving a government grant to fund ongoing projects by The Charlottetown Area Development Corporation, and nil (2020 - $36,248) in deferred credit disposals.

15 Capital stock

Authorized
5,000 common shares of the par value of $1 each

	2021 $	2020 $
Issued		
2,500 common shares	2,500	2,500

16 Pension

Employees, who are members, contribute a minimum of 5% of earnings to a defined contribution pension plan. The corporation matches 100% of the minimum contribution. Pension expense for the year was $42,919 (2020 - $41,938).

17 Related party transactions

Related parties

The Province of Prince Edward Island is the majority shareholder of The Charlottetown Area Development Corporation and the City of Charlottetown and the Town of Stratford are minority shareholders.

The Charlottetown Area Development Corporation

Notes to Consolidated Financial Statements
March 31, 2021

Balances

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

	2021 $	2020 $
Accounts receivable		
Due from the City of Charlottetown	15,119	567,455
Due from the Province of Prince Edward Island	15,000	381,909
Accounts payable and accrued liabilities		
Due to the City of Charlottetown	(10,743)	12,688
Due to Province of Prince Edward Island	92,017	77,640
Due to Stratford Utility Corporation	-	1,292
Deferred revenue		
Province of Prince Edward Island	346,568	443,264

Transactions

During the year, the Corporation received $740,489 (2020 - $756,990) from the Province of Prince Edward Island for commercial rental revenue recorded in Harbourside Complex and $122,407 (2020 - $128,108) from a provincial Crown corporation recorded as rental revenue in Biocommons. The Corporation reported $96,696 (2020 - $96,696) in commercial rental revenue in Harbourside Complex for deferred revenue from the Province of Prince Edward Island being recognized in the fiscal period. In addition, the corporation received $97,017 (2020 - $152,400) in management fee revenue from the City of Charlottetown for managing the parkades.

During the year, the Corporation expensed interest on long-term debt of nil (2020 - $4,817) paid to the Province of Prince Edward Island.

18 Composition of key management

Key management includes the general manager, assistant general manager and controller. Compensation awarded to key management included:

The Charlottetown Area Development Corporation

Notes to Consolidated Financial Statements
March 31, 2021

(a) Key management, excluding directors

	2021 $	2020 $
Salaries and short-term employee benefits	302,286	300,782

(b) Directors' remuneration

	2021 $	2020 $
Honorariums	34,791	-

19 Commitments

Property Development Commitments

During the year, the corporation entered into various construction contracts in relation to two investment property development projects. At March 31, 2021, committed construction contracts totaled $14,000,000 with $9,863,931 yet to be disbursed. Funding commitments for the related projects totals $14,000,000, which includes $12,000,000 in repayable loans. Funding of $1,350,000 was received by March 31, 2021, with $12,650,000 expected to be received subsequent to March 31, 2021.

Subsequent to March 31, 2021, the corporation entered into additional construction contracts totaling $615,844 in relation to two investment property development projects. Funding commitments for the related future projects total $175,844.

20 Subsequent event

Subsequent to March 31, 2021, the Province of Prince Edward Island sold 50 of their existing shares in the corporation to the Town of Cornwall.

21 Risk management

The Charlottetown Area Development Corporation's principal business activities result in a Statement of Financial Position that exposes it to a variety of financial risks. 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 The Charlottetown Area Development Corporation manage these risks through comprehensive and integrated control processes, including regular review and assessment of risk measurement and reporting processes.

The Charlottetown Area Development Corporation

Notes to Consolidated Financial Statements

March 31, 2021

(a) Credit risk

Credit risk is the risk of financial loss to The Charlottetown Area Development Corporation if a member or counterparty of a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from The Charlottetown Area Development Corporation's mortgages receivable.

Credit risk also arises from the possibility that tenants may experience financial difficulty and be unable to fulfil their lease term commitments. The corporation mitigates this risk of credit loss through diversification of it existing portfolio and limiting its exposure to any one tenant. Credit assessments are conducted with respect to all new leasing and the corporation also obtains a security deposit to assist in potential recovery requirements. The receivable balances are monitored on an ongoing basis and the corporation establishes an appropriate provision for doubtful accounts.

Credit risk is the single largest risk for The Charlottetown Area Development Corporation's business; management therefore carefully manages its exposure to credit risk. Oversight for the credit risk management and control is done by management who reports to the Board.

The Charlottetown Area Development 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 or parties fail to perform their obligations under the financial instruments in question. The principal collateral and other credit enhancements The Charlottetown Area Development Corporation holds as security for loans include insurance and mortgages over residential lots and properties, and recourse to liquid assets, guarantees and rents. The value of collateral held against individual exposures is generally only assessed at the time of borrowing or when a specific review of that exposure is undertaken in accordance with policy.

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

	2021	**2020**
	$	**$**
Cash	5,031,875	6,385,472
Accounts receivable	839,621	1,441,662
Mortgages receivable	4,962,578	7,939,309
	10,834,074	15,766,443

Cash has low credit risk exposure as this asset is cash at chartered banks. The Charlottetown Area Development Corporation reviews the member's capacity to repay the receivables rather than relying exclusively on collateral, although it is an important component in establishing risk. See note 2(e) (iii) for further disclosure of impairment of financial instruments.

The Charlottetown Area Development Corporation

Notes to Consolidated Financial Statements

March 31, 2021

(b) Liquidity risk

Liquidity risk is the risk that The Charlottetown Area Development Corporation will encounter difficulty in meeting obligations associated with financial liabilities as they come due.

The Charlottetown Area Development Corporation's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to The Charlottetown Area Development Corporation's reputation.

Exposure to liquidity risk:

For this purpose, liquid assets are financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities. Consequently, cash inflows by remaining maturities are as follows:

	Under 1 year $	**Over 1 to 5 years $**	**Over 5 years $**	**2021 Total $**
Cash	5,031,875	-	-	5,031,875
Accounts receivable	839,621	-	-	839,621
Mortgages receivable	4,536,780	170,926	254,872	4,962,578
	10,408,276	170,926	254,872	10,834,074

	Under 1 year $	**Over 1 to 5 years $**	**Over 5 years $**	**2020 Total $**
Cash	6,385,472	-	-	6,385,472
Accounts receivable	1,441,662	-	-	1,441,662
Mortgage receivable	3,015,784	4,670,926	252,599	7,939,309
	10,842,918	4,670,926	252,599	15,766,443

The Charlottetown Area Development Corporation

Notes to Consolidated Financial Statements
March 31, 2021

Cash flows payable under financial liabilities by remaining contractual maturities are as follows:

	Under 1 year $	Over 1 to 5 years $	Over 5 years $	March 31, 2021 Total $
Demand loans	10,326,067	-	-	10,326,067
Accounts payable and accrued liabilities	2,015,884	-	-	2,015,884
Long-term debt	568,376	3,287,543	5,693,411	9,549,330
	12,910,327	3,287,543	5,693,411	21,891,281

	Under 1 year $	Over 1 to 5 years $	Over 5 years $	March 31, 2020 Total $
Demand loans	13,255,067	-	-	13,255,067
Accounts payable and accrued liabilities	1,667,199	-	-	1,667,199
Long-term debt	3,836,604	6,101,101	184,436	10,122,141
	18,758,870	6,101,101	184,436	25,044,407

(c) Market risk

Market risk is the risk of exposure to changes to financial prices affecting the value of positions held by The Charlottetown Area Development Corporation as part of its normal trading activities. As The Charlottetown Area Development Corporation does not deal in foreign exchange contracts or commodities, market risk consists solely of interest rate risk. The objective of market rate risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on 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. The borrowings of the corporation have fixed and floating rate interest components resulting in an exposure to interest rate movements. The corporation's debt consists of $9,549,330 (2020 - $10,122,14) in fixed rate debt and $10,326,067 (2020 - $13,255,067) in floating rate debt which is all in demand loans. The corporation has entered into interest rate swaps in order to manage the fluctuating interest rates on $9,549,330 (2020 - $9,642,621) of its debt. The swap contracts have an effective interest rate range of 2.92% to 3.11% and have maturity dates ranging from February 2022 until February 2030.

The Charlottetown Area Development Corporation

Notes to Consolidated Financial Statements

March 31, 2021

The following table provides the potential impact of an immediate and sustained 1% increase or decrease in interest rates on net interest expense, 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 Charlottetown Area Development Corporation's management initiatives.

	Net interest expense 2021 $	Net interest expense 2020 $
1% increase or decrease in interest rates	103,260	132,551

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with The Charlottetown Area Development 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 Charlottetown Area Development Corporation's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to The Charlottetown Area Development Corporation'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 The Charlottetown Area Development Corporation's capital management is to ensure that it maintains a healthy financial position in order to support its business. The Charlottetown Area Development Corporation manages its capital structure and makes changes to it in light of changes in economic conditions.

The Charlottetown Area Development Corporation

Consolidated Schedule of Harbourside Complex Revenue and Expenses

For the year ended March 31, 2021 **Schedule 1**

	2021 $	2020 $
Revenue		
Rental - commercial (note 17)	1,712,291	1,657,559
- residential	939,770	935,722
	2,652,061	2,593,281
Expenses		
Cleaning	113,274	79,306
Common area	72,853	111,889
Electricity	155,671	158,449
Fuel	231,355	301,876
Heating system	57,723	67,423
Insurance	33,319	29,059
Property taxes	445,069	421,831
Repairs and maintenance	336,712	250,058
Snow removal	2,076	6,839
Supplies and miscellaneous	1,988	3,001
Water	29,460	31,542
Deblois property expenses	1,247	5,037
Depreciation	224,604	201,607
	1,705,351	1,667,917
Net revenue	946,710	925,364

The Charlottetown Area Development Corporation

Consolidated Schedule of Invesco Building Revenue and Expenses

For the year ended March 31, 2021 **Schedule 2**

	2021 $	2020 $
Revenue		
Rent - commercial	1,303,028	1,239,543
Monthly parking	58,300	63,883
	1,361,328	1,303,426
Expenses		
Cleaning	88,724	148,838
Electricity	170,881	209,912
Heating system	56,541	70,373
Insurance	7,226	6,000
Interest on long-term debt	168,674	187,106
Property taxes	289,504	264,502
Repairs and maintenance	15,892	119,135
Snow removal	10,205	11,108
Telephone	4,422	2,536
Water	2,547	3,664
Depreciation	248,221	248,066
Depreciation of deferred credits	(102,864)	(102,865)
	959,973	1,168,375
Net revenue	401,355	135,051

The Charlottetown Area Development Corporation

Consolidated Schedule of Peake's Wharf Revenue and Expenses

For the year ended March 31, 2021 **Schedule 3**

	2021 $	2020 $
Revenue		
Base rent	45,038	60,048
Percentage rent	52,203	90,144
Parking lot	30,028	169,396
	127,269	319,588
Expenses		
Insurance	2,292	2,412
Operating, repairs and maintenance	41,668	60,339
Parking lot	16,931	36,854
Promotion	652	2,500
Property tax	31,853	25,581
Interest on long-term debt	356	-
Depreciation	80,223	80,223
Depreciation of deferred credits	(16,988)	(16,488)
	156,987	191,421
Net rental revenue (expense)	(29,718)	128,167

The Charlottetown Area Development Corporation

Consolidated Schedule of CGI Building Revenue and Expenses

For the year ended March 31, 2021 **Schedule 4**

	2021 $	2020 $
Revenue		
Rent - commercial	513,268	530,708
Expenses		
Cleaning	57,504	57,941
Electricity	87,331	97,402
Insurance	3,296	2,736
Interest on long-term debt	18,841	20,976
Property taxes	49,742	47,679
Repairs and maintenance	26,221	23,405
Snow removal	6,220	11,905
Water	2,521	5,449
Depreciation	107,804	107,804
Depreciation of deferred credits	(93,408)	(93,403)
	266,072	281,894
Net revenue	247,196	248,814

The Charlottetown Area Development Corporation

Consolidated Schedule of Biocommons Revenue and Expenses

For the year ended March 31, 2021 **Schedule 5**

	2021 $	2020 $
Revenue		
Rent - commercial (note 17)	748,682	654,378
Expenses		
Common area	420	730
Electricity	19,084	15,804
Fuel	80,216	79,059
Insurance	5,875	5,052
Interest on long-term debt	61,716	65,101
Property taxes	78,167	76,711
Repairs and maintenance	7,226	4,746
Snow removal	9,933	11,403
Water	53,869	64,284
Depreciation	62,431	62,398
Depreciation of deferred credits	(25,512)	(25,510)
	353,425	359,778
Net revenue	395,257	294,600

The Charlottetown Area Development Corporation

Consolidated Schedule of Venue Site and Parking Lot Revenue and Expenses

For the year ended March 31, 2021 **Schedule 6**

	2021 $	2020 $
Revenue		
Rent - commercial	6,941	35,779
Expenses		
Advertising	-	99
Electricity	9,459	6,342
Fuel	1,246	1,553
Insurance	1,841	4,596
Interest on long-term debt	36,862	38,412
Interest and bank charges	577	369
Property taxes	11,824	12,701
Repairs and maintenance	9,560	16,868
Snow removal	690	4,883
Supplies	-	37
Telephone	3,052	3,237
Water	4,115	4,284
Depreciation of deferred credits	(62,738)	(62,735)
Depreciation	70,052	69,409
	86,540	100,055
Net expense	(79,599)	(64,276)

The Charlottetown Area Development Corporation

Consolidated Schedule of Convention Centre Revenue and Expenses

For the year ended March 31, 2021 **Schedule 7**

	2021 $	2020 $
Revenue		
Recovery of expenses	221,936	137,876
Expenses		
Property tax	221,936	137,876
Depreciation of deferred credits	(327,881)	(327,881)
Depreciation	328,460	328,454
	222,515	138,449
Net expense	(579)	(573)

Island Investment Development Inc.

Consolidated Financial Statements
March 31, 2021

ArsenaultBestCameronEllis
CHARTERED PROFESSIONAL ACCOUNTANTS

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June 22, 2021

Independent Auditor's Report

To the Board of Directors of Island Investment Development Inc.

Opinion
We have audited the accompanying consolidated financial statements of Island Investment Development Inc., which comprise the consolidated statement of financial position as at March 31, 2021, and the consolidated statements of comprehensive income, changes in equity 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 accompanying financial statements present fairly, in all material respects, the financial position of Island Investment Development Inc. as at March 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion
We conducted our audit in accordance with International Financial Reporting 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 Island Investment Development Inc. 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 Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting 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 Island Investment Development Inc.'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 Island Investment Development Inc. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Island Investment Development Inc.'s financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated 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 Island Investment Development Inc.'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 Island Investment Development Inc.'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 Island Investment Development Inc. 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.

Chartered Professional Accountants

Island Investment Development Inc.

Consolidated Statement of Financial Position

As at March 31, 2021

	2021 $	2020 $
Assets		
Cash	19,518,800	18,704,173
Marketable securities	13,331,443	5,562,756
Accounts receivable (notes 7 and 17)	7,310,285	6,985,131
Prepaid expense	377,947	44,104
Inventory (note 15)	119,466	121,272
Demand loan receivable (note 9)	6,998,482	7,007,465
Notes receivable (note 10)	145,522,391	144,580,842
Advances to related company (note 17)	7,152,986	2,119,298
Investment in private companies (note 11)	4,155,397	4,148,387
Deferred financing costs (note 12)	60,844	77,100
Investment properties (notes 8 and 15)	13,951,366	12,916,348
Property and equipment (Schedule and note 15)	3,569,864	3,049,115
Restricted funds (note 13)		
Cash and marketable securities	72,729,781	121,489,012
	294,799,052	326,805,003
Liabilities		
Accounts payable and accrued liabilities (notes 14 and 17)	3,214,712	2,895,037
Long-term debt (note 15)	5,825,439	7,920,859
Restricted funds (note 13)	72,729,781	121,489,012
	81,769,932	132,304,908
Commitments (note 18)		
Retained earnings	213,029,120	194,500,095
	294,799,052	326,805,003

Approved by the Board of Directors

_____ Director _____ Director

Island Investment Development Inc.

Consolidated Statement of Changes in Equity

For the year ended March 31, 2021

	2021 $	2020 $
Retained earnings - Beginning of year	194,500,095	170,360,268
Net earnings for the year	18,529,025	24,139,827
Retained earnings - End of year	213,029,120	194,500,095

Island Investment Development Inc.

Consolidated Statement of Comprehensive Income

For the year ended March 31, 2021

	2021 $	2020 $
Revenue		
Interest on notes and loan receivable (note 17)	7,155,058	6,474,181
Investment income	2,398,013	3,812,088
Provincial Nominee Program fees	1,923,401	1,767,112
Provincial Nominee Program defaults	10,553,179	16,600,000
Property operations (notes 16 and 17)	10,092,513	11,305,989
	32,122,164	39,959,370
Expenses		
Doubtful accounts	84,314	135,334
Education contribution	457,156	498,708
Equipment	1,109	29,755
Grants - private companies	461,558	501,338
Interest and bank charges	1,320	1,699
Interest on notes payable (note 17)	140,146	135,516
Management fees (note 17)	537,500	535,326
Meetings and conferences	1,620	59,857
Office	61,551	105,401
Professional fees	193,788	133,200
Promotion and advertising	803	9,124
Property operations (note 17)	7,818,766	8,465,253
Provision for possible losses	629,765	2,447,626
Rent (note 17)	113,260	64,582
Salaries (note 17)	2,004,905	1,678,678
Travel	17,055	31,926
Amortization	1,061,508	903,391
Amortization of deferred financing costs	16,256	63,165
	13,602,380	15,799,879
Operating earnings	18,519,784	24,159,491
Other income (expense)		
Gain on sale of property and equipment	9,241	5,336
Loss from hurricane damages	(1,142,704)	(513,051)
Insurance recovery from hurricane damages	1,142,704	488,051
	9,241	(19,664)
Net earnings for the year	18,529,025	24,139,827

Island Investment Development Inc.

Consolidated Statement of Cash Flows

For the year ended March 31, 2021

	2021 $	2020 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	18,529,025	24,139,827
Items not affecting cash		
Amortization	1,061,508	903,391
Amortization of deferred financing costs	16,256	63,165
Gain on sale of property and equipment	(9,241)	(5,336)
Provision for possible losses	629,765	2,447,626
	20,227,313	27,548,673
Net change in non-cash working capital items		
Increase in accounts receivable	(325,154)	(4,563,059)
Decrease (increase) in prepaid expense	(333,843)	27,619
Decrease in inventory	1,806	27,618
Increase (decrease) in accounts payable and accrued liabilities	319,675	(222,787)
	19,889,797	22,818,064
Financing activities		
Decrease in long-term debt - net	(2,095,420)	(14,944,219)
Decrease (increase) in advances to related company	(5,033,688)	400,986
	(7,129,108)	(14,543,233)
Investing activities		
Increase in investment in private companies	(7,010)	(861,293)
Decrease (increase) in marketable securities - net	(7,768,687)	2,691,951
Decrease in restricted funds - cash and marketable securities	(48,759,231)	(51,917,524)
Decrease in restricted funds - liability	48,759,231	51,917,524
Increase in notes receivable - net	(1,571,314)	(7,999,677)
Decrease in demand loan receivable	8,983	2,084
Additions to property and equipment	(911,747)	(640,762)
Additions to investment properties	(1,959,491)	(2,036,909)
Capital grants received	253,963	156,057
Proceeds on disposal of property and equipment	9,241	5,336
Increase in deferred financing costs	-	(2,996)
	(11,946,062)	(8,686,209)
Increase (decrease) in cash	814,627	(411,378)
Cash - Beginning of year	18,704,173	19,115,551
Cash - End of year	19,518,800	18,704,173

Island Investment Development Inc.

Notes to Consolidated Financial Statements
March 31, 2021

1 Reporting entity

The company is a provincial Crown corporation established under the provisions of the Island Investment Development Inc. Act and is therefore a non-taxable entity under the provisions of the Income Tax Act.

The company is the corporate administrator of government-administered venture capital funds in the Province of Prince Edward Island with its purpose to invest in active business operations. The investments are made in typically new or expanding companies. The company also develops and commercializes the real property assets of the former Canadian Forces Base Summerside. It rents real property to commercial and residential tenants and operates airport, accomodations, food and beverage and retail divisions.

The company administers the Prince Edward Island Provincial Nominee Program on behalf of the Province of Prince Edward Island, and charges applicants under the program various fees to process the applications received.

Island Investment Development Inc.'s head office is located in Charlottetown, Prince Edward Island.

Island Investment Development Inc. prepares its financial statements in compliance with Canadian International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These financial statements have been approved for issue by the Board of Directors on June 22, 2021.

2 Basis of presentation

(a) Basis of consolidation

These financial statements include the operations of Island Investment Development Inc. and its wholly-owned subsidiaries, Prince Edward Island Century 2000 Fund Inc. (Century 2000 Fund) and Slemon Park Corporation.

(b) Basis of measurement

These financial statements have been presented on the historical cost basis except for certain financial instruments as indicated in note 3(a).

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the company’s functional currency.

Island Investment Development Inc.

Notes to Consolidated Financial Statements
March 31, 2021

(d) Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses during the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The judgments that have the most significant effect on the amounts recognized in the financial statements are detailed in note 5.

3 Summary of significant accounting policies

(a) Financial instruments

i) *Classification and measurement of financial assets*

The company applies IFRS 9 and classifies its financial assets into one of the following measurement categories:

- Amortized cost;
- Fair value through profit or loss (FVTPL); or
- Fair value through other comprehensive income (FVOCI).

Financial assets include both debt and equity instruments.

<u>Debt instruments</u>

Classification and subsequent measurement of debt instruments depend on:

i) the company's business model for managing the asset; and
ii) the cash flow characteristics of the asset.

Business model assessment involves determining how financial assets are managed in order to generate cash flows. The company's business model assessment is based on the following categories:

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.
- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale.

Island Investment Development Inc.

Notes to Consolidated Financial Statements

March 31, 2021

The company assesses the business model at a portfolio level reflective of how groups of assets are managed together to achieve a particular business objective. For the assessment of a business model, the company takes into consideration the following factors:

- Whether the assets are held for trading purposes (ie. assets that the company acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking);
- The risks that affect the performance of assets held within a business model and how those risks are managed; and
- The revenue of prior periods and expectations about future revenue activity.

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments or amortization of premium/discount.

Interest is defined as the consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), and a profit margin.

If the company identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Based on these factors, the company classifies its debt instruments into one of the following three measurement categories:

Amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured in note 10. Interest income form these financial assets is included in 'Interest on notes and loans receivable' using the effective interest rate method.

Island Investment Development Inc.

Notes to Consolidated Financial Statements
March 31, 2021

Fair value through profit or loss

Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within "Investment income" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in "Investment income". Interest income from these financial assets is included in "Investment income" using the effective interest method.

Fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income (OCI), expect for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified form equity to profit or loss and recognized in "Investment income". Interest income from these financial assets is included in "Investment income" using the effective interest rate method.

Equity instruments

The company subsequently measures all equity investments at FVTPL, except where the company's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and reversals of impairment losses are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the company's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in "Investment income" in the statement of comprehensive income.

ii) *Classification and measurement of financial liabilities*

Financial liabilities are classified into one of the following measurement categories:

- Amortized cost;
- Fair value through profit or loss (FVTPL);
- Designated at FVTPL.

Island Investment Development Inc.

Notes to Consolidated Financial Statements

March 31, 2021

Financial liabilities measured at amortized cost

Long-term debt and restricted funds are accounted for at amortized cost. Interest on notes payable, calculated using the effective interest rate method, is recognized as interest expense.

Financial liabilities measured at FVTPL

Financial liabilities measured at FVTPL are held principally for the purpose of repurchasing in the near term, or form a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-making. Financial liabilities are recognized on a trade date and are accounted for at fair value, with changes in fair value and any gains or losses recognized in the Statement of Comprehensive Income as part of the non-interest income. Transaction costs are expensed as incurred.

Financial liabilities designated at FVTPL

Financial liabilities classified in this category are those that have been designated by the company upon initial recognition, and once designated, the designation is irrevocable. The FVTPL designation is only available for those financial liabilities for which a reliable estimate of fair value can be obtained.

Financial liabilities are designated at FVTPL when one of the following criteria is met:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- A group of financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- The financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required.

Financial liabilities designated at FVTPL are recorded in the Statement of Financial Position at fair value and any changes in fair value are recognized in the Statement of Comprehensive Income.

Island Investment Development Inc.

Notes to Consolidated Financial Statements
March 31, 2021

iii) *Determination of fair value*

Fair value of a financial asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal, or in its absence, the most advantageous market to which the company has access at the measurement date.

The company measures instruments carried at fair value under the following fair value hierarchy. The different levels have been defined as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

iv) *Derecognition of financial assets and liabilities*

The derecognition criteria are applied to the transfer of part of an asset rather than the asset as a whole, only if such part comprises specifically identified cash flows from the asset, a fully proportionate share of the cash flows from the asset, or a fully proportionate share of specifically identified cash flows from the asset.

A financial asset is derecognized when the contractual rights to the cash flows from the asset has expired or the company transfers the contractual rights to receive the cash flows from the financial asset; or has assumed an obligation to pay those cash flows to an independent third-party, or the company has transferred substantially all the risks and rewards of ownership of that asset to an independent third-party. Management determines whether substantially all the risk and rewards of ownership have been transferred by quantitatively comparing the variability in cash flows before and after the transfer. If the variability in cash flows remains significantly similar subsequent to the transfer, the company has retained substantially all of the risks and rewards of ownership.

Where substantially all the risks and rewards of ownership of the financial asset are neither retained nor transferred, the company derecognizes the transferred asset only if it has lost control over the asset. Control over the asset is represented by the practical ability to sell the transferred asset. If the company retains control over the asset, it will continue to recognize the asset to the extent of its continuing involvement.

On derecognition of a financial asset, the difference between the carrying amount and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in the Statement of Comprehensive Income.

Island Investment Development Inc.

Notes to Consolidated Financial Statements

March 31, 2021

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. If an existing financial liability is replaced by another from the same counterparty on substantially different terms or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability at fair value. The difference in the respective carrying amount of the existing liability and the new liability is recognized as a gain/loss in the Statement of Comprehensive Income.

v) *Impairment*

The company applied a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9 for the financial assets measured at amortized cost.

The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following 12 months or (ii) over the expected life of a financial instrument.

The impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – where there has not been a significant increase in credit risk since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – when a financial instrument experiences a credit risk subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The probability of default (PD), exposure at default (EAD) and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

Details of these statistical inputs are as follows:

- PD – the probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life.
- EAD – the exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities and accrued interest from missed payments.

Island Investment Development Inc.

Notes to Consolidated Financial Statements

March 31, 2021

- LGD – the loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

At each reporting date, the company assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral and the impact of forward-looking macroeconomic factors. Common assessments for credit risk include management judgment, delinquency and monitoring.

When measuring expected credit loss, the company considers the maximum contractual period over which the company is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment and extension and rollover options.

The company considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- Significant financial difficulty of the borrower;
- Default or delinquency in interest or principal payments;
- High probability of the borrower entering a phase of bankruptcy or a financial recognition;
- Measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The company considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due.

The company writes off an impaired financial asset, either partially or fully, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determine and there is no reasonable expectation of further recover, write-off may be earlier.

(b) Cash

Cash consists of cash held in banks and cash on hand. Bank indebtedness is considered to be a financing instrument.

Island Investment Development Inc.

Notes to Consolidated Financial Statements

March 31, 2021

(c) Inventory

Inventories are valued at the lower of cost and net realizable value. Costs are assigned using the specific item formula for food inventory. Costs include all expenses directly attributable to the purchase and delivery of the product to the Company's location. Fuel oil inventory is valued at the lower of cost and net realizable value and is recorded at invoice cost on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

(d) Deferred financing costs

The costs incurred in obtaining financing have been capitalized and are being amortized using the straight-line basis over the term of the notes payable, which is 60 months.

(e) Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of a qualifying assets are added to the cost of the assets until they are substantially ready for their intended use. Other borrowing costs are expensed in the period in which they are incurred.

(f) Property and equipment

Property and equipment are recorded at the fair value on the transition date of April 1, 2015 to IFRS for Slemon Park Corporation, a subsidiary, as deemed cost, with additions since that time measured at historic cost. Subsequent to initial recognition, property and equipment is recorded at cost less accumulated amortization and accumulated impairment losses. The company allocates the amount recognized in respect of each item in property and equipment to its significant components and amortizes each component separately.

Amortization is recognized so as to write-off the cost less residual values over the useful lives of the assets. The estimated useful lives, residual values and amortization method are reviewed at each year-end with the effect of any changes in estimates accounted for on a prospective basis. Amortization rates are as follows:

Sewer and water infrastructure	2% - 4%	declining balance
Runways and taxiways	8%	declining balance
Roads and parking areas	8%	declining balance
Buildings	4% - 20%	declining balance
Heavy equipment	20%	declining balance
Furniture and equipment	20%	declining balance
Motor vehicles	30%	declining balance
Computer equipment and software	30%	declining balance

As asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is higher than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. No property and equipment were identified as impaired as at March 31, 2021.

Island Investment Development Inc.

Notes to Consolidated Financial Statements

March 31, 2021

(g) Investment properties

Investment properties include land and buildings, roads and paving held to earn rental income. Investment properties are recorded at the fair value on the transition date of April 1, 2015 to IFRS of Slemon Park Corporation, a subsidiary, as deemed cost, with additions since that time measured at historic cost. Subsequent to its initial recognition, investment properties are recorded at cost less accumulated amortization and accumulated impairment losses. The company allocates the amount recognized in respect of each item in investment properties to its significant components and amortizes each component separately.

Amortization is recognized so as to write-off the cost less residual values over the useful lives of the assets. The estimated useful lives, residual values and amortization method are reviewed at each year-end with the effect of any changes in estimates accounted for on a prospective basis. Amortization rates are as follows:

Building	4%	declining balance
Building - roof/shingles	6%	declining balance
Building - equipment	8%	declining balance
Building - painting	10%	declining balance
Building - tenant improvements - based on lease term 1 - 5 years	20%	declining balance
Building - tenant improvements - based on lease term 6 - 15 years	10%	declining balance

Investment properties are derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on retirement or disposal of investment properties are recognized in the income statement in the year of retirement or disposal.

(h) Capitalization policy - property and equipment and investment properties

Acquisition, construction or development over time:

The cost of constructing a capital asset includes direct construction or development costs (such as materials and labour) and overhead costs directly attributable to the construction or development activity.

The cost of capital assets includes the purchase price and other acquisition costs such as installation costs including architectural, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs, duties, testing and preparation charges.

Island Investment Development Inc.

Notes to Consolidated Financial Statements

March 31, 2021

Betterment:

The cost incurred to enhance the service potential of a capital asset is a betterment. Service potential may be enhanced when there is an increase in the previously assessed physical output or service capacity, associated operating costs are lowered, the life or useful life is extended, or the quality of output is improved. The cost incurred in the maintenance of the service potential of a capital asset is a repair, not a betterment. If a cost has the attributes of both a repair and a betterment, the portion considered to be a betterment is included in the cost of the capital asset.

Government assistance:

Government assistance towards acquisition of capital assets is deducted from the related capital assets with any amortization calculated on the net amount.

Buildings and renovations:

All expenditures that provide future benefit beyond the annual operating period and which are an integral component of the building are classified as an addition to the building.

(i) Impairment of long-lived assets

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash generating unit level. The company tests long-lived assets for impairment on an annual basis or whenever events or changes in circumstances indicate that its carrying amount of the asset is not recoverable. An impairment loss is recognized when the carrying amount of the asset is not recoverable and exceeds its fair value. The impairment loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its recoverable amount. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the higher of fair value less costs to disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

(j) Revenue recognition

Interest on notes and loans receivable is recognized as revenue in the period earned.

Investment income is recorded in the period earned.

Provincial Nominee Program fees are recorded as revenue when earned.

Provincial Nominee Program defaults are recorded as revenue in the year in which the deposit period ends and the applicant does not meet the conditions for repayment.

Island Investment Development Inc.

Notes to Consolidated Financial Statements

March 31, 2021

Property operations revenue is recognized when all the following criteria have been met: transfer to the buyer of significant risks and rewards of ownership; the company does not retain any continuing managerial involvement; the revenue amount can be reliably measured; it is probably that the economic benefits will flow to the company; and costs incurred can be reliably measured.

Accommodation, food and beverage, sports centre, retail and airport operation revenues, included in property operations, are measured at the fair value of the consideration received or receivable less any trade discounts or volume rebates. Revenues are recognized when the goods or services have been provided to the customer, it is probable that the associated economic benefit will flow to the company and the amount of revenue can be reliably measured.

Revenue from commercial and residential rental operations, included in property operations, is recognized straight-line over the terms of the leases when collection is reasonably assured. The difference between the rental revenue recognized and the amounts contractually due under the lease agreements is recorded in trade receivables. The company retains substantially all of the benefits and risks of ownership of its income properties and, therefore, accounts for its leases with tenants as operating leases. Realty tax and operating cost recoveries, and other incidental income are recognized on an accrual basis.

Miscellaneous revenue is recognized in the period in which the transaction or events that give rise to the revenue occur and collection is reasonably assured.

(k) Government assistance and other grants

The Governments of Canada and Prince Edward Island have made grants to fund renovations to existing facilities of Slemon Park Corporation. Grants are not recognized until there is reasonable assurance that the entity will comply with the conditions attaching to the grant, and that the grant will be received. These funds, along with other grants received, are credited to the operating expenses or capital assets to which they relate. During the year, $253,963 (2020 - $156,057) in grants were received or receivable related to capital projects and credited to investment properties property and equipment.

(l) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

A provision for onerous contracts is recognized when the expected benefits to be derived by the company from a contract are lower than the unavoidable costs of meeting its obligations under the contract. No provisions meeting the criteria for recognition exist for the periods presented.

Island Investment Development Inc.

Notes to Consolidated Financial Statements
March 31, 2021

4 Agent agreement

Prince Edward Island Century 2000 Fund Inc.

The Federal Minister of Citizenship and Immigration acts as an Agent for the company and Crown corporations of other participating provinces by receiving investments from immigrant investors and disbursing them to the provincial Crown corporations in accordance with the allocation formula set out in the federal Immigration Regulations, 1978. All monies received by the Agent pursuant to the issuance of debt obligations are held by the Agent in a separate account from the moment such monies are received, on behalf of the company and the provincial designates. Investments are subject to a commission agreement whereby a 5% commission is paid to the party that facilitates an investment. These commissions are paid out of the special account by the Agent on the first day of the second month following the issuance of a visa to the investor to the party that made the facilitated investment, and are recorded as deferred financing charges by the company.

The Agent disburses the provincial allocation, less applicable commissions, to the company at the beginning of the five-year allocation period. The Agent issues a promissory note to the investor on behalf of the company. The company is obligated to repay the note, bearing interest at 0%, within 30 days after the expiry of the allocation period.

The company is required to repay the investor, through the Agent, the investor's promissory note within 90 days of receipt by the Agent of a request by the investor to withdraw his/her application for permanent residence, or upon the refusal of the application by the Minister.

In the 2014 Federal Government Budget, it was disclosed that Citizenship Immigration Canada (CIC) would be terminating the Federal Immigrant Investor Programs during the 2014 calendar year. Subsequently, CIC has communicated to all provinces that there will be no accelerated repayment schedule for funds received through the Immigrant Investor Program.

5 Critical accounting estimates and judgments

The company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the period the assumptions change. The principal areas involving a higher degree of judgment or complexity and/or area which require significant estimates is described below:

(a) Allowance for credit losses

The expected credit loss model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans and the recognition of lifetime losses on performing loans that have experienced a significant credit risk since origination.

The determination of a significant increase in credit risk takes into account many different factors since origination, and certain other criteria, such as delinquencies. The assessment of a significant increase in credit risk requires experienced credit judgment.

Island Investment Development Inc.

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In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

(b) Fair value of financial instruments

Fair value measurement techniques are used to value various financial assets and financial liabilities and are used in impairment testing on certain non-financial assets.

The fair values of the company's financial instruments were estimated using the valuation methods and assumptions described below. Since many of the company's financial instruments lack an available trading market, the fair values represent estimates of the current market value of instruments, taking into account changes in interest rates that have occurred since their origination. Due to the use of subjective assumptions and uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

Fair values of floating loans and deposits approximate book value as the interest rates on these instruments automatically re-price to market and the spread remains appropriate. Fixed rate loans are valued by discounting the contractual future cash flows at current market rates for loans with similar credit risks. Fixed rate deposits are valued by discounting the contractual future cash flows using market rates currently being offered for deposits with similar terms. A credit valuation adjustment is applied to the calculated fair value of uninsured deposits to account for the company's own risk.

The fair value for the company's investments as detailed in note 11 is determined as follows:

- Atlantic Canada Regional Venture Fund LP and Island Capital Partners Seed Investment Fund LP do not trade in a public market. Fair value is determined by using Level 3 indicators.

(c) Estimated useful lives of investment properties and property and equipment

Management estimates the useful lives of investment properties and property and equipment based on the period during which assets are expected to be available for use. The amounts and timing of recorded amortization expense of investment properties and property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, legal and other limits to use. It is possible that changes in these factors may cause changes in the estimated useful lives of the company's investment properties and property and equipment in the future.

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(d) Investment properties fair value

The fair market value of investment properties is disclosed on an annual basis as of the statement of financial position date. This fair value information is also used to identify potential impairment losses as of the statement of financial position date. The valuations are prepared using recognized valuation techniques and the principles of IFRS 13, Fair Value Measurement. The determination of the fair value requires the use of estimates and judgments on future cash flows from assets, discount rates applicable to those assets due to their nature and location, the unit of account, and assumptions with respect to highest and best use. These estimates are based on local market conditions existing at the statement of financial position date, including the impact of recent market transactions. The valuation techniques and significant unobservable inputs used in determining the fair value of investment properties are set out in note 8.

(e) Investment properties and property and equipment

The company's accounting policies related to investment properties and property and equipment are described in note 3. In applying these policies, judgment is applied to determine the significant components of each asset, including the useful lives over which componentized assets are to be amortized. Judgment is also required in determining what assets are classified as property, plant and equipment and what assets are classified as investment property.

(f) COVID-19

Since January 31, 2020, the outbreak of COVID-19 (coronavirus), has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures have caused material disruption to businesses globally resulting in an economic slowdown, and global equity markets have experienced significant volatility. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the outcome of government and central bank interventions.

The company has determined that these events have not had a material impact on the carrying value of assets and liabilities reported in these financial statements as at March 31, 2021. The duration and impact of the COVID-19 pandemic remains unclear at this time. Therefore, it is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the company for future periods.

Island Investment Development Inc.

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6 Financial instruments

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

		March 31, 2021		March 31, 2020	
	Fair level hierarchy	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Financial assets					
Cash	Level 1	19,518,800	19,518,800	18,704,173	18,704,173
Marketable securities	Level 1	13,331,443	13,331,443	5,562,756	5,562,756
Accounts receivable	Level 2	7,310,285	7,310,285	6,985,131	6,985,131
Demand loan receivable	Level 2	6,998,482	6,998,482	7,007,465	7,007,465
Notes receivable	Level 2	145,522,391	145,522,391	144,580,842	144,580,842
Advance to related company	Level 2	7,152,986	7,152,986	2,119,298	2,119,298
Investments in private companies	Level 3	4,155,397	4,155,397	4,148,387	4,148,387
Restricted funds	Level 1	72,729,781	72,729,781	121,489,012	121,489,012
		276,719,565	276,719,565	310,597,064	310,597,064
Financial liabilities carried					
Accounts payable and accrued liabilities	Level 2	3,214,712	3,214,712	2,895,037	2,895,037
Long-term debt	Level 2	5,825,439	5,825,439	7,920,859	7,920,859
Restricted funds	Level 2	72,729,781	72,729,781	121,489,012	121,489,012
		81,769,932	81,769,932	132,304,908	132,304,908

7 Accounts receivable

	2021 $	2020 $
Trade	1,691,050	1,870,112
Related party (note 17)	6,646,408	6,405,260
Other	495,478	243,444
Less: Allowance for doubtful accounts	(1,522,651)	(1,533,685)
	7,310,285	6,985,131

Island Investment Development Inc.

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8 Investment properties

The fair market value of investment properties as of March 31, 2021 is $37,240,000 (2020 - $18,603,638). The Investment properties have been valued by manageusing a capitalized net operating income method and a market approach. Under this method, capitalization rates are applied to net operating income (revenues less property operating expenses). The key assumption is the capitalization rate of 10% to 13 % for commercial assets and 7% for residential assets (2020 - 10% to 14%). The rate was further calibrated by applying a 20% discount to reflect a recent orderly transaction occurring at arm's length under current market conditions. This discount is to reflect the nature of these specialized assets and their location. Management engaged a third party appraiser to value the entire portfolio of assets during the 2021 fiscal year, based on 2020 operating results, and have updated the valuation numbers for the year ended March 31, 2021 based on those appraisal numbers.

This valuation process is classified as Level 3 of the fair value hierarchy and represents the estimated price that would be received to sell the asset in an orderly transaction between market participants at the measurement dates. The fair value is based on each asset group's current use as a revenue generating investment property. The current use is considered to be the highest and best use. The company utilized capitalization and discount rates based on recent market transactions and past appraisals. To the extent that rates change from one reporting period to the next,or should another rate be more appropriate than the rate previously used, the fair value of the investment properties would increase or decrease accordingly.

	Land $	Buildings, roads and paving $	Total $
Cost			
Balance - March 31, 2020	1,578,852	13,444,267	15,023,119
Additions	5,499	1,953,992	1,959,491
Grants received	-	(253,963)	(253,963)
Balance - March 31, 2021	1,584,351	15,144,296	16,728,647
Accumulated amortization			
Balance - March 31, 2020	(10,981)	(2,095,790)	(2,106,771)
Amortization expense	(12,510)	(658,000)	(670,510)
Balance - March 31, 2021	(23,491)	(2,753,790)	(2,777,281)
Net carrying value			
March 31, 2020	1,567,871	11,348,477	12,916,348
March 31, 2021	1,560,860	12,390,506	13,951,366

Island Investment Development Inc.

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The future minimum lease payments to be received under non-cancelable operating leases in aggregate for each of the following periods:

	$
Under 1 year	2,457,654
2 to 5 years	5,888,025
Over 5 years	6,062,278
Total	14,407,957

9 Demand loan receivable

	2021 $	2020 $
Demand note receivable from Finance PEI	6,998,482	6,998,482
Accrued interest receivable	-	8,983
	6,998,482	7,007,465

The company entered into an agreement for Finance PEI, a provincial Crown corporation, to receive a $15,000,000 revolving line of credit.

Interest is charged monthly at a rate equal to the Department of Provincial Treasury of Prince Edward Island's short-term lending rate and the total amount is repayable on demand.

The demand loan is secured by a promissory note for $15,000,000 and a revolving credit agreement.

Island Investment Development Inc.

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10 Notes receivable

(a) Loans at amortized cost

	2021			2020		
	Gross loans $	**Allowance for credit losses $**	**Net carrying amount $**	**Gross loans $**	**Allowance for credit losses $**	**Net carrying amount $**
Manufacturing and processing - general	51,308,551	13,624,187	37,684,364	53,987,632	13,140,488	40,847,144
Manufacturing and processing - steel	6,855,219	-	6,855,219	7,416,529	-	7,416,529
Information and communication technology	-	-	-	211,585	205,914	5,671
Aerospace	2,556,577	2,545,393	11,184	2,435,505	2,434,896	609
Tourism	28,408,281	2,197,325	26,210,956	26,653,323	2,113,329	24,539,994
General business	72,400,441	16,817,752	55,582,689	74,646,602	14,510,041	60,136,561
Agriculture	1,822,122	-	1,822,122	1,757,889	-	1,757,889
Fisheries/aquaculture	2,223,465	921,960	1,301,505	2,143,635	2,141,581	2,054
Residential	4,565,856	-	4,565,856	374,615	-	374,615
Bioscience	11,715,386	226,890	11,488,496	10,657,269	1,157,493	9,499,776
	181,855,898	36,333,507	145,522,391	180,284,584	35,703,742	144,580,842

Island Investment Development Inc.

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(b) Impaired loans

	2021			2020		
	Gross impaired loans $	**Allowance for credit losses $**	**Net carrying amount $**	**Gross impaired loans $**	**Allowance for credit losses $**	**Net carrying amount $**
Manufacturing and processing - general	27,704,320	13,236,815	14,467,505	13,265,019	12,711,251	553,768
Manufacturing and processing - steel	672,760	-	672,760	696,730	-	696,730
Information and communication technology	-	-	-	211,585	205,914	5,671
Aerospace	2,556,577	2,545,392	11,185	2,435,505	2,434,896	609
Tourism	28,408,281	2,197,325	26,210,956	15,506,915	1,988,316	13,518,599
General business	35,388,513	16,745,170	18,643,343	35,672,986	14,082,587	21,590,399
Agriculture	1,822,122	-	1,822,122	1,757,889	-	1,757,889
Fisheries/aquaculture	2,223,465	921,960	1,301,505	2,143,635	2,141,581	2,054
Bioscience	1,466,872	-	1,466,872	1,414,947	945,645	469,302
	100,242,910	35,646,662	64,596,248	73,105,211	34,510,190	38,595,021

(c) Allowance for credit losses

	2021			
	Balance as at April 1, 2020 $	**Provision for credit losses $**	**Net write-offs $**	**Net $**
Manufacturing and processing - general	13,140,489	483,695	-	13,624,184
Information and communication technology	205,914	(205,914)	-	-
Aerospace	2,434,897	110,496	-	2,545,393
Tourism	2,113,328	84,000	-	2,197,328
General business	14,510,041	2,307,711	-	16,817,752
Fisheries/aquaculture	2,141,580	(1,219,620)	-	921,960
Bioscience	1,157,493	(930,603)	-	226,890
	35,703,742	629,765	-	36,333,507

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				2020
	Balance as at April 1, 2019 $	**Provision for credit losses $**	**Net write-offs $**	**Net $**
Manufacturing and processing - general	10,048,679	3,091,810	-	13,140,489
Information and communication technology	157,554	48,360	-	205,914
Aerospace	2,493,664	(58,767)	-	2,434,897
Tourism	3,657,497	(1,544,169)	-	2,113,328
General business	14,158,175	351,866	-	14,510,041
Fisheries/aquaculture	978,357	1,163,223	-	2,141,580
Bioscience	1,762,190	(604,697)	-	1,157,493
	33,256,116	2,447,626	-	35,703,742

As at March 31, 2021	**Stage 1 $**	**Stage 2 $**	**Stage 3 $**	**Total $**
Manufacturing and processing - general	387,372	1,377,888	11,858,927	13,624,187
Aerospace	-	2,545,393	-	2,545,393
Tourism	-	681,277	1,516,048	2,197,325
General business	72,582	16,507,976	237,194	16,817,752
Fisheries/aquaculture	-	-	921,960	921,960
Bioscience	226,890	-	-	226,890
	686,844	21,112,534	14,534,129	36,333,507

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As at March 31, 2020	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Manufacturing and processing - general	429,237	1,650,007	11,061,244	13,140,488
Information and communication technology	-	-	205,914	205,914
Aerospace	-	2,434,896	-	2,434,896
Tourism	125,013	429,710	1,558,606	2,113,329
General business	427,454	13,823,586	259,001	14,510,041
Fisheries/aquaculture	-	2,051,730	89,851	2,141,581
Bioscience	211,848	-	945,645	1,157,493
	1,193,552	20,389,929	14,120,261	35,703,742

Loans past due but not impaired

	2021			2020		
	31 - 90 days	91+ days $	Total $	31 - 90 days $	91+ days $	Total $
Manufacturing and processing - general	-	2,724,119	2,724,119	-	2,724,119	2,724,119

Related party notes:

Included in manufacturing and processing are unsecured notes receivable due from Finance PEI of $3,660,992 (2020 - $3,703,648).

Included in notes receivable is accrued interest of $738,275 (2020 - $739,177) from Finance PEI.

11 Investment in private companies

	2021 $	2020 $
Investment in private companies:		
Atlantic Canada Regional Venture Fund LP	2,273,044	2,148,387
Island Capital Partners Seed Investment Fund	1,882,353	2,000,000
	4,155,397	4,148,387

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12 Deferred financing costs

			2021	2020
	Cost $	Accumulated amortization $	Net $	Net $
Commissions	752,857	692,013	60,844	77,100

13 Restricted funds

Restricted funds held in trust consist of the following amounts held under the Provincial Nominee Program:

	2021 $	2020 $
Good Faith deposits	79,073	104,073
Language deposits	21,665	21,665
Escrow deposits - business impact category	71,929,043	120,663,274
Intermediary deposits	700,000	700,000
	72,729,781	121,489,012

The company has internally restricted cash and marketable securities to meet or exceed the restricted funds payable.

14 Accounts payable and accrued liabilities

	2021 $	2020 $
Trade payables and accrued liabilities	1,882,768	1,674,833
Government remittances	67,821	75,866
Related entities	681,231	405,535
Other	582,892	738,803
	3,214,712	2,895,037

Island Investment Development Inc.

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15 Long-term debt

	2021 $	2020 $
Prince Edward Island Century 2000 Fund Inc.		
Non-interest bearing notes payable, nominally dated with commencement dates ranging from April 1, 2016 to April 1, 2019, repayable in full in five years from the commencement date pursuant to the federally administered Immigrant Investor Program	654,463	2,032,751
Island Investment Development Inc.		
2.95% term loan, due August 2023, to the Province of Prince Edward Island, payable in quarterly payments of $155,574 including interest, unsecured	3,668,499	4,173,233
2.46% term loan, due November 2022, to the Province of Prince Edward Island, payable in quarterly payments of $47,962 including interest, unsecured	327,627	508,625
Slemon Park Corporation		
Non-interest bearing loan, payments of $6,250, commenced on September 1, 2019 for 120 consecutive months	687,500	706,250
Non-interest bearing loan, payments of $4,100, commencing on July 1, 2020, followed by payments of $4,275 for all remaining periods	487,350	500,000
	5,825,439	7,920,859

Prince Edward Island Century 2000 Fund Inc.
All notes payable are pursuant to the Immigrant Investor Regulations.

The Province of Prince Edward has provided a guarantee of the notes payable to the Minister of Citizenship and Immigration (Agent) in the event of the failure of Prince Edward Island Century 2000 Fund Inc. to repay the notes payable to the Agent within 30 days following the end of the allocation period.

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Slemon Park Corporation

As additional security for certain long-term debt and an authorized operating line of credit of $900,000, Slemon Park Corporation has provided a location specific general security agreement over all present and future personal property of certain buildings, a floating charge over inventory and appliances of the residential units, an assignment of residential rents, an assignment of specific commercial rents, a first fixed charge mortgage with cash value insurance coverage over the residential units, a collateral mortgage over certain properties and a general assignment of book debts.

The principal payments due on the long-term debt over the next five years are as follows:

	$
Year ending March 31, 2022	1,191,373
2023	1,055,600
2024	2,782,516
2025	126,300
2026	126,300

16 Revenue from contracts with customers

The company has recognized the following amounts related to revenue in accordance with IFRS 15 on the statement of comprehensive income:

	2021 $	2020 $
Accommodations	1,271,834	1,503,789
Food and beverage	940,302	1,906,831
Airport	481,638	513,008
Retail	245,897	300,488
	2,939,671	4,224,116

The company has recognized the following amounts related to revenue in accordance with IFRS 17 on the statement of income and comprehensive income:

	2021 $	2020 $
Commercial rent	4,155,117	4,043,533
Residential rent	2,997,725	3,038,340
	7,152,842	7,081,873
	10,092,513	11,305,989

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The revenue from contracts with customers is included in property operations on the Consolidated Statement of Comprehensive Income.

The above revenues recognized in accordance with IFRS 15 were derived from hotel, restaurant, airport and retail sites which are located at Slemon Park, Prince Edward Island. The company has not recognized any additional contract assets or liabilities associated with this revenue.

17 Related party transactions

Related parties

Finance PEI, Innovation PEI and Tourism PEI are Crown corporations of the Province of Prince Edward Island.

Related party balances

Included in accounts receivable is $6,044,150 (2020 - $5,818,648) from Finance PEI.

Included in accounts payable and accrued liabilities is $85,445 (2020 - $86,349) to Innovation P.E.I. and $465,598 (2020 - nil) to the Province of Prince Edward Island.

Advances to related company:

	2021 $	2020 $
Finance PEI	7,152,986	2,119,298

Advances to related company are non-interest bearing with no specific terms of repayment.

Transactions

Included in interest on notes and loan receivable is $46,065 (2020 - $164,904) from Finance PEI.

Included in property operations is revenue of $4,034,394 (2020 - $3,817,436) and purchases of $584,311 (2020 - $590,370) from enterprises controlled by the Province of Prince Edward Island.

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Included in expenses are management fees of $537,500 (2020 - $535,326) and rent of $50,000 (2020 - $50,000) to Finance PEI and interest on notes payable of $138,313 (2020 - $134,079) to the Province of Prince Edward Island.

Included in capital grants received is $173,837 (2020 - $156,065) from the Province of Prince Edward Island or enterprises controlled by the Province of Prince Edward Island.

As of March 31, 2021, Island Investment Development Inc. administered the Mandatory Isolation Support for Temporary Foreign Workers Program on behalf of the federal government for employers in Prince Edward Island. The company administered $1,131,281 in funds for this program with $465,598 to be paid to the Department of Finance to cover lodging costs and $665,682 paid to employers to cover wage costs. As the company was acting as an agent for the federal government, these expenditures are not included as expenses of the corporation.

These transactions are in the normal course of operations and are measured at the amount of consideration established and agreed to by the two parties and approximate fair market value.

Compensation of directors and key management personnel

The remuneration of directors and key management personnel during 2021 and 2020 were as follows:

	2021 $	2020 $
Salaries	778,540	636,588

Key management personnel consist of the executive director, directors and manager needed to administer the programs in Island Investment Development Inc. Certain members of key management are employed under Innovation PEI and the portion of their salary which pertains to the work performed for Island Investment Development Inc. is reflected in the $537,500 (2020 - $535,326) management fee paid to Finance PEI.

18 Commitments

Prince Edward Island Century 2000 Fund Inc. loans approved but not disbursed at March 31, 2021 amount to $5,739,711 (2020 - $14,301,198).

Island Investment Development Inc. has committed to, but not disbursed $2,726,954 (2020 - $2,851,611) in advances to private companies.

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19 Financial risk management objectives and policies

Island Investment Development Inc.'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 Island Investment Development Inc. 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 notes receivable and marketable securities.

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

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

	2021 $	2020 $
Cash	19,518,800	18,704,173
Marketable securities	13,331,443	5,562,756
Accounts receivable	7,310,285	6,985,131
Demand loan receivable	6,998,482	7,007,465
Notes receivable	145,522,391	144,580,842
Advances to related companies	7,152,986	2,119,298
Investment in private company	4,155,397	4,148,387
Restricted funds	72,729,781	121,489,012
	276,719,565	310,597,064

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i) Notes receivable

For the notes 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 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. The company factors the financial strength of each borrower, the security which is available, their position in industry and past payment history when assessing all potential loans.

ii) Cash and marketable securities

Cash and marketable securities have a low credit risk exposure as the assets are high quality investments with low risk counterparties.

(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, notes payable and to pay back any deposits under the Provincial Nominee Program as they come due. The company's approach to manage liquidity risk is to closely monitor its cash flows and forecast the expected receipts and obligations.

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

					2021
	Under 1 year $	**Between 1 - 2 years $**	**Between 2 - 5 years $**	**Over 5 years $**	**Total $**
Accounts payable and accrued liabilities	3,214,712	-	-	-	3,214,712
Long-term debt	1,191,373	1,055,600	3,035,116	543,350	5,825,439
Restricted funds	72,729,781	-	-	-	72,729,781
	77,135,866	1,055,600	3,035,116	543,350	81,769,932

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					2020
	Under 1 year $	**Between 1 - 2 years $**	**Between 2 - 5 years $**	**Over 5 years $**	**Total $**
Accounts payable and accrued liabilities	2,895,037	-	-	-	2,895,037
Long-term debt	2,229,266	1,191,373	3,912,470	587,750	7,920,859
Restricted funds	121,489,012	-	-	-	121,489,012
	126,613,315	1,191,373	3,912,470	587,750	132,304,908

As at March 31, 2021, the company has $105,580,024 (2020 - $145,755,941) in cash and marketable securities that is readily available to be used to meet the cash outflows of the company's financial liabilities.

(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) Price risk

The company is exposed to price risk because of the marketable securities held by the company that are classified as fair value through profit or loss. This company is not exposed to commodity price risk. To manage its price risk arising from marketable security is the company diversifies its portfolio.

(ii) Interest rate risk

The following table sets out the assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the company's interest rate risk position is limited by the fact that borrowers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing date. For example, notes receivable are shown at contractual maturity but could prepay earlier.

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					2021
	Under 1 year $	**Over 1 to 5 years $**	**Over 5 years $**	**Not interest rate sensitive $**	**Total $**
Assets					
Cash	19,518,800	-	-	-	19,518,800
Marketable securities	13,331,443	-	-	-	13,331,443
Accounts receivable	-	-	-	7,310,285	7,310,285
Prepaid expenses	-	-	-	377,947	377,947
Inventory	-	-	-	119,466	119,466
Demand loan receivable	6,998,482	-	-	-	6,998,482
Effective interest rate	1.53%				
Notes receivable (net of allowance for losses)	26,940,651	96,199,427	22,382,313	-	145,522,391
Effective interest rate	3.87%	4.07%	2.43%		
Advances to related company	-	-	-	7,152,986	7,152,986
Investment in private companies	-	-	-	4,155,397	4,155,397
Deferred financing costs	-	-	-	60,844	60,844
Property and equipment	-	-	-	3,569,864	3,569,864
Investment properties	-	-	-	13,951,366	13,951,366
Restricted funds	-	-	-	72,729,781	72,729,781
Total assets	66,789,376	96,199,427	22,382,313	109,427,936	294,799,052
Liabilities and surplus					
Accounts payable and accrued liabilities	-	-	-	3,214,712	3,214,712
Long-term debt	1,191,373	4,090,716	543,350	-	5,825,439
Effective interest rate	1.60%	1.51%	0.00%		
Restricted funds	-			72,729,781	72,729,781
Effective interest rate	0.94%				
Retained earnings	-	-	-	213,029,120	213,029,120
Total liabilities and retained earnings	1,191,373	4,090,716	543,350	288,973,613	294,799,052
Interest rate sensitivity gap	65,598,003	92,108,711	21,838,963	(179,545,677)	-

Island Investment Development Inc.

Notes to Consolidated Financial Statements

March 31, 2021

					2020
	Under 1 year $	**Over 1 to 5 years $**	**Over 5 years $**	**Not interest rate sensitive $**	**Total $**
Assets					
Cash	18,704,173	-	-	-	18,704,173
Marketable securities	5,562,756	-	-	-	5,562,756
Accounts receivable	-	-	-	6,985,131	6,985,131
Prepaid expenses	-	-	-	44,104	44,104
Inventory	-	-	-	121,272	121,272
Demand loan receivable	6,998,482	-	-	8,983	7,007,465
Effective interest rate	1.34%				
Note receivable (net of allowance for losses)	14,357,007	114,424,151	15,799,684	-	144,580,842
Effective interest rate	3.90%	4.15%	2.43%		
Advances to related company	-	-	-	2,119,298	2,119,298
Investment in private companies	-	-	-	4,148,387	4,148,387
Deferred financing costs	-	-	-	77,100	77,100
Property and equipment	-	-	-	3,049,115	3,049,115
Investment properties	-	-	-	12,916,348	12,916,348
Restricted funds	-	-	-	121,489,012	121,489,012
Total assets	45,622,418	114,424,151	15,799,684	150,958,750	326,805,003
Liabilities and surplus					
Accounts payable and accrued liabilities	-	-	-	2,895,037	2,895,037
Long-term debt	2,227,866	5,095,443	597,550	-	7,920,859
Effective interest rate	1.60%	1.51%	0.00%		
Restricted funds	-			121,489,012	121,489,012
Retained earnings	-	-	-	194,500,095	194,500,095
Total liabilities and retained earnings	2,227,866	5,095,443	597,550	318,884,144	326,805,003
Interest rate sensitivity gap	43,394,552	109,328,708	15,202,134	(167,925,394)	-

(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.

Island Investment Development Inc.

Notes to Consolidated Financial Statements

March 31, 2021

(e) Capital management

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

Island Investment Development Inc.

Schedule of Property and Equipment

For the year ended March 31, 2021 **Schedule**

	Cost 2021				Accumulated amortization 2021			2021
	Beginning $	Additions $	Grants Received $	Ending $	Beginning $	Amortization $	Ending $	Net book value $
Land	30,043	-	-	30,043	-	-	-	30,043
Buildings and improvements	1,052,086	220,621	-	1,272,707	243,246	42,680	285,926	986,781
Paving and water and sewer	1,501,984	153,753	-	1,655,737	272,983	83,955	356,938	1,298,799
Furniture and equipment	1,430,126	190,051	-	1,620,177	679,863	158,769	838,632	781,545
Motor vehicles	290,739	76,972	-	367,711	101,237	52,602	153,839	213,872
Computer equipment and software	127,681	270,350	-	398,031	86,215	52,992	139,207	258,824
	4,432,659	911,747	-	5,344,406	1,383,544	390,998	1,774,542	3,569,864

	Cost 2020				Accumulated amortization 2020			2020
	Beginning $	Additions $	Grants Received $	Ending $	Beginning $	Amortization $	Ending $	Net book value $
Land	30,043	-	-	30,043	-	-	-	30,043
Buildings and improvements	930,985	121,101	-	1,052,086	208,140	35,106	243,246	808,840
Paving and water and sewer	1,417,942	92,571	(8,529)	1,501,984	188,308	84,675	272,983	1,229,001
Furniture and equipment	1,151,826	278,300	-	1,430,126	540,626	139,237	679,863	750,263
Motor vehicles	163,733	127,006	-	290,739	62,162	39,075	101,237	189,502
Computer equipment and software	105,897	21,784	-	127,681	73,111	13,104	86,215	41,466
	3,800,426	640,762	(8,529)	4,432,659	1,072,347	311,197	1,383,544	3,049,115

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CHARTERED PROFESSIONAL ACCOUNTANTS

Consolidated Financial Statements

Island Waste Management Corporation

March 31, 2021

Contents

Management's Responsibility for Financial Reporting
March 31, 2021

The financial statements are the responsibility of management and have been prepared in conformity with International Financial Reporting Standards. Management is also responsible for the notes to the financial statements and schedules, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements. Based on management's knowledge, having exercised reasonable diligence, the financial statements fairly represent in all material respect, the financial position as at March 31, 2021.

Management is responsible for implementing and maintaining a system of internal control to provide reasonable assurance that reliable financial information is produced.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board reviews internal financial reports on a regular basis and externally audited financial statements annually. The Board recommends approval of the audited external financial statements and meets periodically with management and external auditors concerning internal controls and other matters relating to financial reporting.

Grant Thornton, Island Waste Management Corporation's independent auditors, has performed an audit of Island Waste Management Corporation's financial statements in accordance with International Financial Reporting Standards. The Independent Auditor's Report outlines the scope of this independent audit and includes the opinion expressed on the financial statements. The auditors have full and free access to financial information and management of Island Waste Management Corporation as required.

Karen MacDonald	Sheri Taylor Bradley
Chief Executive Officer	Chief Financial Officer

Independent Auditor's Report

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To the Board of Directors of

Island Waste Management Corporation

Opinion

We have audited the consolidated financial statements of Island Waste Management Corporation ("the Corporation"), which comprise the consolidated statement of financial position as at March 31, 2021 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Island Waste Management Corporation as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 consolidated Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion of the consolidated financial statements of Island Waste Management Corporation as a whole. The supplementary information included in the schedules presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information has been subject to the auditing procedures applied only to the extent necessary to express an opinion on the audit of the financial statements taken as a whole.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), 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.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation'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 the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 the Corporation'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 the Corporation'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 consolidated 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 the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Grant Thornton LLP

Charlottetown, Canada

June 21, 2021

Chartered Professional Accountants

Island Waste Management Corporation
Consolidated Statement of Operations and Changes in Net Assets

Year ended March 31	**2021**	2020
Revenues		
Household user fees (Page 21)	**$ 14,969,600**	$ 14,482,679
Disposal fees (Page 21)	**4,272,029**	4,673,494
Tires	**-**	1,175,107
Decommissioning and monitoring	**21,388**	21,388
Environmental Industrial Services Inc. (Page 25)	**1,210,543**	1,270,309
Stewardships and other	**307,676**	312,699
	20,781,236	21,935,676
Expenditures		
Administration (Page 22)	**1,499,002**	1,457,804
Advertising, education and public relations (Page 22)	**132,600**	131,719
Operational costs		
Residential collection (Page 22)	**7,037,177**	6,961,188
Disposal (Pages 23 - 24)	**7,989,740**	7,852,881
Tire collection and disposal (Page 24)	**-**	1,175,107
Decommissioning and monitoring	**21,388**	21,388
Interest on long-term debt	**910,472**	1,010,710
Depreciation	**2,054,846**	2,049,054
Environmental Industrial Services Inc. (Page 25)	**1,210,543**	1,270,309
Stewardships and other	**342,599**	275,095
	21,198,367	22,205,255
Excess of expenditures over revenues	**$ (417,131)**	$ (269,579)
Net assets, beginning of year	**$ 2,005,047**	$ 2,274,626
Excess of expenditures over revenues	**(417,131)**	(269,579)
Net assets, end of year	**$ 1,587,916**	$ 2,005,047

See accompanying notes and schedules to the consolidated financial statements.

Island Waste Management Corporation
Consolidated Statement of Financial Position

March 31	**2021**	2020
Assets		
Current		
Cash and cash equivalents	**$ 882,101**	$ 1,909,700
Receivables (Note 3)	**1,220,559**	1,262,763
Term deposits	**1,500,000**	1,500,000
Prepaids	**55,011**	52,265
	3,657,671	4,724,728
Performance deposits	**616,745**	615,153
Property and equipment (Note 4)	**20,476,188**	21,673,477
	$ 24,750,604	$ 27,013,358
Liabilities		
Current		
Payables and accruals	**$ 2,758,656**	$ 3,112,321
Current portion of long-term debt (Note 5)	**1,994,005**	1,881,800
Debt due on demand (Note 5)	**208,755**	215,575
	4,961,416	5,209,696
Contractor deposits	**614,000**	614,000
Deferred government assistance (Note 7)	**2,328,853**	2,470,008
Long-term debt (Note 5)	**11,678,589**	13,437,315
Asset retirement obligation (Note 8)	**3,579,830**	3,277,292
	23,162,688	25,008,311
Net assets	**1,587,916**	2,005,047
	$ 24,750,604	$ 27,013,358

Commitments (Note 9)

On behalf of the Board

_____ Director _____ Director

See accompanying notes and schedules to the consolidated financial statements.

Island Waste Management Corporation
Consolidated Statement of Cash Flows

Year ended March 31	**2021**	2020
Increase (decrease) in cash and cash equivalents		
Operating		
Cash received from customers	**$ 20,719,681**	$ 21,772,389
Cash payments to suppliers	**(14,916,353)**	(15,088,098)
Cash payments to employees	**(3,526,028)**	(3,507,830)
Interest paid	**(919,806)**	(1,018,701)
Interest received	**19,349**	48,337
	1,376,843	2,206,097
Financing		
Proceeds from long-term debt	**251,622**	-
Government assistance received	**4,799**	-
Repayment of long-term debt	**(1,904,956)**	(1,987,145)
	(1,648,535)	(1,987,145)
Investing		
Proceeds from sale of equipment	**53,000**	-
Purchase of property and equipment	**(808,907)**	(450,617)
	(755,907)	(450,617)
Net decrease in cash and cash equivalents	**(1,027,599)**	(231,665)
Cash and cash equivalents		
Beginning of year	**1,909,700**	2,141,365
End of year	**$ 882,101**	$ 1,909,700

See accompanying notes and schedules to the consolidated financial statements.

Island Waste Management Corporation
Notes to the Consolidated Financial Statements
March 31, 2021

1. Nature of operations

The Corporation is a Prince Edward Island crown corporation established under the provisions of the *Environmental Protection Act* and therefore is exempt from income taxes under paragraph 149(1)(d) of the Canadian *Income Tax Act*. The Corporation's objective is to implement and manage a province-wide waste management system. This includes the collection and disposal of solid waste generated in Prince Edward Island.

Environmental Industrial Services Inc. is a wholly-owned subsidiary of Island Waste Management Corporation. The Corporation's objective is to operate water and wastewater facilities.

The Corporation and its wholly owned subsidiary are located at 110 Watts Avenue, Charlottetown, Prince Edward Island.

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on June 21, 2021.

2. Summary of significant accounting policies

Basis of presentation and adoption of IFRS
The consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements of the Island Waste Management Corporation comply, in all material respects, with IFRS as issued by the International Accounting Standards Board (IASB) in effect as at March 31, 2021.

The principal accounting policies applied in the preparation of the consolidated financial statement are set out below.

Basis of measurement
The consolidated financial statements of the Corporation have been prepared on a historical cost basis. The Corporation's functional currency is the Canadian dollar, which is the currency of the primary economic environment in which the Corporation operates, which is also the presentation currency of the consolidated financial statements.

Principals of consolidation
The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Environmental Industrial Services Inc. Significant intercompany transactions are eliminated upon consolidation.

Cash and cash equivalents
Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts, and highly liquid temporary money market instruments with original maturities of three months or less. Bank borrowings are considered to be financing activities.

Island Waste Management Corporation
Notes to the Consolidated Financial Statements
March 31, 2021

2. Summary of significant accounting policies (cont'd)

Borrowing costs
Borrowing costs directly attributable to the acquisition or construction of property, plant and equipment are added to the cost of the assets until they are substantially ready for their intended use.

Revenue recognition
Revenues are recognized when performance obligations under agreements or contracts are satisfied, in an amount that reflects the consideration the Corporation expects to be entitled to in exchange for those services.

The Corporation determines revenue recognition through the following steps:
1) Identification of the contract, or contracts with a customer;
2) Identification of the performance obligations in the contract;
3) Determination of the transaction price;
4) Allocation of the transaction price to the performance obligations in the contract; and
5) Recognition of revenue, when, or as, the Corporation satisfies a performance obligation.

Household user fees are based on an annual assessment applied to the household's property tax assessment. Revenue is recognized straight-line over the year on a monthly basis based on the annual assessment rate.

Disposal revenues are recognized when the waste has been delivered to the drop off facilities.

Revenues and earnings from utility user fees and excess expenditure recoveries are recorded when collection is reasonably assured, and all other significant conditions of service are met.

Deferred government assistance
Government grants relating to the acquisition of assets and equipment purchased by Environmental Industrial Services Inc. are recorded as deferred credits. This account is being amortized on the same basis as the related assets are being depreciated and is reflected as a reduction in current depreciation expense.

Financial instruments
The Corporation's financial assets are classified as fair value through profit or loss, or amortized cost. Financial liabilities are classified as amortized cost. Financial assets and liabilities are initially recognized at fair value with subsequent measurement based on classification. The classification depends on the purpose for which the financial instruments were acquired, their characteristics and choice where applicable.

Financial assets are measured at fair value except those classified as amortized cost which are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument, then subsequently carried at amortized cost using the effective interest rate method.

Island Waste Management Corporation
Notes to the Consolidated Financial Statements
March 31, 2021

2. Summary of significant accounting policies (cont'd)

Financial liabilities are initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and are subsequently carried at cost using the effective interest rate method.

Impairment of financial assets
The Corporation measures impairment of financing assets using an expected credit loss ("ECL") model. This applies to financial assets classified at amortized cost. The ECL model results in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual impairment.

Accounting estimates and measurement uncertainty
The preparation of consolidated financial statements in conformity with IFRS requires the use of judgements, assumptions, and estimates as at the date of the consolidated financial statements that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities and the reported amounts of revenues and expenses during the reporting periods presented.

Measurement uncertainty exists when there is a variance between the recognized amount and another reasonable amount. Some accounting measurements require management's best estimate, based on assumptions as at the consolidated financial statement date that reflect the most probable set of economic conditions and planned courses of action.

Asset retirement obligations, employee future benefits, allowance for doubtful accounts and depreciation are the most significant items that are based on accounting estimates. Actual results could differ from the estimates made by management in these consolidated financial statements, and these differences, which may be material, could require adjustment in subsequent reporting periods. See Note 7 for additional details on the asset retirement obligation.

Provisions
Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow or resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Island Waste Management Corporation
Notes to the Consolidated Financial Statements
March 31, 2021

2. Summary of significant accounting policies (cont'd)

A provision for onerous contracts is recognized when the expected benefits to be derived by the Corporation from a contract are lower than the unavoidable costs of meeting its obligations under the contract.

COVID-19 estimation uncertainty
In March 2020, the World Health Organization declared a global pandemic as a result of the emergence and rapid transmission of a novel strain of the coronavirus (COVID-19). The pandemic has significantly affected the global economy, disrupting business operations and economic activity worldwide. The Corporation has not observed any material impairment on assets or a significant change in operations as a result of the COVID-19 pandemic. However, due to rapid developments and uncertainty surrounding COVID-19 it is not possible to predict the future impact that COVID-19 may have on the Corporation's financial position and operating results in the future. It is possible that estimates will change as a result of COVID-19 and the impact of changes could be material to the Corporation. Management is closely monitoring the global pandemic's impact on the Corporation's operations and will update results as necessary.

Specific accounting policies
To facilitate a better understanding of the Corporation's consolidated financial statements, significant accounting policies are disclosed in the notes, where applicable, of the related accounting topics. A listing of these notes is as follows:

Note	Topic	Page
4	Property and equipment	11
8	Asset retirement obligation	14
11	Employee future benefits	18

Island Waste Management Corporation
Notes to the Consolidated Financial Statements
March 31, 2021

3. Receivables	2021	2020
Trade	**$ 1,003,818**	$ 1,021,103
Sales tax, net	**216,741**	241,660
	$ 1,220,559	$ 1,262,763

4. Property and equipment

Accounting policy
Property and equipment are reported at cost less subsequent depreciation and impairment losses. The cost of property and equipment includes expenditures that are directly attributable to their acquisition or construction, including borrowing costs, and any other cost directly attributable to the installation and decommissioning of the asset. Property and equipment are depreciated over their estimated lives on the diminishing balance basis. When parts of an item of property and equipment have materially different useful lives or patterns of benefit consumption, they are accounted for separately (i.e., as major components). The rates used are as follows:

Buildings	20 yrs,	straight line
Motor vehicles	5 yrs,	straight line
Office equipment	5 yrs,	straight line
Computer equipment	5 yrs,	straight line
Computer software	5 yrs,	straight line
Leasehold improvements	5 yrs,	straight line
Site equipment	5 and 10 yrs,	straight line
Leachate facility	15, 25 and 30 yrs,	straight line
Compost facility	10, 15, 20 and 25 yrs,	straight line
Waste Watch drop-off centers	15 yrs,	straight line
Waste and compost carts	10 and 20 yrs,	straight line
Waste water infrastructure	40 yrs,	straight line

Landfill cells are depreciated based on volume used throughout the year.

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

IAS 36, Impairment of Assets, requires an entity to test assets for impairment if indications of impairment exist. Based on an analysis of cash flows, the Corporation has established that the appropriate cash generating unit for impairment review is the entire entity. As the Corporation has the power to increase disposal and sewer rates to ensure full funding into the foreseeable future, impairment at the entity level is remote. As at March 31, 2020, management conducted an impairment review at the entity level, which confirmed that there were no significant indicators of impairment which would have a material impact on the Corporation’s ability to generate future economic benefits from its operating non-financial assets.

Island Waste Management Corporation
Notes to the Consolidated Financial Statements
March 31, 2021

4. Property and equipment (cont'd)

	Land	Buildings	Landfill cells	Leachate facility	Compost facility	WasteWatch drop-off	Waste carts	Site equipment	Motor vehicles	Office equip	EISI Infrastruct.	Total
Gross carrying												
Balance Apr 1, 2020	$ 832,524	611,447	14,301,472	2,708,134	22,473,457	3,002,215	7,400,803	2,830,357	1,297,822	490,318	2,872,616	$ 58,821,165
Additions	-	-	276,640	-	109,924	2,500	358,264	259,770	66,408	12,042	-	1,085,548
Dispositions	-	-	(18,234)	-	-	-	(258,014)	(166,700)	(135,589)	-	-	(578,537)
Balance Mar 31, 2021	832,524	611,447	14,559,878	2,708,134	22,583,381	3,004,715	7,501,053	2,923,427	1,228,641	502,360	2,872,616	59,328,176
Depreciation and Impairment												
Balance Apr 1, 2020	-	(300,476)	(8,356,579)	(1,017,756)	(17,061,597)	(2,186,306)	(4,596,524)	(1,829,886)	(986,940)	(433,021)	(378,602)	(37,147,687)
Disposals	-	-	-	-	-	-	216,992	166,700	123,714	-	-	507,406
Depreciation	-	(33,232)	(204,483)	(123,431)	(732,116)	(200,230)	(356,080)	(231,628)	(153,549)	(31,992)	(144,965)	(2,211,706)
Balance Mar 31, 2021	-	(333,708)	(8,561,062)	(1,141,187)	(17,793,713)	(2,386,536)	(4,735,612)	(1,894,814)	(1,016,775)	(465,013)	(523,567)	(38,851,987)
Carrying amount	**$ 832,524**	**277,739**	**5,998,816**	**1,566,947**	**4,789,668**	**618,179**	**2,765,441**	**1,028,613**	**211,866**	**37,347**	**2,349,049**	**$ 20,476,189**
Gross carrying												
Balance Apr 1, 2019	$ 832,524	611,447	13,695,967	2,708,134	22,473,457	2,915,561	7,413,286	2,795,557	1,167,313	452,380	2,867,000	$ 57,932,626
Additions	-	-	605,505	-	-	86,654	131,582	58,216	130,509	37,938	5,616	1,056,020
Dispositions	-	-	-	-	-	-	(144,065)	(23,416)	-	-	-	(167,481)
Balance Mar 31, 2020	832,524	611,447	14,301,472	2,708,134	22,473,457	3,002,215	7,400,803	2,830,357	1,297,822	490,318	2,872,616	58,821,165
Depreciation and Impairment												
Balance Apr 1, 2019	-	(267,247)	(8,220,246)	(894,325)	(16,318,008)	(1,989,047)	(4,353,819)	(1,555,089)	(837,316)	(408,143)	(238,398)	(35,081,638)
Disposals	-	-	-	-	-	-	114,029	21,074	-	-	-	135,103
Depreciation	-	(33,232)	(136,333)	(123,431)	(743,590)	(197,259)	(356,734)	(295,871)	(149,624)	(24,878)	(140,204)	(2,201,156)
Balance Mar 31, 2020	-	(300,479)	(8,356,579)	(1,017,756)	(17,061,598)	(2,186,306)	(4,596,524)	(1,829,886)	(986,940)	(433,021)	(378,602)	(37,147,691)
Carrying amount	**$ 832,524**	**310,968**	**5,944,893**	**1,690,378**	**5,411,859**	**815,909**	**2,804,279**	**1,000,471**	**310,882**	**57,297**	**2,494,014**	**$ 21,673,474**

Island Waste Management Corporation
Notes to the Consolidated Financial Statements
March 31, 2021

5. Long-term debt	2021	2020
6.40% debenture amortized to and maturing in December 2027, payable in quarterly instalments of principal and interest of $599,547. The debenture is unconditionally secured by the Province of Prince Edward Island.	**$ 13,061,487**	$ 14,563,225
1.91% debenture amortized to and maturing in June 2022, payable in monthly instalments of principal and interest of $10,493.	**155,409**	277,095
2.56% debenture amortized and maturing in January, 2022, payable in monthly instalments of principal and interest of $22,301.	**220,418**	478,795
Prime plus 3% demand loan advanced to Environmental Industrial Services Inc. As security for the loan, the borrower has provided a promissory note for the full amount of the loan. The loan will not be outstanding for a period greater than 120 months.	**126,631**	133,451
Prime plus 1% demand loan advanced to Environmental Industrial Services Inc. As security for the loan, the borrower has provided a promissory note for the full amount of the loan.	**82,124**	82,124
1.13% debenture amortized to and maturing in November 2025, payable in monthly instalments of principal and interest of $4,315.	**235,280**	-
	13,881,349	15,534,690
Less: current portion	**1,994,005**	1,881,800
debt due on demand	**208,755**	215,575
	$ 11,678,589	$ 13,437,315

Based on normal repayment terms, annual principal repayments in each of the next five years are due as follows: 2022 - $2,202,760; 2023 - $1,786,389; 2024 - $1,867,345; 2025 - $1,987,013 and beyond 2026 - $6,037,842.

Island Waste Management Corporation
Notes to the Consolidated Financial Statements
March 31, 2021

6. Revenue from contracts with customers

The Corporation has recognized the following amounts related to revenue in accordance with IFRS 15 on the statement of operations and changes in net assets.

	2021	2020
Household user fees	**$ 14,969,600**	$ 14,482,679
Disposal fees	**4,272,029**	4,673,494
Tires	**-**	1,175,107
Decommissioning and monitoring	**21,388**	21,388
Environmental Industrial Services Inc.	**1,210,543**	1,270,309
Stewardships and other	**307,676**	312,699
	$ 20,781,236	$ 21,935,676

These revenues recognized in accordance with IFRS 15 were derived from household user fees and waste management disposal sites. The Corporation has not recognized any additional contract assets or liabilities associated with this revenue.

7. Deferred government assistance

Deferred revenue represents government assistance received by Environmental Industrial Services Inc. for water and sewer infrastructure. The revenue will be recognized over the life of the associated water and sewer assets.

	2021	2020
Balance, beginning of year	**$ 2,470,008**	2,614,515
Amount received or receivable during the year	**4,799**	-
Amount recognized as revenue during the year	**(145,954)**	(144,507)
Balance, end of year	**$ 2,328,853**	$ 2,470,008

8. Asset retirement obligation

Accounting policy

An asset retirement obligation is recognized as a liability for obligations associated with the closure of the Corporation's landfill site and returning such land to its original condition as set by standards of environmental regulations.

Island Waste Management Corporation
Notes to the Consolidated Financial Statements
March 31, 2021

8. Asset retirement obligation (cont'd)

Asset retirement obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the date of the statement of financial position. Provisions are determined by discounting the expected future cash flows at a risk-free rate. The expected cash flows reflect current market assessments and the risks specific to the liability.

The obligation is reviewed regularly by the Corporation's management based on current regulations, cost, technologies and industry standards. The discounted obligation is initially capitalized as part of the carrying amount of the related landfill and a corresponding liability is recognized. The increase in the landfill site asset is depreciated over the estimated life of the corresponding landfill while the liability is accreted as finance expense in earnings, until settled or sold. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time, changes in the estimated future cash flows underlying the obligation and changes in the risk-free rate. Estimated future cash flows are based on estimated current costs adjusted to the future expected closure date by applying an estimate of inflation. The increase in the obligation due to the passage of time is recognized as finance expenses whereas increases and/or decreases due to changes in the estimated future cash flows or changes in the risk-free rate are capitalized. Actual costs incurred upon settlement of the obligation are charged against the obligation to the extent the obligation was established.

Any reduction on the obligation, and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss.

If the change in estimate results in an increase in the obligation, and, therefore, an addition to the carrying value of the asset, the Corporation considers whether this is an indication of impairment of the asset as a whole and, if so, tests for impairment in accordance with IAS 36. If the revised assets net of obligation exceeds the recoverable value, that portion of the increase is charged directly to expenses.

The following presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation:

	2021	2020
Asset retirement obligation, beginning of year	**$ 3,277,292**	$ 2,652,667
Liabilities incurred	**276,637**	605,505
Accretion expense	**25,901**	19,120
Asset retirement obligation, end of year	**$ 3,579,830**	$ 3,277,292

The key assumptions, on which the carrying amount of the obligation is based, include a risk-free rate of 1.97% (2020 – 1.32%) and inflation rate of 2%. The total undiscounted amount of the estimated cash flows required to settle the remaining obligation is $6,594,000 (2020 - $5,694,000), which is net of amounts paid in previous years totalling $972,000. The expected timing of payment of the cash flow required for settling the obligation is 13 to 34 years.

Island Waste Management Corporation
Notes to the Consolidated Financial Statements
March 31, 2021

9. Commitments

The Corporation conducts a portion of its operations, the compost facility, pursuant to an operating agreement with a third-party operator. Effective April 1, 2014, the agreement provides for the payment by the Corporation to the operator of the facility a minimum annual fee plus an excess tonnage fee. The minimum annual fee commitment under the operating agreement is as follows:

2022	$ 2,281,921
2023	$ 2,327,560
2024	$ 2,374,110

The Corporation has entered into various agreements for the collection of recyclables, waste and compost materials. Effective July 1, 2018 the Corporation entered into its new contract for recyclables which carries into 2026. Minimum payments for the contracts currently in place are as follows:

2022	$ 5,933,723
2023	$ 6,027,653
2024	$ 6,122,685
2025	$ 4,216,474
2026	$ 504,750

The Corporation has entered into a waste processing agreement dated August 8, 1995 to supply PEI Energy Systems with a minimum annual guaranteed amount of 30,617 metric tonnes of waste. The 30-year agreement, expiring in August 2025, provides for the payment by the Corporation of a $45 per metric tonne quarterly fee adjusted for consumer price index fluctuations. Any shortage is the responsibility of the Corporation. Current annual costs for the waste processing are estimated at $2,195,040 (2020 - $2,194,500).

10. Financial risk management

The Corporation's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities and long-term debt.

Financial risk factors
The following sections describe the Corporation's financial risk exposure and related mitigation strategies:

Credit risk
Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Corporation is subject to credit risk through trade receivables. The Corporation mitigates credit risk associated with its trade receivables through establishing credit approval limits and a regular monitoring process. The Corporation generally considers the credit quality of its financial assets that are neither past due or impaired to be solid. Credit risk is mitigated due to the large number of customers.

Island Waste Management Corporation
Notes to the Consolidated Financial Statements
March 31, 2021

10. Financial risk management (cont'd)

Allowance for doubtful accounts is reviewed at each balance sheet date. The Corporation updates its estimates of allowances for doubtful accounts based on customer history.

Household user fees are collected by the Province of Prince Edward Island through its provincial tax system.

Interest rate risk
Interest rate risk is the potential for financial loss arising from changes in interest rates. Financial instruments that potentially subject the Corporation to interest rate risk include financial liabilities with floating interest rates. The Corporation currently has no significant financial instruments which are exposed to interest rate risk due to floating rates but is exposed to risk associated with fixed term debt that matures as noted in Note 5.

Liquidity risk
Liquidity risk is the risk that the Corporation may not have cash available to satisfy financial liabilities as they come due. The Corporation prepares an annual cash flow budget which it monitors on a monthly basis to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements.

Market risk
The Corporation is subject to market risk related to the price of diesel fuel. The Corporation has entered into various agreements for the collection of recyclables, waste and compost materials. These contracts include a provision that requires the Corporation to pay an annual fuel adjustment based on the annual average price of diesel fuel as compared to the base rate per the contract. For the year end March 31, 2021, had the average price of diesel fuel increased or decreased by 10% during the year, the earnings of the Corporation would have increased or decreased by approximately $10,500 (2020 - $12,000). The Corporation currently has no strategy in place to mitigate this risk. Management does monitor the current price of fuel on a regular basis.

Fair values
The carrying amounts for cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate fair value due to the short-term maturity of these instruments or terms of the instrument. The carrying amount for the long-term debt approximated fair value as the interest rate was reflective of rates available for similar debt.

Island Waste Management Corporation
Notes to the Consolidated Financial Statements
March 31, 2021

10. Financial risk management (cont'd)

IFRS 7, "Financial Instruments – Disclosures", prescribes the following three-level fair value hierarchy for disclosure purposes based on the transparency of the inputs used to measure the fair values of the asset and liabilities:

a) Level 1 – quoted price (unadjusted) of identical instruments in active markets that the reporting entity has the ability to access at the measurement date.
b) Level 2 – inputs are quoted prices of similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, inputs other than quoted prices used in a valuation model that are observable for that instrument, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
c) Level 3 – one or more significant inputs used in a valuation technique are unobservable for the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value

The Corporation does not have any financial instruments measured at fair value.

11. Employee future benefits

Short term benefits
The Corporation's short-term benefits for qualified active employees include base salary, compensated absences, group life insurance, dental and medical coverage.

Pension plan
The permanent employees of the Corporation participate in the multi-employer contributory defined benefit pension plan administered by the Province of Prince Edward Island under the Civil Service Superannuation Act. The Civil Service Superannuation Fund provides pensions to employees of the Provincial Government and certain crown corporations and agencies based on the length of service and average salary. Since sufficient information is not readily available to account for the Corporation's participation in the plan using defined benefit pension plan accounting, these financial statements have been prepared using accounting rules for defined contribution pension plans. The current year expense for this pension plan is $189,300 (2020 - $186,400).

At March 31, 2020, the Prince Edward Island Public Sector Pension Plan reported that the pension plan was fully funded.

Island Waste Management Corporation
Notes to the Consolidated Financial Statements
March 31, 2021

11. Employee future benefits (cont'd)

Retirement pay benefits
The Corporations currently provides a retirement pay benefit equal to one weeks' pay for each year of service, subject to a maximum benefit equal to 26 weeks' pay. The retirement pay benefit is payable upon retirement. Employees qualify at retirement if they have accrued 10 years of service, attained age 55 and are eligible to receive a pension from the Civil Service Superannuation Fund. Retirement pay benefits are accrued on an annual basis based on eligibility and are reflected in the accounts payable at year end.

Employee benefits risks
The Corporation's defined benefit plan is indirectly exposed to economic risks with respect to measurement risk from assumptions based on economic factors, such as discount rates affected by volatile bond markets. Benefit obligations are exposed to uncertainty of future economic conditions, primarily inflation risk due to uncertainty of the timing of the payments.

Demographic factors affect current and future benefit costs with respect to the amount and time horizon of expected payments due to such factors as workforce average age and earnings levels, attrition and retirement rates.

The Corporation is also exposed to funding risk in the multi-employer plans arising from legislative changes affecting eligibility for and amount of pension and related benefits and performance of plan assets affected by investment policies set by the government. Because these plans are governed by legislation rather than contract, there is little flexibility for participants with respect to withdrawal from the plan, plan wind up or amendments and funding requirements.

12. Related party transactions

Included in these consolidated financial statements are transactions with various Prince Edward Island crown corporations, departments, agencies and boards related to the Corporation by virtue of common influence by the Government of Prince Edward Island. Routine operating transactions in the ordinary course of business with related parties are settled at prevailing market prices under normal trade terms.

The table below presents total compensation of the key management personnel, which includes the Board of Directors and senior executive management. Board of Director Honorariums are paid based on standards set and approved by the Treasury Board.

	2021	2020
Short term employee benefits	**$ 229,464**	$ 223,513
Post-employment benefits	**27,524**	27,310
	$ 256,988	$ 250,823

Island Waste Management Corporation
Notes to the Consolidated Financial Statements
March 31, 2021

13. Rate regulation

The Corporation is subject to rate regulation on the household user fees and disposal fees charged to residents of Prince Edward Island under the *Island Regulatory Appeals Commission Act*. The purpose of this Act, which is administered by the Island Regulatory and Appeal Commission (IRAC), is to regulate the rate the Corporation may charge for collection and disposal of solid waste within Prince Edward Island and to ensure at all times a just and reasonable price for this service. Changes in household user fees and disposal fees can only be implemented with the approval of IRAC.

14. Capital management

The Corporation's objectives when managing capital is to safeguard the Corporation's ability to support the normal operating requirements on an ongoing basis, support any capital expenditures that may be required in the normal operations of the Corporation and generate sufficient cash flow to manage its existing debt.

The Corporation's capital consists of cash and cash equivalents, long-term debt and net assets. The Corporation's primary uses of these funds are to finance capital expenditures, repay debt obligations and fund normal operations. In order to facilitate the management of its capital requirements, the Corporation prepares annual operating budgets and actual to budget forecasts on a quarterly basis. To maintain or obtain additional capital, the Corporation may issue new debt, reduce operating costs, utilize the central banking credit agreement or make a request to IRAC to increase household user and disposal fees.

The Corporation is not subject to externally imposed capital requirements and there have been no changes with respect to the overall capital risk management strategy during the year.

15. Bank indebtedness

The Corporation has an authorized operating overdraft of $1,500,000. The operating overdraft bears interest at prime less 0.1% for up to $1,500,000. Prime at March 31, 2021 was 2.45%. As security, the Corporation has provided a general security agreement on its investments (term deposits) held with Toronto Dominion Bank. The overdraft protection does not require financial guarantee.

16. Other matters

Costs associated with the closure and decommissioning of provincial dump sites are the responsibility of the Province of Prince Edward Island.

Island Waste Management Corporation
Consolidated Schedule of Revenues

Year ended March 31	**2021**	2020
Household User Fees		
Billed by Island Waste Management Corporation	**$ 116,705**	$ 75,203
Billed through property taxes	**14,880,787**	14,448,947
Cart revenues	**2,491**	556
Refunds and adjustments	**(30,383)**	(42,027)
	$ 14,969,600	$ 14,482,679
Disposal Fees		
East Prince Waste Management Facility	**$ 2,614,928**	$ 2,767,076
Energy from Waste	**979,087**	1,167,169
Central Compost Facility	**263,158**	326,604
Brockton	**124,889**	124,732
Dingwells Mills	**96,225**	101,646
Murray River	**83,567**	77,957
New London	**109,368**	108,403
Other	**807**	(93)
	$ 4,272,029	$ 4,673,494

Island Waste Management Corporation
Consolidated Schedule of Expenditures

Year ended March 31	**2021**	2020
Administration		
Dues and memberships	**$ 2,368**	$ 3,154
Insurance	**33,617**	28,015
Interest and bank charges	**9,334**	7,991
Miscellaneous	**4,482**	4,632
Office equipment	**-**	344
Office supplies	**16,563**	20,089
Professional fees	**40,165**	22,859
Rent	**16,800**	16,800
Repairs and maintenance	**18,238**	13,152
Salaries and benefits	**1,255,562**	1,227,982
Supplies	**1,271**	7,282
Telephone	**50,237**	41,411
Travel	**20,515**	30,819
Utilities	**29,850**	33,274
	$ 1,499,002	$ 1,457,804
Advertising, Education and Public Relations		
Advertising	**$ 4,579**	$ 2,417
Education	**62,947**	55,812
Public relations	**9,012**	11,216
Wages and benefits	**56,062**	62,274
	$ 132,600	$ 131,719
Residential Collection		
Cart purchases and write-offs	**$ 78,348**	$ 48,405
Collection contracts		
Compost and waste	**4,437,308**	4,334,785
Recyclables	**1,973,261**	1,960,326
Operations support technicians		
Wages and benefits	**473,812**	520,952
Vehicle and supplies	**74,448**	96,720
	$ 7,037,177	$ 6,961,188

Island Waste Management Corporation
Consolidated Schedule of Expenditures

Year ended March 31	2021	2020
Disposal		
East Prince Waste Management Facility		
Accretion	$ 25,899	$ 19,118
Equipment rental	23,674	9,975
Gas and oil	47,747	66,652
Household hazardous waste	20,600	19,457
Leachate disposal	73,616	77,802
Office and miscellaneous	23,654	24,832
Repairs and maintenance	92,936	135,332
Salaries, wages and benefits	537,296	538,977
Security	18,450	8,493
Supplies and materials	177,515	161,590
Telephone	5,484	3,724
Travel and conferences	-	87
Utilities	60,588	56,922
	$ 1,107,459	$ 1,122,961
Queens County Regional Landfill		
Repairs and maintenance	$ 2,482	$ 2,685
Utilities	2,101	1,918
	$ 4,583	$ 4,603
Energy from Waste		
Fly ash disposal	$ 207,029	$ 222,470
PEI Energy Systems	2,269,040	2,187,597
Repairs and maintenance – scale	2,797	5,900
Scale house supplies	3,886	3,649
Wages and benefits – scale operator and inspector	138,081	146,597
	$ 2,620,833	$ 2,566,213
Central Composting Facility		
Contract	$ 2,201,394	$ 2,153,170
Insurance	183,195	137,179
Property tax	302	302
Repairs and maintenance	232,447	163,103
Wages and benefits	63,169	62,212
	$ 2,680,507	$ 2,515,966

Island Waste Management Corporation
Consolidated Schedule of Expenditures

Year ended March 31	**2021**	2020
Disposal (cont'd)		
Waste Watch Drop-Off Centers		
Blue bag disposal	**$ 42,409**	$ 52,288
Green Isle Environmental contract	**495,241**	576,278
Household hazardous waste	**143,711**	123,809
Material and supplies	**29,907**	28,128
Miscellaneous and asphalt shingles	**31,160**	680
Repairs and maintenance	**219,468**	230,056
Security	**1,107**	984
Signage	**567**	1,108
Telephone	**10,568**	8,186
Travel	**3,512**	9,333
Utilities	**10,666**	11,087
Wages and benefits	**357,454**	352,154
	$ 1,345,770	$ 1,394,091
Transportation of Material		
Motor vehicle	**$ 99,541**	$ 122,615
Supplies	**2,911**	3,597
Wages and benefits	**128,137**	122,838
	$ 230,589	$ 249,050
	$ 7,989,740	$ 7,852,881

Tire Collection and Disposal

Collection	**$ -**	$ 304,107
Disposal	**-**	871,000
	$ -	$ 1,175,107

IWMC managed the collection and storage of used tires in PEI until January 31, 2020. On February 1, 2020, the Provincial Department of Transportation and Infrastructure (TI) took over the management of used tires. TI has a contract with O'Brien's Recycling for the collection, storage and processing of used tires within the Province.

Island Waste Management Corporation
Consolidated Schedule of Utility Operations
Year ended March 31, 2021

	2021 Revenues	**2021 Operating costs**	2020 Revenues	2020 Operating costs
Addictions	**$ 5,589**	**$ 5,589**	$ 2,571	$ 2,571
Albany	**551,877**	**551,877**	483,497	483,497
Bloomfield	**28,359**	**28,359**	20,270	20,270
Brudenell	**115,813**	**115,813**	115,096	115,096
Corrections	**12,092**	**12,092**	12,367	12,367
Crowbush	**97,110**	**97,110**	121,262	121,262
Eastern School	**4,916**	**4,916**	3,501	3,501
Finance PEI	**9,834**	**9,834**	13,429	13,429
Georgetown	**184,918**	**184,918**	232,059	232,059
Mill River	**60,922**	**60,922**	104,187	104,187
Northport - Alberton	**37,243**	**37,243**	52,466	52,466
Other	**32**	**32**	1,074	1,074
Parks	**54,905**	**54,905**	84,913	84,913
Western School	**46,933**	**46,933**	23,617	23,617
	$ 1,210,543	**$ 1,210,543**	$ 1,270,309	$ 1,270,309

Included in the costs above are wages of $471,535 (2020 - $473,844), capital asset depreciation of $134,058 (2020 - $135,012), amortization of deferred government assistance of $134,059 (2020 – $131,248), and interest of $10,296 (2020 - $11,322).

PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION

Financial Statements

March 31, 2021

MRSB

PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION
Index to Financial Statements
March 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Directors of Prince Edward Island Cannabis Management Corporation

Opinion

We have audited the financial statements of Prince Edward Island Cannabis Management Corporation (the Corporation), which comprise the statement of financial position as at March 31, 2021, and the statements of changes in equity, profit or loss and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2021, and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting 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 the Corporation 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 those 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 International Financial Reporting 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 the Corporation's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

(continues)

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 the Corporation'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 the Corporation'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 the Corporation 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.

MRSB Chartered Professional Accountants Inc.

MRSB CHARTERED PROFESSIONAL ACCOUNTANTS INC.

Charlottetown, PE

June 24, 2021

PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION
Statement of Financial Position
March 31, 2021

	2021	2020
ASSETS		
Current		
Cash	$ 2,014,078	$ 1,092,658
Accounts receivable (Note 5)	460,131	447,305
Inventory (Note 6)	3,519,667	5,292,505
Prepaid expenses	4,545	111,575
	5,998,421	6,944,043
Property and equipment (Schedules 1 and 2)	3,418,185	3,813,335
Total assets	$ 9,416,606	$ 10,757,378
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 7)	$ 2,060,432	$ 2,875,769
Deferred revenue	5,795	3,904
Due to Province of Prince Edward Island (Note 8)	841,005	272,274
Current portion of debentures payable (Note 9)	1,019,307	987,908
Current portion of lease liabilities (Note 10)	160,060	160,060
	4,086,599	4,299,915
Debentures payable (Note 9)	4,035,306	5,054,613
Lease liabilities (Note 10)	1,294,701	1,402,850
Total liabilities	$ 9,416,606	$ 10,757,378

Contractual obligations (Note 11)

ON BEHALF OF THE PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION

Chair

Director

Notes 1 to 20 are an integral part of these financial statements

MRSB

PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION
Statement of Changes in Equity
Year Ended March 31, 2021

	2021	2020
Retained earnings - beginning of year	$ -	$ -
Net income (Statement 5)	564,792	653,401
	564,792	653,401
Annual income distribution to Province of Prince Edward Island	(564,792)	(653,401)
Retained earnings - end of year	$ -	$ -

Notes 1 to 20 are an integral part of these financial statements

MRSB

PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION
Statement of Profit or Loss
Year Ended March 31, 2021

	2021	2020
Income		
Sales	$ 17,011,553	$ 16,355,262
Cost of sales (Note 6)	13,701,740	12,365,754
Gross margin	3,309,813	3,989,508
Expenses		
Amortization of property and equipment (Schedules 1 and 2)	425,220	420,019
Insurance and property taxes (Note 12)	57,915	46,417
Interest on debentures (Notes 9, 12)	186,652	218,123
Interest on lease liabilities (Note 10)	51,911	59,889
Other operating expenses (Note 13)	185,573	250,281
Rent	1,357	848
Repairs and maintenance	45,150	57,055
Salaries and benefits (Notes 12, 14)	2,652,221	2,687,032
Store and office supplies	241,750	167,511
Travel	7,121	37,476
Utilities	76,791	87,906
	3,931,661	4,032,557
Loss from operations	(621,848)	(43,049)
Other income (Note 15)	1,186,640	696,450
Net income	$ 564,792	$ 653,401

Notes 1 to 20 are an integral part of these financial statements

MRSB

PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION
Statement of Cash Flow
Year Ended March 31, 2021

	2021	2020
Cash flows from operating activities		
Net income	$ 564,792	$ 653,401
Items not affecting cash:		
Amortization of property and equipment	425,220	420,019
Gain on disposal of property plant and equipment	2,149	-
	992,161	1,073,420
Changes in non-cash working capital:		
Accounts receivable	(12,826)	484,674
Inventory	1,772,838	89,019
Prepaid expenses	107,030	(88,849)
Accounts payable and accrued liabilities	(815,338)	(2,779,866)
Deferred revenue	1,891	931
	1,053,595	(2,294,091)
	2,045,756	(1,220,671)
Cash flows from investing activities		
Purchase of property and equipment	(34,743)	(193,169)
Proceeds on disposal of property and equipment	2,525	-
Purchase of right-of-use assets	-	(1,667,672)
	(32,218)	(1,860,841)
Cash flows from financing activities		
Repayment of debentures payable	(987,908)	(957,479)
Advance (to) from the Province of Prince Edward Island	568,731	762,042
Annual income distribution to Province of Prince Edward Island	(564,792)	(653,401)
Repayment of lease liabilities	(108,149)	(91,424)
Proceeds from lease liabilities	-	1,654,334
	(1,092,118)	714,072
Increase (decrease) in cash	921,420	(2,367,440)
Cash - beginning of year	1,092,658	3,460,098
Cash - end of year	$ 2,014,078	$ 1,092,658
Cash consists of:		
Cash on hand	$ 36,972	$ 37,361
Cash in financial institutions	1,977,106	1,055,297
	$ 2,014,078	$ 1,092,658
Cash flow supplementary information		
Interest received	$ 14,183	$ 35,469
Interest paid	$ 249,332	$ 287,739

Notes 1 to 20 are an integral part of these financial statements

MRSB

PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION
Notes to Financial Statements
Year Ended March 31, 2021

1. DESCRIPTION OF BUSINESS

Prince Edward Island Cannabis Management Corporation (the Corporation) is a wholly-owned Crown Corporation of the Province of Prince Edward Island and is responsible for the distribution and sale of adult use cannabis throughout Prince Edward Island. The head office is located at 3 Garfield Street in Charlottetown with four retail outlets located across the province.

102173 P.E.I. Inc. was incorporated as a private company under the Companies Act of Prince Edward Island on December 28, 2017. This company was dissolved when the Cannabis Management Corporation Act was proclaimed on August 20, 2018, at which time all property of 102173 P.E.I. Inc. became the property of the Corporation and the claims, rights, liabilities, obligations and privileges of 102173 P.E.I. Inc. were transferred to and became vested in the Corporation.

2. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with, and are in compliance with, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of the financial statements are set out in Note 4.

These financial statements were authorized for issuance by the Board of Directors on June 24, 2021.

The board of directors have the power to amend the financial statements after issue.

3. BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is the functional currency of the Corporation.

4. SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting standards

These financial statements have been prepared in accordance with IFRS, issued and in effect as of March 31, 2021. The significant accounting policies used in the preparation of these financial statements are summarized below.

An overview of the standards, amendments, and interpretations on the conversion to IFRS, those adapted in the current year, and those which are issued but not yet in effect are presented below.

IAS 1 Presentation of Financial Statements

On January 23, 2020, IASB issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current. The amendments to IAS 1 are required to be applied for annual periods beginning on or after January 1, 2023. The amendments must be applied retrospectively in accordance with IAS 8.

Cash

Cash is comprised of cash on hand and amounts on deposit with financial institutions.

(continues)

PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION
Notes to Financial Statements
Year Ended March 31, 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Accounts receivable

Accounts receivable arise from trade sales. 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.

Inventory

Inventories are stated at the lower of cost and net realizable value on a first-in, first-out basis. Cost includes the costs to purchase, duty and excise taxes, and standard freight rates for goods received. Net realizable value represents the amount that may be realized from the sale of an inventory item under normal business conditions. When inventories are sold, the carrying amount of those inventories are recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories shall be recognized as an expense in the period the loss or write-down occurs. The amount of reversal of any write-downs, arising from an increase in net realizable value, shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Property and equipment

Property and equipment is stated at cost less accumulated amortization and any impairment losses. All capital asset additions over $1,000 are capitalized. Property and equipment are broken down into components when the components are significant and have differing useful lives than the rest of the asset. Amortization is calculated on a straight-line basis at the following rates:

Equipment	20%
Computer equipment	20%
Information systems	20%
Computer software	50%
Leasehold improvements	5% and 10%
Right-of-use assets	term of the lease

One-half of the annual rate is recorded in the year of acquisition; no amortization is recorded in the year of disposal.

Leases

The Corporation recognizes right-of-use assets and lease liabilities for its leases except for certain classes of underlying assets in which the lease terms are 12 months or less or for low valued assets. Right-of-use assets are included in property and equipment on the statement of financial position. The amortization expense on right-of-use assets is based on amortization of the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term

Impairment

The Corporation assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are recorded, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(continues)

PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION
Notes to Financial Statements
Year Ended March 31, 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets and financial liabilities

On initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: the asset is held within a business model whose objective is to hold assets to collect contractual cash flow; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All other financial assets are classified as measured at FVTPL. Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Corporation changes its business model for managing financial assets. There were no changes to any of the Corporation business models during the current or prior year.

The Corporation classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL. The Corporation derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Corporation currently has legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Corporation has classified its financial assets and liabilities as follows:

Cash - fair value through profit or loss

Accounts receivable, accounts payable and accrued liabilities, debentures payable, lease liabilities, and due to the Province of Prince Edward Island - amortized cost

Transaction costs for fair value through profit or loss instruments are recognized as profit or loss immediately while transaction costs for other financial instruments form part of the original value of the financial instrument.

De-recognition of a financial instrument occurs when the contractual rights to the cash flow generated by the asset expire, when the financial asset and substantially all of the risks and rewards are transferred to a third party, or when the obligation in the contract is discharged, cancelled, or expires.

(continues)

PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION
Notes to Financial Statements
Year Ended March 31, 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is derived from the sale of goods and other income from the rendering of services.

Revenue is measured by reference to the fair value of the consideration received or receivable by the Corporation for goods or services supplied, exclusive of sales tax.

Revenue from the sale of goods is recognized when the amount of revenue can be reliably measured, collection is probable, the costs incurred or to be incurred can be reliably measured, and when significant risks and rewards of ownership have been transferred to the buyer. Significant risks and rewards are generally considered to be transferred to the buyer when the customer has taken legal title and possession of the goods.

Other income includes interest on bank deposits and in-store marketing fees. Revenues from interest on bank deposits are recognized when they can be reliably measured. Revenues from marketing fees are recognized when the amount of the revenues can be reliably measured and it is probable the economic benefits will flow to the Corporation.

The Corporation sells gift cards to its customers and initially records the amount to deferred revenue. Revenue is recognized as the gift cards are redeemed. If, in the opinion of management, the likelihood of the gift card being redeemed is remote, then the revenue will be recognized at that time.

Expenses

Expenses are recorded on an accrual basis in the period in which the transaction or event that gave rise to the expense occurred.

Significant accounting judgments and estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. The actual results may materially differ from management's estimation. Items requiring the use of significant estimates include useful lives of property and equipment, accrued liabilities, legal contingencies and impairment. The estimates and underlying assumptions are reviewed on an ongoing basis based on historical experience, best knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances, including expectations of future events. The resulting accounting estimates will, by definition, seldom equal the related actual results, and actual results may ultimately differ from these estimates.

Revisions to accounting estimates are recorded in the period in which the estimate is reversed if the revision affects only that period or in the period of revision and in future periods if the revision affects both the current and future periods.

Future accounting developments

A number of new standards and amendments to standards and interpretations are not yet effective for the year ended March 31, 2021 and have not been adopted by the Corporation in preparing these financial statements. These changes are not expected to have a material impact on the Corporation's financial statements.

PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION
Notes to Financial Statements
Year Ended March 31, 2021

5. ACCOUNTS RECEIVABLE

	2021	2020
Trade accounts receivable	$ 460,109	$ 380,464
Interest receivable	22	157
HST receivable	-	66,684
	$ 460,131	$ 447,305

All amounts in the accounts receivable balance are short term. The net carrying value of accounts receivable is considered a reasonable approximation of fair value.

All of the Corporation's trade and other receivables have been reviewed for indications of impairment. It is management's assessment that an allowance of $0 is required to fairly state the value of accounts receivable.

6. INVENTORY

	2021	2020
Warehouses	$ 2,314,913	$ 3,499,702
Stores	1,204,754	1,792,803
	$ 3,519,667	$ 5,292,505

Inventories recognized in the statement of financial position consist of cannabis products and accessories held for sale. In 2021, a total of $13,701,740 (2020 - $12,365,754) of inventories was included in the statement of profit or loss as a cost of sales.

There were no write-downs of inventories during fiscal 2021 (2020 - $Nil). None of the inventories are pledged as security for liabilities.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2021	2020
Accounts payable and accrued liabilities	$ 1,875,496	$ 2,740,512
HST payable	135,746	-
Accrued interest	55,038	65,807
Prince Edward Island Liquor Control Commission	(5,848)	69,450
	$ 2,060,432	$ 2,875,769

Included in accounts payables and accruals is $80,947 (2020 - $79,494) owing to the Province of Prince Edward Island, a related party, for accrued vacation and wage settlement amounts.

The accrued interest of $55,038 (2020 - $65,807) on the debentures payable is owed to the Province of Prince Edward Island, a related party.

The payable from the Prince Edward Island Liquor Control Commission consist primarily of accruals to account for the shares use of resources of the Commission and is based on a best estimate of the cost of those resources used.

PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION
Notes to Financial Statements
Year Ended March 31, 2021

8. DUE TO PROVINCE OF PRINCE EDWARD ISLAND

Prince Edward Island Cannabis Management Corporation is a wholly owned Crown Corporation of the Province of Prince Edward Island. The Corporation's employee salaries and benefits are paid by the Province and are subsequently reimbursed by the Corporation. Net loss incurred during the year is receivable from the Province and net income incurred during the year is payable to the Province.

	2021	2020
Due to Province of Prince Edward Island	$ 841,005	$ 272,274

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. DEBENTURES PAYABLE

	2021	2020
Province of Prince Edward Island - 3.46%; repayable in annual blended installments of $419,997. The debenture matures on November 30, 2028.	$ 2,891,865	$ 3,201,103
Province of Prince Edward Island - 3.05%; repayable in annual blended installments of $765,332. The debenture matures on November 30, 2023.	2,162,748	2,841,418
	5,054,613	6,042,521
Current portion	(1,019,307)	(987,908)
	$ 4,035,306	$ 5,054,613

Principal repayments of debentures are expected to be repaid over the next five years as follows:

2022	$ 1,019,307
2023	1,051,707
2024	1,085,142
2025	354,310
2026	366,569
Thereafter	1,177,578

PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION
Notes to Financial Statements
Year Ended March 31, 2021

10. LEASE LIABILITIES

	2021	2020
The Corporation leases properties for its retail stores. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.	**$ 1,454,761**	$ 1,562,910
Current portion	**(160,060)**	(160,060)
	$ 1,294,701	$ 1,402,850

Future minimum capital lease payments are approximately:

2022	$ 160,060
2023	160,060
2024	163,840
2025	164,525
2026	164,525
Thereafter	938,635
Total minimum lease payments	1,751,645
Less: amount representing interest at various rates	296,884
	$ 1,454,761

11. CONTRACTUAL OBLIGATIONS

The Corporation has entered into contracts with various suppliers for hardware maintenance, software support services, and security services. The total of these contracts is $138,315 and they expire between one and three years.

12. RELATED PARTY TRANSACTIONS

These financial statements include the results of normal operating transactions with various provincial departments, Crown corporations, and agencies with which the Corporation is related. Operating transactions with related parties, such as insurance of $47,480 (2020 - $35,104) and interest on debentures of $186,652 (2020 - $218,123), are recorded at the exchange amount which are rates as determined by the Province of Prince Edward Island.

Management and staff of the Prince Edward Island Liquor Control Commission (PEILCC) assisted in the development, management, and ongoing operation of the Corporation. An estimation of the cost of these services has been expensed in various accounts in the amount of $466,722 (2020 - $396,602). Interest paid to PEILCC on line of credit was $10,342.

Key management received $189,597 (2020 - $177,750) during the period for salaries and benefits. Post-employment benefits are the responsibility of the Province and are not included in these financial statements.

The Corporation's employee salaries and benefits are paid by the Province and subsequently reimbursed by the Corporation.

Net loss or income incurred during the period is receivable from or payable to the Province. The net income to be paid to the Province at year end is $564,792 (2020 - $653,401).

PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION
Notes to Financial Statements
Year Ended March 31, 2021

13. OTHER OPERATING EXPENSES

Other operating expenses include consulting, legal, professional development, bank and credit card fees, and security expenses.

14. EMPLOYEE BENEFITS

Pension benefits

Permanent employees of the Corporation participate in the Province of Prince Edward Island Civil Service Superannuation Pension Plan (the Plan) which is a multi-employer contributory defined benefit pension plan. The Plan provides a pension on retirement based on two percent of the average salary for the highest three years times the number of years of pensionable service for service to December 31, 2013, and two percent of the career average salary indexed with cost of living adjustments for service after 2013. Indexing is subject to the funded level of the plan after December 31, 2016. The Plan is administered by the Province of Prince Edward Island. The Corporation's annual portion of contribution's to the Plan of $141,523 (2020 - $151,951) was paid by the Province and is not reflected in these financial statements. Any unfunded liability of the Plan is the responsibility of the Province and therefore no liability has been recognized in these financial statements. For additional information on the Plan, see the Province's consolidated financial statements.

Retiring allowance

The Corporation provides a retirement allowance to its permanent employees. The amount paid to eligible employees at retirement is based on the number of years of service and the rate of pay in effect at the retirement date. The benefit costs and liabilities related to the allowance are assumed by the Province and are not included in these financial statements.

Sick leave

Classified employees are credited 1.25 (1.5 - excluded employees) days per month for use as paid absences in the year, due to illness or injury. Under existing employment agreements, employees are allowed to accumulate unused sick day credits each year up to the allowable maximum. Accumulated credits may be used in future years to the extent the employee's illness or injury exceeds the current year's allocation. The use of accumulated sick days for sick leave compensation ceases on termination of employment and there is no obligation to settle these amounts with cash payments. A liability has not been calculated and no accrual has been recorded in these financial statements. The related liability is recorded by the Province. Salary expense is included in these financial statements.

15. OTHER INCOME

	2021	2020
LTO sales	**$ 988,684**	$ 51,530
Marketing fees	**189,200**	608,175
Interest	**14,183**	35,469
Gain on disposal of property plant and equipment	**(2,149)**	-
Miscellaneous	**(3,278)**	1,276
	$ 1,186,640	$ 696,450

PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION
Notes to Financial Statements
Year Ended March 31, 2021

16. FINANCIAL INSTRUMENTS

The Corporation applies IFRS 9 when accounting for its financial instruments. IFRS 9 specifies how an entity should classify and measure financial assets and financial liabilities.

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and liabilities:

	2021	2020
Financial assets		
Financial assets measured at amortized cost		
Accounts receivable	$ 460,131	$ 447,305
Due from Province of Prince Edward Island	-	-
	460,131	447,305
Financial assets measured at fair value through profit or loss	2,014,078	1,092,658
	$ 2,474,209	$ 1,539,963
Financial liabilities		
Other financial liabilities measured at amortized cost		
Non-current		
Debentures payable	$ 4,035,306	$ 5,054,613
Lease liabilities	1,294,701	1,402,850
	5,330,007	6,457,463
Current		
Accounts payable and accrued liabilities	2,060,432	2,875,769
Current portion of debentures payable	1,019,307	987,908
Current portion of lease liabilities	160,060	160,060
Due to Province of Prince Edward Island	841,005	272,274
	4,080,804	4,296,011
	$ 9,410,811	$ 10,753,474

17. FAIR VALUE

Financial assets and liabilities are measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods is based on fair value through profit and loss or at amortized cost using the effective interest rate method.

Financial assets and liabilities recorded in the statement of financial position at fair market value are categorized based on the fair value hierarchy of inputs. The Level 1 hierarchy is unadjusted quoted prices in active markets for identical assets and liabilities. This level of inputs is used to measure the fair value of cash.

Fair value for accounts receivable, accounts payable and accrued liabilities, amounts due to/from related parties approximate their carrying amounts due to their short term natures.

The fair value of debentures payable and lease liabilities are not materially different from their carrying value as there has not been a significant fluctuation in interest rates.

PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION
Notes to Financial Statements
Year Ended March 31, 2021

18. FINANCIAL RISK MANAGEMENT

The Corporation is exposed to various risks through its financial instruments. The Corporation's financial assets and liabilities by category are summarized in Note 16. The following analysis provides information about the Corporation's risk exposure and concentration as of March 31, 2021.

(a) Credit risk

Credit risk is the risk that the Corporation will incur a loss because a customer fails to meet an obligation. The Corporation is exposed to this risk for financial instruments classified as financial assets measured at amortized cost by granting credit to customers. The Corporation's maximum exposure to credit risk is limited to the carrying amount of these financial assets recognized at the reporting date, $460,131 which is summarized below:

		2021		2020
Accounts receivable	$	460,131	$	447,305

The Corporation has mitigated its exposure to this risk through the limited extension of credit and its contractual relationships with its business partners. The Corporation's management considers that an allowance of $0 is required for the above loans and receivables to be fairly stated. The loans and receivables are shown net of the allowance.

Some of the unimpaired financial assets measured at amortized costs are past due as at the reporting date. The Corporation considers the HST receivable to be current. The aging of unimpaired assets is as follows:

0 - 30 days	$	**349,771**	$	247,402
31 - 60 days		**107,116**		126,420
61 + days		**3,244**		6,798
Trade receivables and accrued interest		**460,131**		380,620
HST receivable		**-**		66,685
	$	**460,131**	$	447,305

With respect to financial assets measured at amortized cost, the Corporation is not exposed to any significant credit risk exposure to any single supplier. Trade receivables consist of a large number of customers in various industries and geographical areas. Management considers the credit quality of trade receivables to be good.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency rate risk, interest rate risk and other price risk. The Corporation's market risk management focuses on the unpredictability of financial and economic markets and seeks to minimize potential effects on the Corporation's financial performance. The Corporation's financial instruments are not subject to significant price risk or currency risk.

(c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. The Corporation's policy is to minimize interest rate cash flow risk exposures on long term financial. Long term borrowing is at fixed rates.

(continues)

PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION
Notes to Financial Statements
Year Ended March 31, 2021

18. FINANCIAL RISK MANAGEMENT *(continued)*

(d) Liquidity risk

Liquidity risk is the risk that the Corporation would be unable to meet its obligations. The Corporation manages liquidity needs by monitoring scheduled debt servicing payments for long term financial liabilities as well as cash inflows and outflows due in day-to-day business. The data used for analyzing these cash flows is consistent with that used in the contractual maturity analysis below. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30 day outlook. Net cash requirements are compared to available borrowing facilities in order to determine any surplus or shortfall.

The Corporation's objective is to maintain cash and marketable securities to meet its liquidity requirements for a minimum 60 day period. This objective was met for the reporting period. Funding for long term liquidity needs are secured by adequate amounts of committed credit facilities. The Corporation's existing cash resources, trade receivables, and cash generated from operations significantly exceed the current cash outflow requirements.

The Corporation's contractual financial liabilities as at March 31, 2021 matures as follows:

	Current		Non-current	
	Within 6 months	6 to 12 months	1 to 5 years	After 5 years
Accounts payable and accrued liabilities	$ 2,060,432	$ -	$ -	$ -
Due to the Province	-	841,005	-	-
Lease liabilities	80,030	80,030	645,396	946,189
Debentures payable	-	1,019,307	2,857,727	1,177,578
	$ 2,140,462	$ 1,940,342	$ 3,503,123	$ 2,123,767

19. CAPITAL MANAGEMENT

The capital structure of the Corporation currently consists of amounts due to related parties, debentures payable, and lease liabilities. The Corporation manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may arrange more loans or advances from related parties. Management reviews its capital management approach on a regular basis. The Corporation is not subject to externally imposed capital requirements.

PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION
Notes to Financial Statements
Year Ended March 31, 2021

20. SUBSEQUENT EVENTS

The recent outbreak of the Coronavirus Disease 2019, or COVID-19, has spread across the globe and is impacting worldwide economic activity. This global pandemic poses the risk that the Corporation or its clients, employees, contractors, suppliers and other partners may be unable to conduct regular business activities for an indefinite period of time. While it is not possible at this time to estimate the impact that COVID-19 could have on the Corporation's business, the continued spread of COVID-19 and the measures taken by the federal, provincial and municipal governments to contain its impact could adversely impact the Corporation's business, financial condition or results of operations. The extent to which the COVID-19 outbreak impacts the Corporation's results will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the spread of the virus and government actions.

PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION
SCHEDULE TO FINANCIAL STATEMENTS
PROPERTY AND EQUIPMENT
YEAR ENDED MARCH 31, 2021

Schedule 1

	Cost Beginning of Year	Additions	Disposals and Write Downs	Cost End of Year	Accum Amort Beginning of Year	Amort in the Year	Disposals and Write Downs	Accum Amort End of Year	Net Book Value
Equipment	$ 221,149	$ 7,184	$ (7,789)	$ 220,544	$ 53,501	$ 44,948	$ (3,116)	$ 95,333	$ 125,211
Computer equipment	29,418	-	-	29,418	13,711	9,140	-	22,851	6,567
Information systems	298,102	-	-	298,102	89,431	59,620	-	149,051	149,051
Computer software	65,331	-	-	65,331	40,685	16,504	-	57,189	8,142
Leasehold improvements	2,087,728	27,559	-	2,115,287	226,870	163,140	-	390,010	1,725,277
	2,701,728	34,743	(7,789)	2,728,682	424,198	293,352	(3,116)	714,434	2,014,248
Right of use assets	1,667,672	-	-	1,667,672	131,867	131,868	-	263,735	1,403,937
	$ 4,369,400	$ 34,743	$ (7,789)	$ 4,396,354	$ 556,065	$ 425,220	$ (3,116)	$ 978,169	$ 3,418,185

The Corporation has not pledged any of its property, plant, and equipment as security.

Notes 1 - 20 are an integral part of these financial statements

MRSB

PRINCE EDWARD ISLAND CANNABIS MANAGEMENT CORPORATION
SCHEDULE TO FINANCIAL STATEMENTS
PROPERTY AND EQUIPMENT
YEAR ENDED MARCH 31, 2020

Schedule 2

	Cost Beginning of Period	Additions	Disposals and Write Downs	Cost End of Period	Accum Amort Beginning of Period	Amort in the Period	Disposals and Write Downs	Accum Amort End of Period	Net Book Value
Equipment	$ 156,927	$ 64,222	$ -	$ 221,149	$ 15,694	$ 37,807	$ -	$ 53,501	$ 167,648
Computer equipment	29,418	-	-	29,418	2,285	11,426	-	13,711	15,707
Financial information system	298,102	-	-	298,102	29,810	59,621	-	89,431	208,671
Computer software	65,331	-	-	65,331	13,562	27,123	-	40,685	24,646
Leasehold improvements	1,958,780	128,948	-	2,087,728	74,695	152,175	-	226,870	1,860,858
	2,508,558	193,170	-	2,701,728	136,046	288,152	-	424,198	2,277,530
Right of use assets	-	1,667,672	-	1,667,672	-	131,867	-	131,867	1,535,805
	$ 2,508,558	$ 1,860,842	$ -	$ 4,369,400	$ 136,046	$ 420,019	$ -	$ 556,065	$ 3,813,335

Notes 1 - 20 are an integral part of these financial statements

MRSB

Prince Edward Island Energy Corporation

Consolidated Financial Statements

Year ended March 31, 2021

(Canadian Dollars)

Prince Edward Island Energy Corporation

Contents

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Independent Auditor's Report

To the Members of the Board of
Prince Edward Island Energy Corporation

Opinion

We have audited the consolidated financial statements of Prince Edward Island Energy Corporation (the "Corporation"), which comprise the consolidated statement of financial position as at March 31, 2021, and the consolidated statement of profit, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Prince Edward Island Energy Corporation as at March 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting 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 consolidated financial statements section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting 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.

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

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 the Corporation'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 the Corporation'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 consolidated 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 the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Grant Thornton LLP

Charlottetown, Canada

June 23, 2021

Chartered Professional Accountants

Prince Edward Island Energy Corporation

Consolidated Statement of Financial Position
As at

	March 31, 2021	March 31, 2020
Assets		
Current assets:		
Unrestricted cash (Note 4)	$ 32,185,909	$ 20,805,027
Trade receivables, net (Note 5)	3,895,761	6,793,342
Investments (Note 6)	5,600,000	-
Current portion of other financial assets (Note 7)	3,590,089	4,352,065
Prepaid expenses	554,692	880,313
	45,826,451	32,830,747
Noncurrent assets:		
Restricted cash (Note 4)	3,334,736	2,399,842
Noncurrent other financial assets (Note 7)	86,848,467	91,088,607
Derivative financial instruments	4,897,491	-
Property, plant and equipment (Note 8)	120,033,132	122,882,477
Total Assets	$ 260,940,277	$ 249,201,673
Liabilities and Equity		
Current liabilities:		
Trade payables and accrued liabilities (Note 10)	$ 2,618,931	$ 3,647,131
Current indebtedness (Note 12)	9,251,173	6,353,358
Contract liabilities (Note 11)	1,623,717	1,409,026
	13,493,821	11,409,515
Noncurrent liabilities:		
Derivative financial instruments	4,993,638	19,997,515
Provisions	3,603,361	1,170,350
Long-term indebtedness (Note 12)	158,198,530	164,809,124
Total Liabilities	180,289,350	197,386,504
Equity:		
Cash flow hedge reserve	(96,148)	(19,997,515)
Retained earnings	80,747,075	71,812,684
Total Equity	80,650,927	51,815,169
Total Liabilities and Equity	$ 260,940,277	$ 249,201,673

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

On behalf of the Board

_____, Director _____, Director

Prince Edward Island Energy Corporation

Consolidated Statement of Profit
For the years ended March 31,

	2021	2020
Revenue from Contracts with Customers		
Wind energy sales	$ 18,992,799	$ 18,532,866
Ratepayer recoveries	1,562,575	1,562,575
Grants	115,000	115,000
Total Revenue from Contracts with Customers	20,670,374	20,210,441
Other Revenue		
Other wind revenue	862,354	565,048
Finance income	4,662,231	4,723,757
Total Other Revenue	5,524,585	5,288,805
Total Revenue	26,194,959	25,499,246
Operating Expenses		
Consultants	18,805	4,392
Depreciation (Note 8)	6,409,105	6,370,139
Electricity	216,103	209,954
Insurance	430,624	368,275
Finance costs	4,907,127	4,831,994
Land owner fees and community support	555,412	530,917
Repairs and maintenance	185,680	370,663
Service and warranty fees	3,814,967	3,704,394
Other wind expenses	35,533	36,993
Total Operating Expenses	16,573,356	16,427,721
Operating Profit	9,621,603	9,071,525
General and Administrative Expenses		
Consulting and professional services	161,675	130,173
Net (gain) loss on disposal of assets	24,415	(274,608)
Wages and employee benefits	437,046	432,217
Other general expenses	64,076	83,189
Total General and Administrative Expenses	687,212	370,971
Total Profit for the Year	$ 8,934,391	$ 8,700,554

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

Prince Edward Island Energy Corporation

Consolidated Statement of Comprehensive Income
For the years ended March 31,

	2021	2020
Profit for the Period	$ 8,934,391	$ 8,700,554
Other Comprehensive Income		
Items that may be reclassified to profit or loss		
Net gain (loss) on cash flow hedges	19,901,367	(18,678,950)
Total Other Comprehensive Income (Loss) for the Year	19,901,367	(18,678,950)
Total Comprehensive Income (Loss) for the Year	$ 28,835,758	$ (9,978,396)

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

Prince Edward Island Energy Corporation

Consolidated Statement of Changes in Equity
For the years ended March 31,

	Cash flow hedge reserve	Retained Earnings	Total Equity
Balance at April 1, 2019	$ (1,318,565)	$ 63,112,130	$ 61,793,565
Total Comprehensive Income for the Year			
Profit for the year	$ -	$ 8,700,554	$ 8,700,554
Other comprehensive income	(18,678,950)	-	(18,678,950)
Total Comprehensive Income for the Year	(18,678,950)	8,700,554	(9,978,396)
Balance at March 31, 2020	$ (19,997,515)	$ 71,812,684	$ 51,815,169
Total Comprehensive Income for the Year			
Profit for the year	$ -	$ 8,934,391	$ 8,934,391
Other comprehensive income	(19,901,367)	-	19,901,367
Total Comprehensive Income for the Year	(19,901,367)	8,934,391	28,835,758
Balance at March 31, 2021	$ (96,148)	$ 80,747,075	$ 80,650,927

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

Prince Edward Island Energy Corporation

Consolidated Statement of Cash Flows
For the years ended March 31,

	2021	2020
Cash flows from operating activities:		
Cash receipts from customers and other	$ 27,809,827	$ 25,884,957
Cash paid to suppliers and employees	(12,432,051)	(10,342,853)
	15,377,776	15,542,104
Cash flows from investing activities:		
Increase in investments	(5,600,000)	-
Increase in other financial assets	-	(249,170)
Decrease in other financial assets	4,905,451	5,798,081
Increase in property, plant and equipment	(738,928)	(5,062,645)
Proceeds from settlement of an insurance claim	750,453	-
Interest received	4,758,896	4,620,574
Other finance income received	-	-
	4,075,872	5,106,840
Cash flows from financing activities:		
Proceeds from debt	3,000,000	-
Repayment of debt and lease liabilities	(7,162,750)	(6,173,968)
Receipt of government grants	1,904,079	201,159
Interest paid	(4,879,201)	(4,800,919)
Other finance costs paid	-	-
	(7,137,872)	(10,773,728)
Net increase (decrease) in cash	12,315,776	9,875,216
Cash, beginning of year	23,204,869	13,329,653
Cash, end of year (Note 4)	$ 35,520,645	$ 23,204,869

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

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

1. Corporate Information and Nature of Operations

The Prince Edward Island Energy Corporation is a Crown corporation established by the Energy Corporation Act, and therefore is exempt from income taxes under Section 149(1)(d) of the Canadian Income Tax Act. The Corporation's principal business activities include the development and promotion of energy systems in Prince Edward Island.

The Corporation's registered office is located at 16 Fitzroy Street in Charlottetown, Prince Edward Island, C1A 7N8.

In these Consolidated Financial Statements, all dollars are expressed in Canadian dollars.

These Consolidated Financial Statements were authorized for issue by the Corporation's Board of Directors on June 23, 2021.

2. Significant Accounting Policies

Statement of Compliance

These Consolidated Financial Statements were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). They have been prepared on a going concern basis under the historical cost convention, except for assets required to be measured at fair value in accordance with IFRS.

The preparation of Consolidated Financial Statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in note 3.

Basis of Consolidation

These Financial Statements are the Consolidated Financial Statements of Prince Edward Island Energy Corporation and its wholly owned subsidiary, Prince Edward Island Renewable Energy Corporation, which was dissolved during the 2020-21 fiscal year. All intercompany balances and transactions are eliminated upon consolidation.

Revenue from Contracts with Customers

The Corporation is in the business of providing wind energy and access to electricity grid infrastructure. Revenue from contracts with customers is recognized when control of the good or services are transferred to the customer at an amount that reflects the consideration to which the Corporation expects to be entitled in exchange for those goods or services. The Corporation has generally concluded that it is the principal in its revenue arrangements, except for the agency services below, because it typically controls the good or services before transferring them to the customer.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in note 3.

Sale of wind energy:

The Corporation sells wind power through a number of Power Purchase Agreements (PPAs) with Maritime Electric Company Limited. With the exception of agency services described below, revenue from the sale of wind energy is recognized based on the kilowatt hours of wind energy delivered and the applicable per-kilowatt hour selling price.

The Corporation also purchases and resells wind power on behalf of other entities. The Corporation is acting as an agent in these arrangements and, as a result, records revenue at the net amount that it retains for its agency services.

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

2. Significant Accounting Policies (continued)

Ratepayer recoveries:

The Corporation provides electricity ratepayers with connection to the mainland electricity grid and ongoing access to a supply of electricity through the PEI-NB Cable Interconnection. Associated ratepayer recovery revenue equal to the capital cost of the Interconnection is recognized over the period of the contract, which coincides with the estimated useful life of the property, plant and equipment, based on the time elapsed. Ratepayer recoveries received in excess of revenue recognized are recorded as contract liabilities.

The amounts recovered from ratepayers explicitly include a significant financing component equal to the financing costs of the PEI-NB Cable Interconnection Project. The portion of the recoveries pertaining to the significant financing component are recognized separately as finance income.

Sale of Renewable Energy Certificates (RECs):

The Corporation acts as an agent in selling RECs to third parties on behalf of the Province of PEI. The Corporation records revenue at the net amount that it retains for its agency services, which is equal to an annual grant provided by the Province.

Other Wind Revenue

Other wind revenue consists primarily of liquidated damages receivable under service and warranty contracts and rent revenue.

Liquidated damages:

The Corporation enters into service and warranty agreements which provide for scheduled and unscheduled wind turbine maintenance. These contracts require that the turbines be available for energy generation a certain percentage of time per contract year. Should actual turbine availability be less than the specified percentage, the Corporation is entitled to receive liquidated damages from the service and warranty provider. Liquidated damages are recognized annually at the end of each contract year for the amount calculated in accordance with the service and warranty contract provisions.

Rent revenue:

The Corporation earns revenue from the rental of land and buildings. Rent revenue is recognized over the period of each lease agreement at the amounts specified in or calculated per the relevant agreement provisions.

Leases

The Corporation as lessee

The Corporation assesses whether a contract is or contains a lease, at inception of the contract. The Corporation recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Corporation recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Corporation uses its incremental borrowing rate.

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

2. Significant Accounting Policies (continued)

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and,
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented together with indebtedness in the Consolidated Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Corporation remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Corporation did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Corporation incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the right-of-use asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Corporation expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are included within property, plant and equipment in the consolidated statement of financial position.

The Corporation applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the ‘Impairment of Long-Lived Assets’ policy.

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

2. Significant Accounting Policies (continued)

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs.

(b) The Corporation as lessor

The Corporation enters into lease agreements as a lessor with respect to some of its land. The Corporation also rents equipment for the purpose of wind monitoring.

Leases for which the Corporation is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Corporation's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Corporation's net investment outstanding in respect of the leases.

Subsequent to initial recognition, the Corporation regularly reviews the estimated unguaranteed residual value and applies the impairment requirements of IFRS 9, recognizing an allowance for expected credit losses on the lease receivables. Finance lease income is calculated with reference to the gross carrying amount of the lease receivables, except for credit-impaired financial assets for which interest income is calculated with reference to their amortized cost (i.e. after a deduction of the loss allowance).

Cash

Unrestricted cash in the Consolidated Statement of Financial Position consists of unrestricted bank balances held in Canadian currency.

Restricted cash in the Consolidated Statement of Financial Position consists of bank balances held in Canadian currency which, per the terms of a loan agreement and a ratepayer recovery agreement, are restricted for settlement of long-term indebtedness that is expected to occur more than twelve months after the financial year end.

For the purpose of the Consolidated Statement of Cash Flows, cash consists of unrestricted and restricted cash, as defined above.

Financial Instruments

Trade Receivables:

Trade receivables are amounts due from customers for the rendering of services or sale of goods in the ordinary course of business.

Financial Assets:

Financial assets within the scope of IFRS 9 *Financial Instruments* are classified as financial assets at fair value through profit and loss, amortized cost or designated as hedging instruments, as appropriate. When financial assets are initially recognized, they are measured at fair value, plus, in the case of financial assets measured at amortized cost, directly attributable financing costs. The Corporation determines the classification of the financial assets at initial recognition, and, where appropriate, evaluates this designation at each financial year end.

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

2. Significant Accounting Policies (continued)

Financial Assets: (continued)

Investments, loans and receivables for which the objective of the Corporation's business model is to hold the financial asset to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realize its fair value changes) and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding are recognized at amortized cost.

All other financial assets, except derivative financial instruments designated as hedging instruments, are measured at fair value through profit or loss.

Impairment of Financial Assets:

A financial asset is considered to be impaired if objective evidence indicates that events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The Corporation measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecasted direction of conditions at the reporting date.

The Corporation writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. Trade receivables that have been written off are not subject to enforcement activities.

Debt Instruments:

Debt instruments are initially recognized at fair value, which is the proceeds received, less attributable financing costs. Subsequent to initial recognition, debt instruments are stated at amortized cost with any difference net of transaction costs incurred. Any discount between the net proceeds received and the principal value due on redemption is amortized over the duration of the debt instrument and is recognized as part of financing costs using the effective interest method.

Interest on indebtedness is expensed as incurred unless capitalized for qualifying assets in accordance with IAS 23.

Debt is classified as a current liability unless the Corporation has an unconditional right to defer settlement for at least 12 months after the reporting period.

Derivative Financial Instruments and Hedge Accounting:

The Corporation uses derivative financial instruments in the form of interest rate swaps to hedge its interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Interest rate swaps when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction are classified as cash flow hedges.

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

2. Significant Accounting Policies (continued)

At the inception of a hedge relationship, the Corporation formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Corporation will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is ‘an economic relationship’ between the hedged item and the hedging instrument.
- The effect of credit risk does not ‘dominate the value changes’ that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Corporation actually hedges and the quantity of the hedging instrument that the Corporation actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. The amount accumulated in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income must be accounted for depending on the nature of the underlying transaction as described above. Additional information regarding derivatives and hedging are provided in notes 12, 13 and 15.

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, depending on the observability of the significant inputs used in the measurement.

Level 1: quoted prices (unadjusted) for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

2. Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets. The useful lives are estimated as follows:

Asset	Rate
Wind turbines and towers	5-40 years
Distribution	30 years
Transmission	40 years
Building	20 years
Radar Equipment	10 years
Roads	40 years

Depreciation is only recognized for assets available for use in their current state.

Assets under Development

Development costs and assets under construction are recorded at cost. Capitalized costs related to an asset under development include all eligible expenditures incurred in connection with the development and construction of the asset until it is available for its intended use. The Corporation capitalizes all directly attributable costs. Upon a project becoming commercially operational, the accumulated costs, including capitalized borrowing costs, if any, are transferred to property, plant and equipment and are amortized on a straight-line basis over the estimated useful lives of the various components.

Impairment of Long-Lived Assets

The Corporation assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, the Corporation makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The recoverable amount is determined for each asset group for which cash flows are generated independently from other assets in the group. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses from continuing operations are recognized in the Consolidated Statement of Comprehensive Income in the line item "Depreciation".

Government Grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is deducted from the expense for which it is intended to compensate. When the grant relates to an asset, it is deducted from the asset's carrying amount.

Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that the Corporation will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

2. Significant Accounting Policies (continued)

Provisions (continued)

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Decommissioning provisions

Provisions for the costs to decommission turbines and restore leased land to its original condition, as required by the terms and conditions of the lease, are recognized when the obligation is incurred, either at the commencement date or as a consequence of having used the underlying asset during a particular period of the lease, at management's best estimate of the expenditure that would be required to restore the assets. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

Pension Liabilities

Employees of the Corporation are members of the Province of Prince Edward Island pension plan. The pension plan obligation is a liability of the Province and not the Corporation; therefore, no liability for these costs has been recorded.

3. Critical Accounting Estimates, Judgments and Errors

The preparation of consolidated financial statements requires management to make estimates and judgments about the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets and liabilities, and the most critical judgments in applying accounting policies.

Revenue from Contracts with Customers

The Corporation applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Determining the timing of satisfaction of access to electricity grid infrastructure

The Corporation concluded that revenue for ratepayer recoveries is to be recognized over time because the customer simultaneously receives and consumes the benefits provided by connection to the mainland electricity grid and ongoing access to a supply of electricity. The Corporation recognizes revenue on the basis of time elapsed relative to the total period of the contract, which aligns with the estimated useful life of the PEI-NB Cable Interconnection.

Principal versus agent considerations

The Corporation sells Renewable Energy Certificates (RECs) on behalf of the Province of PEI. The Corporation determined that it does not control the RECs before they are transferred to customers, and it does not have the ability to direct the use of the RECs or obtain benefits from the RECs. Therefore, the Corporation determined that it is an agent in these contracts.

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

3. Critical Accounting Estimates, Judgments and Errors (continued)

Decommissioning Provisions

In accordance with IAS 16, the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site to its original state. Decommissioning and site restoration costs have been estimated based on currently available information. These estimates will be revised as new information becomes available and such changes could have a significant impact on these financial statements.

Asset Lives

Given the relatively new and constantly evolving wind energy industry, it is difficult to predict the useful lives of major components of property, plant and equipment. Useful lives of wind turbines and related infrastructure are determined based on suppliers' estimated design lives of the turbines with reference to the length of the power purchase agreements the Corporation has in place. The estimated useful lives, residual value and depreciation methods will be adjusted as new information becomes available and such changes could have a significant impact on these consolidated financial statements.

COVID-19

Since January 31, 2020, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. The duration and impact of the COVID-19 pandemic remains unclear at this time.

The Corporation has determined that these events have not had a material impact on the carrying value of assets and liabilities reported in these consolidated financial statements as at March 31, 2021, with the exception of derivative financial instruments. As a result of a decrease in market interest rates, the fair value of these instruments experienced a significant decline during the year ended March 31, 2020. During the year ended March 31, 2021, the Corporation experienced a complete recovery in the fair value of its derivative financial instruments. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Corporation for future periods.

4. Cash

For the purpose of the Consolidated Statement of Cash Flows, cash consists of the following:

	2021	2020
Unrestricted cash	$ 32,185,909	$ 20,805,027
Restricted cash	3,334,736	2,399,842
	$ 35,520,645	$ 23,204,869

5. Trade Receivables

	2021	2020
Trade receivables from contracts with customers	$ 3,106,173	$ 2,995,384
Other trade receivables	789,588	3,642,285
HST	-	155,673
	$ 3,895,761	$ 6,793,342

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

5. Trade Receivables (continued)

Trade receivables are non-interest bearing and are generally on 30-day payment terms. Included in trade receivables are past due amounts totaling $692,867 (2020 - $646,373). No loss allowance was recognized for the year ended March 31, 2021 as historical experience and factors specific to the debtor indicate that the receivables are recoverable. Included in trade receivables is $43,935 (2020 - $1,520,658) due from Provincial Government controlled entities.

6. Investments

Investments consist of 180-day term deposits with a financial institution, bearing interest at 0.70%.

7. Other Financial Assets

	2021	2020
Customers of a local utility provider (Point Lepreau financing), 3.41%, receivable in monthly installments of principal and interest of $334,511 up to April 2021, $319,849 from May 2021 through March 2024, and $336,785 thereafter, due March 2038.	$ 52,004,369	$ 54,028,324
Customers of a local utility provider (Point Lepreau financing), 2.81%, receivable in monthly interest only payments up to April 2021, followed by installments of principal and interest of $112,025 from May 2021 through March 2024, and $117,957 thereafter, due March 2038.	18,214,210	19,014,210
Customers of a local utility provider (Dalhousie financing), 1.87%, receivable in monthly installments of principal and interest of $97,363, due April 2021.	97,211	1,252,015
Customers of a local utility provider (NB Interconnection Transmission prorated share of PEI-NB Cable Interconnection financing), 2.51%, receivable in monthly installments of principal and interest of approximately $37,000, due February 2046.	10,428,587	10,740,313
Wind Energy Institute of Canada, 4.02%, receivable in quarterly installments of principal and interest of $224,084, due June 2035, secured by first charge on materials, buildings and equipment and site specific general security.	9,687,306	10,302,272
Accrued interest receivable	6,873	103,538
	90,438,556	95,440,672
Less: current portion	(3,590,089)	(4,352,065)
	$ 86,848,467	$ 91,088,607

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

7. Other Financial Assets (continued)

PEI Energy Accord – Point Lepreau and Dalhousie Financing

In November 2011, the Province of Prince Edward Island entered into the Prince Edward Island Energy Accord which required the Corporation to assume certain financing responsibilities and recover these costs from customers of a local utility provider. The Prince Edward Island Energy Accord expired February 29, 2016 and a new collection agreement was signed between the Province of PEI, Maritime Electric Company Limited and the Corporation. The costs of electricity include the costs associated with the refurbishment of the Point Lepreau Nuclear Generating Station Facility and the exit of the utility provider from the Dalhousie Unit Participation agreement. The Corporation has obtained financing from the Toronto Dominion Bank to cover these costs. Terms and conditions for repayment of the Point Lepreau and Dalhousie debt and the terms and conditions for the receivable from the customers of the utility provider differ because the payments from customers were previously based on kilowatt hour sales while the repayment of debt is a fixed monthly payment. During 2021, the terms and conditions of the receivable were amended to require repayment at a fixed monthly rate, which will facilitate future alignment with the Point Lepreau and Dalhousie debt repayment schedule. Although there are timing differences in payments received from customers and repayments of debt obligations, all financing costs associated with Point Lepreau and Dalhousie incurred by the Corporation are receivable from customers of the utility provider until the amounts are fully recovered.

PEI-NB Cable Interconnection Project

In May 2014, the Corporation entered into a Construction Agency Agreement with Maritime Electric Company Limited for the upgrade of the interconnection between the electrical systems of Prince Edward Island and mainland Canada. Under this agreement, the Corporation assumes financing responsibility for the upgrade. Financing has been obtained from Toronto Dominion Bank and all financing costs will be recovered from customers of a local utility provider. The PEI-NB Cable Interconnection Project, with the exception of the NB Interconnection Transmission as described below, has been accounted for as property, plant and equipment.

A key component of the PEI-NB Cable Interconnection Project is the construction of transmission facilities in New Brunswick (“NB Interconnection Transmission”). Ownership of this transmission must remain with NB Power in accordance with the provisions of the New Brunswick Electricity Act. A receivable from the customers of the local utility provider has been recorded for the NB Interconnection Transmission costs. Given that the financing obtained from Toronto Dominion Bank is in respect of the entire PEI-NB Cable Interconnection Project, a portion of the payments received from customers must be allocated to the NB Interconnection Transmission. The proportionate share of financing related to the NB Interconnection Transmission has been estimated based on costs incurred to the end of the reporting period. As a result, the current portion recognized in relation to the receivable from customers of the local utility provider may differ from the actual amounts recognized.

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

8. Property, Plant and Equipment, Net

	Wind Turbines and Towers	Transmission and Distribution	Land and Buildings	Roads	Equipment	Assets under Development	Total
Gross Amount							
At March 31, 2019	95,211,448	77,880,212	1,214,738	2,243,455	-	384,737	176,934,590
Acquisitions	2,175,665	305	-	-	554,086	1,798,318	4,528,374
Disposals	(831,960)	-	-	-	-	-	(831,960)
At March 31, 2020	96,555,153	77,880,517	1,214,738	2,243,455	554,086	1,798,318	180,631,004
Acquisitions	2,405,741	109,012	-	-	25,715	1,101,805	3,642,273
Disposals	-	(40,318)	-	-	-	-	(40,318)
At March 31, 2021	98,960,894	77,949,211	1,214,738	2,243,455	579,801	3,284,860	184,232,959
Accumulated Depreciation							
At March 31, 2019	43,334,140	7,645,155	281,632	414,239	-	-	51,675,166
Depreciation	3,976,334	2,040,592	31,585	56,333	38,695	-	6,143,539
Impairment	-	250,000	-	-	-	-	250,000
Disposals	(320,178)	-	-	-	-	-	(320,178)
At March 31, 2020	46,990,296	9,935,747	313,217	470,572	38,695	-	57,748,527
Depreciation	4,014,628	2,041,264	31,585	56,332	58,139	15,255	6,217,203
Impairment	-	250,000	-	-	-	-	250,000
Disposals	-	(15,903)	-	-	-	-	(15,903)
At March 31, 2021	51,004,924	12,211,108	344,802	526,904	96,834	15,255	64,199,827
Carrying Amount							
At March 31, 2020	49,564,857	67,944,770	901,521	1,772,883	538,091	2,160,355	122,882,477
At March 31, 2021	47,955,970	65,738,103	869,936	1,716,551	482,967	3,269,605	120,033,132

Included within Assets under Development is a right-of-use asset in respect of a land lease associated with the development of an electrical smart grid. Additional information regarding this right-of-use asset is provided in note 9.

Included in Transmission and Distribution is a 100MW transmission line which is not available for use in its current state. In accordance with the October 2008 agreement between the Corporation and Maritime Electric Company Limited governing the construction of the transmission line, the amount for which the asset can be sold to a third party equals cost less depreciation at a rate of 0% for the first seven years after construction and 5% per annum thereafter. The seven-year period expired December 31, 2015. During the year, an impairment loss of $250,000 (2020 - $250,000) was recognized in depreciation in the Consolidated Statement of Profit or Loss to write down the asset to its recoverable amount. At March 31, 2021, the recoverable amount, based on fair value less costs of disposal, was $3,687,500 (2020 - $3,937,500). Since the estimate of fair value based on the terms of the October 2008 agreement is a significant unobservable input, the fair value of the transmission line is classified as a level 3 fair value.

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

9. Leases

Right-of-use assets

Right-of-use assets included within property, plant and equipment in the consolidated statement of financial position are as follows:

	Assets under Development
Gross Amount	
At March 31, 2020	-
Acquisitions	449,315
Disposals	-
At March 31, 2021	449,315
Accumulated Depreciation	
At March 31, 2020	-
Depreciation	15,255
Disposals	-
At March 31, 2021	15,255
Carrying Amount	
At March 31, 2020	-
At March 31, 2021	464,060

Lease liabilities

Lease liabilities included within indebtedness in the Consolidated Statement of Financial Position are as follows:

	2021	2020
Current	$ 11,930	$ -
Non-current	426,717	-
	$ 438,647	$ -

The Corporation has leases for land for wind farms and the development of an electrical smart grid. With the exception of short-term leases, leases of low-value underlying assets and leases that consist solely of variable lease payments which do not depend on an index or rate, each lease is reflected as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of wind revenues) are excluded from the initial measurement of the lease liability and asset. The Corporation classifies its right-of-use assets in a consistent manner to its property, plant and equipment.

Some leases contain an option to renew the lease at the end of the term. The land leases require the Corporation to complete site restoration at the end of the lease.

The table below describes the nature of the Corporation's leasing activities by type of right-of-use asset:

Right-of-use asset	No. of right-of-use assets leased	Remaining lease term	No. of leases with extension options	No. of leases with options to purchase	No. of leases with variable payments linked to an index	No. of leases with termination options
Land	1	26 years	1	0	1	0

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

9. Leases (continued)

Future minimum lease payments at 31 December 2020 were as follows:

	Minimum lease payments due						
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
At March 31, 2021							
Lease payments	23,100	23,100	23,100	23,100	23,100	487,025	602,525
Finance charges	11,170	10,857	10,537	10,207	9,869	111,238	163,878
Net present values	11,930	12,243	12,563	12,893	13,231	375,787	438,647

Lease payments not recognized as a liability

Certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred. These variable lease payments do not depend on an index or rate, but rather are based on the Corporation's wind revenues. The expense relating to payments not included in the measurement of the lease liability is as follows:

	2021	2020
Variable lease payments	$ 398,039	$ 387,940

Interest on lease liabilities for the year ended March 31, 2021 was $10,507 (2020 - $nil), all of which was capitalized in accordance with IAS 23. Total cash outflow for leases for the year ended March 31, 2021 was $406,399 (2020 - $373,558).

10. Trade Payables and Accrued Liabilities

	2021	2020
Trade Payables	$ 2,284,046	$ 2,167,472
HST	205,764	260,862
Accrued Liabilities	129,121	1,218,797
	$ 2,618,931	$ 3,647,131

Trade payables are non-interest bearing and normally settled within 30 days. Included in trade payables is $1,254,073 (2020 - $778,267) due to Provincial Government controlled departments and agencies.

11. Contract Liabilities

	2021	2020
Balance, beginning of year	$ 1,409,026	$ 1,351,654
Amounts received	3,800,479	3,579,018
Debt collections allocated to repayment of NB Interconnection Transmission	(575,524)	(586,959)
Debt collections allocated to interest revenue	(1,376,690)	(1,372,112)
Debt collection revenue recognized	(1,562,575)	(1,562,575)
Government grants recognized	(70,999)	-
Balance, end of year	$ 1,623,717	$ 1,409,026

These amounts relate to ratepayer recoveries on the PEI-NB Cable Interconnection and grants in respect of the development of an electrical smart grid. All end of year balances are current.

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

12. Long-term indebtedness

	2021	2020
Toronto Dominion term loan, bearing interest at variable rates based on 30-day Bankers' Acceptances, hedged by a floating to fixed interest rate swap bearing interest at 2.51%, payable in monthly payments of principal and interest of $235,399, due February 2046.	$ 65,630,571	$ 66,790,868
Toronto Dominion term loan, bearing interest at variable rates based on 30-day Bankers' Acceptances, hedged by a floating to fixed interest rate swap bearing interest at 3.41%, payable in monthly payments of principal and interest of $346,861, due March 2038.	53,659,764	55,951,939
Toronto Dominion term loan, bearing interest at variable rates based on 30-day Bankers' Acceptances, hedged by a floating to fixed interest rate swap bearing interest at 2.99%, payable in monthly payments of principal and interest of $213,564, due July 2033.	26,407,368	28,152,174
Toronto Dominion term loan, bearing interest at variable rates based on 30-day Bankers' Acceptances, hedged by a floating to fixed interest rate swap bearing interest at 2.81%, payable in monthly interest only payments until April 2021, then monthly payments of principal and interest of $117,793, due March 2038.	18,214,210	19,014,210
Province of PEI loan, bearing interest at the 30-day treasury bill rate plus 0.25%, no set terms of repayment	3,000,000	-
Toronto Dominion term loan, bearing interest at variable rates based on 30-day Bankers' Acceptances, hedged by a floating to fixed interest rate swap bearing interest at 1.87%, payable in monthly payments of principal and interest of $97,363, due April 2021.	97,211	1,252,015
Other indebtedness and accrued interest payable	1,932	1,276
Lease liabilities	438,647	-
	167,449,703	171,162,482
Less: current portion	(9,251,173)	(6,353,358)
	$ 158,198,530	$ 164,809,124

The aggregate maturities of long-term indebtedness, including accrued interest, subsequent to March 31, 2021 are as follows:

	2022	2023	2024	2025	2026	Thereafter
Aggregate maturities	9,251,173	6,413,368	6,610,636	6,814,052	7,023,804	131,336,670

The above aggregate maturities include those in respect of a lease liability of land leased for the development of an electrical smart grid. Additional information regarding lease liabilities is provided in note 9.

In accordance with a loan agreement, the Corporation must deposit $30,000 per month into a sinking fund for future settlement of long-term indebtedness. The balance of the sinking fund is presented on the Consolidated Statement of Financial Position as restricted cash.

Additional information regarding derivatives and hedging is provided in notes 13 and 15.

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

13. Financial Instruments

	Fair Value through Earnings	Amortized Cost	Derivatives designated as hedging instruments	Total
March 31, 2020				
Cash, including restricted cash	-	23,204,869	-	23,204,869
Trade receivables, net	-	6,793,342	-	6,793,342
Other financial assets, including current	-	95,440,672	-	95,440,672
Trade payables and accrued liabilities	-	(3,647,131)	-	(3,647,131)
Derivative financial instruments, liabilities	-	-	(19,997,515)	(19,997,515)
Long-term indebtedness, including current	-	(171,162,482)	-	(171,162,482)
	-	(49,370,730)	(19,997,515)	(69,368,245)
March 31, 2021				
Cash, including restricted cash	-	35,520,645	-	35,520,645
Trade receivables, net	-	3,895,761	-	3,895,761
Investments	-	5,600,000	-	5,600,000
Other financial assets, including current	-	90,438,556	-	90,438,556
Derivative financial instruments, assets	-	-	4,897,491	4,897,491
Trade payables and accrued liabilities	-	(2,618,931)	-	(2,618,931)
Derivative financial instruments, liabilities	-	-	(4,993,638)	(4,993,638)
Long-term indebtedness, including current	-	(167,449,703)	-	(167,449,703)
	-	(34,613,672)	(96,147)	(34,709,819)

Net gains (losses) by category by period were as follows:

	2021	2020
Financial assets at amortized cost	600,342	792,171
Financial liabilities at amortized cost	(817,968)	(900,377)
Derivatives designated as hedging instruments	(19,901,367)	(18,678,950)

Additional details regarding net gains (losses) on derivatives designated as hedging instruments are as follows:

	2021	2020
Hedging gains (losses) recognized in other comprehensive income	19,901,367	(18,678,950)

The carrying values of financial instruments included in current assets and current liabilities approximate their fair value, reflecting the short-term maturity, normal trade credit terms and/or the nature of these instruments.

Derivative financial instruments consist of interest rate swaps with a financial institution that are designated as cash flow hedges. The carrying values of derivative financial instruments equal their fair values, which are calculated as the present values of the future rights and obligations between the two parties to receive or deliver future cash flows. The fair values of the Corporation's interest rate swaps are classified as Level 2 fair values as the significant inputs are directly or indirectly observable.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The Corporation enters into interest rate swaps that have similar critical terms as the hedged items, such as reference rate, reset dates, payment dates, maturities and notional amount. As all critical terms of long-term indebtedness and corresponding interest rate swaps matched during the year, the economic relationships were 100% effective.

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

13. Financial Instruments (continued)

If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Corporation uses the hypothetical derivative method to assess effectiveness. Hedge ineffectiveness for interest rate swaps may arise if there is a credit value/debit value adjustment on an interest rate swap which is not matched by the corresponding loan, or if there are differences in critical terms between the interest rate swaps and loans. There was no ineffectiveness during the years ended March 31, 2021 and 2020 in relation to the interest rate swaps.

Additional information regarding derivatives and hedging are provided in notes 12 and 15.

The fair value of other financial assets and long-term debt is calculated by discounting the future cash flow of each instrument at the estimated yield to maturity for the same or similar issues at the balance sheet date, or by using quoted market prices when available. The fair value of the Corporation's other financial assets and long-term debt is determined using the provincial Crown borrowing rate for similar terms. The estimated fair value of other financial assets is $93,811,985 (2020 – $99,484,450). The estimated fair value of long-term indebtedness is $163,563,572 (2020 - $168,254,117).

14. Government Grants

Government grants have been recorded in the Corporation's financial statements as follows:

	2021	2020
Government grants deducted from related expense	18,316	-
Government grants deducted from carrying amount of related asset	(29,822)	1,753,762
Government grants recognized as income	115,000	115,000
	103,494	1,868,762

Government grants have been received for construction related to the PEI-NB Cable Interconnection Project which upgraded the interconnection between the electrical systems of Prince Edward Island and mainland Canada, and to compensate the Corporation for selling renewable energy certificate's on behalf of the Provincial Government. Under the conditions of the grant related to the PEI-NB Cable Interconnection Project, the Corporation must ensure the ongoing operation, maintenance and repair of the assets for a period of five years after the end of the project.

Government grants have also been received in relation to the development of a 30-megawatt wind farm, an electrical smart-grid project and electricity transmission infrastructure. Contract liabilities have been recorded for grants received in advance and are included in note 11.

15. Risk Management

The Corporation's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk. The Corporation uses various strategies to manage these risks.

Market Risk Risk that the fair value of future cash flows of a financial instrument held by the Corporation will fluctuate because of changes in market prices (i.e. commodity price risk, interest rate risk and currency risk).

Credit Risk Risk of loss due to the failure of the borrower or counterparty to fulfill its contractual obligations.

Liquidity Risk Risk that the Corporation cannot meet a demand for cash or fund an obligation when it is due.

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

15. Risk Management (continued)

Market Risk

Commodity price risk is defined as the risk that the fair value of future cash flows will fluctuate because of changes in the price of electricity. The Corporation manages this risk by entering into long-term PPA's. These PPA's provide price assurance. Currently 100% of the Corporation's electricity production is contracted under long-term PPA's which expire between 2022 and 2033.

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument held by the Corporation will fluctuate because of changes in interest rates. The Corporation's exposure to the risk of changes in market interest rates relates primarily to the Corporation's long-term debt obligations with floating interest rates.

The Corporation manages its interest rate risk by entering into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At March 31, 2021, after taking into account the effect of interest rate swaps, 98% of the Corporation's borrowings are at a fixed rate of interest (2020 – 100%). The fixed interest rates of the swaps range between 1.87% and 3.41% (2020 – 1.87% and 3.41%). The swap contracts require settlement of net interest receivable or payable on a monthly basis. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

The effects of the interest rate swaps on the Corporation's financial position and performance are as follows:

	2021	2020
Carrying amount – derivative financial instruments (assets)	4,897,491	-
Carrying amount – derivative financial instruments (liabilities)	4,993,638	(19,997,515)
Notional amount	164,009,124	171,161,206
Maturity date	2021	2020
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments since beginning of year	19,901,367	(18,678,950)
Change in value of hedged item used to determine hedge effectiveness	19,901,367	18,678,950
Balance in cash flows hedge reserve for continuing hedges	(96,148)	(19,997,515)
Weighted average hedged rate for the year	2.91%	2.91%

Additional information regarding derivatives and hedging are provided in notes 12 and 13.

Currency risk is defined as the risk that the fair value of future cash flows will fluctuate because of changes in foreign exchange rates. The Corporation currently incurs almost all of its revenues and expenditures in Canadian dollars but does have some expenses related to its turbine supply and maintenance agreements that are denominated in US dollars. To mitigate these risks, the Corporation monitors the risks associated with foreign exchange rate fluctuations and, from time to time, may enter into forward foreign exchange contracts. As at March 31, 2021, the Corporation did not hold any foreign exchange contracts.

Credit Risk

The Corporation's credit risk is limited to cash, trade receivables and other financial assets. The Corporation's maximum exposure to credit risk in relation to each class of recognized financial assets is limited to the carrying amount of those assets as 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 the counterparty fails to perform its obligations under the financial instrument in question. The Corporation considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Corporation in full, without recourse by the Corporation to actions such as realizing security (if any is held).

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

15. Risk Management (continued)

The Corporation has minimal credit risk with respect to cash as it is held at high-credit quality financial institutions. Trade receivable risk is managed through the PPA process whereby the counterparty to the PPA is a utility subject to government regulation and legislation and is a subsidiary of a highly rated public company. Of the trade receivables balance at the end of the year, $3,056,908 (2020 - $2,990,866) is due from the utility, the Corporation's largest customer, $nil (2020 – $166,482) is due from the Federal Government and $49,935 (2020 - $1,520,658) is due from the Prince Edward Island Infrastructure Secretariat in respect of Federal Government grants. Apart from this, the Corporation does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. All other financial assets are categorized as performing as counterparties have a low risk of default and all contractual cash flows have been met. No expected credit loss provisions have been recognized.

The Corporation actively manages its exposure to credit risk by assessing the ability of counterparties to fulfill their obligations under the related contracts prior to entering into such contracts. The Corporation makes detailed assessments of credit quality of all counterparties and, where appropriate, obtains corporate guarantees, collateral or other security to support the ultimate collection of these financial assets.

Liquidity Risk

The Corporation actively manages its liquidity through cash and debt management strategies. Such strategies include continually monitoring forecasted and actual cash flows to assess and further reduce liquidity risk. The Corporation's cash resources, trade receivables, other financial asset receivables and cash generated from operations significantly exceed the current cash outflow requirements.

16. Capital Management

The Corporation's debt management plan is built on the goal of ensuring the capacity to meet long-term obligations and ensuring financial health, while achieving the growth plans of the Corporation. In order to facilitate the management of its capital requirements, the Corporation prepares annual operating budgets and actual to budget forecasts on a quarterly basis. The Corporation's capital consists of short-term debt having a term to maturity of one year or less, long-term debt having a term to maturity greater than one year and equity, primarily in the form of retained earnings. There has been no change with respect to the overall capital risk management strategy during the year.

The Corporation is subject to an externally imposed requirement to contribute to a sinking fund for the future settlement of long-term indebtedness and has complied with this requirement during the year.

17. Commitments and Financial Guarantees

Commitments

Turbine service and warranty agreements:

The Corporation enters into service and warranty agreements in the ordinary course of business. Certain agreements are denominated in US dollars and have been converted to Canadian dollars using the exchange rate in effect at March 31, 2021. The contracts provide for scheduled and unscheduled maintenance and require annual minimum payments, subject to inflationary increases, as applicable. The committed amounts over the next five years and beyond are as follows:

	2022	2023	2024	2025	2026	Thereafter
Commitments	3,630,791	3,630,791	2,193,947	2,173,990	2,173,990	10,503,397

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

17. Commitments and Financial Guarantees (continued)

Power Purchase Agreements (PPAs):

The Corporation is contractually obligated, through PPA's totaling 19 megawatts with private wind developers, to purchase all wind power produced, and then sell all wind power purchased to Maritime Electric Company Limited. These PPA's expire in 2026 (9 megawatts) and 2036 (10 megawatts). The Corporation is contractually obligated, through PPA's totaling 73.56 megawatts, to sell all wind power produced at its wind farm facilities to Maritime Electric Company Limited. These PPA's expire in 2022 (5.28 megawatts), 2023 (3 megawatts), 2024 (5.28 megawatts), 2026 (30 megawatts) and 2033 (30 megawatts).

Land lease payments:

In the normal course of business, the Corporation has entered into agreements for the use of, or option to use, land in perpetuity in connection with the operation of its wind farms. Payment under these agreements is dependent on the amount of power generated by the wind farm assets; therefore, future minimum payments are indeterminable.

The Corporation has also entered into a lease agreement for the use of land in connection with the development of an electrical smart grid. The associated future minimum lease payments are disclosed in note 9.

Development:

At March 31, 2021, the Corporation had outstanding contractual construction commitments amounting to approximately $24,898,500 (2020 - $24,898,500), which represents a turbine supply agreement for the 30-megawatt wind farm project currently in the development phase. There are no additional contractual construction commitments outstanding at March 31, 2021 (2020 - $nil). Project funding for the 30-megawatt wind farm has been arranged through the Government of Canada's Investing in Canada Infrastructure Plan. Under this Plan, the Government of Canada will provide, through the Province of Prince Edward Island's Department of Transportation, Infrastructure and Energy, up to a maximum of $29,850,000 in funding for the project. As of March 31, 2021, $1,570,432 (2020 – $1,692,350) of project funding had been received or committed to through the Invest in Canada Infrastructure Plan.

The Corporation also has funding agreements with the Government of Canada – Department of Natural Resources (NRCan) and through the Government of Canada's Investing in Canada Infrastructure Plan to develop an electrical smart grid on Prince Edward Island. NRCan's maximum contribution toward the smart grid project shall not exceed the lesser of 25% of total project costs or a maximum of $4,373,250. At March 31, 2021, funding in the amount of $401,866 (2020 - $39,290) had been received or committed by NRCan toward the project. The maximum contribution toward this project through the Investing in Canada Infrastructure Plan is $7,927,000, with $38,935 (2020 - $nil) received or committed as of March 31, 2021. Outstanding contractual commitments to suppliers regarding this project totaled $69,500 (2020 - $nil) as of March 31, 2021.

Project funding for electricity transmission infrastructure in western PEI has been arranged through the Government of Canada's Investing in Canada Infrastructure Plan. Under this Plan, up to a maximum of $21,250,000 in funding will be provided for the project. As of March 31, 2021, $10,301 (2020 - $nil) of funding had been received or committed.

Prince Edward Island Energy Corporation

Notes to the Consolidated Financial Statements
For the year ended March 31, 2021

18. Related Party Transactions

Salaries and benefits for Corporation employees paid by and reimbursed to the Province of PEI during 2021 totaled $437,046 (2020 - $432,217).

During 2021, the Corporation received $115,000 (2020 - $115,000) in grants from the Province of PEI in exchange for the Corporation acting as an agent in the sale of Renewable Energy Certificates.

During the year, the Corporation provided $157,373 (2020 - $142,978) in funding for a program, administered through the Province of PEI, that supports economic, social and community-based projects in the area surrounding one of the Corporation's wind farms.

Key Management Compensation

Key management includes the CEO. Salary and short-term benefits paid to the CEO totaled $158,216 (2020 – $158,420).

19. Prior Period Comparative Figures

Certain prior period comparatives have been restated to conform to the presentation format adopted in the current year.

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION

Financial Statements

March 31, 2021

MRSB

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION
Index to Financial Statements
March 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of Prince Edward Island Liquor Control Commission

Opinion

We have audited the financial statements of Prince Edward Island Liquor Control Commission (the Commission), which comprise the statement of financial position as at March 31, 2021, and the statements of changes in equity, profit or loss and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2021, and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting 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 the Commission 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 those 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 International Financial Reporting 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 the Commission's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

(continues)

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 the Commission'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 the Commission'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 the Commission 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.

MRSB Chartered Professional Accountants Inc.

MRSB CHARTERED PROFESSIONAL ACCOUNTANTS INC.

Charlottetown, PE

June 24, 2021

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION
Statement of Financial Position
March 31, 2021

	2021	2020
ASSETS		
Current		
Cash	**$ 3,486,656**	$ 5,270,113
Accounts receivable (Note 5)	**1,513,065**	2,065,159
Inventory (Note 6)	**8,043,031**	7,958,613
Prepaid expense	**160,077**	111,071
	13,202,829	15,404,956
Property and equipment (Schedules 1 and 2)	**8,582,656**	9,295,695
Total assets	**$ 21,785,485**	$ 24,700,651
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 7)	**$ 6,262,059**	$ 5,090,753
Deferred revenue	**460,610**	368,276
Deferred lease inducements	**308,511**	372,340
Due to the Province of Prince Edward Island (Note 8)	**10,978,655**	14,499,996
Current portion of debentures payable (Note 9)	**43,906**	177,053
Current portion of lease liabilities (Note 10)	**809,082**	773,467
	18,862,823	21,281,885
Debentures payable (Note 9)	**93,247**	137,153
Lease liabilities (Note 10)	**2,829,415**	3,281,613
Total liabilities	**$ 21,785,485**	$ 24,700,651

Contractual obligations (Note 11)

ON BEHALF OF THE PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION

_____ *Chair*

_____ *Commissioner*

Notes 1 - 21 are an integral part of these financial statements

MRSB

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION
Statement of Changes in Equity
Year Ended March 31, 2021

	2021	2020
Retained earnings - beginning of year	**$ -**	$ -
Net income (Statement 5)	**23,414,429**	22,468,919
	23,414,429	22,468,919
Annual income distribution to Province of Prince Edward Island	**(23,414,429)**	(22,468,919)
Retained earnings - end of year	**$ -**	$ -

Notes 1 - 21 are an integral part of these financial statements

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PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION
Statement of Profit or Loss
Year Ended March 31, 2021

	2021	2020
Income		
Sales (Note 12)	**$ 85,651,167**	$ 83,473,652
Cost of sales (Note 6)	**48,095,711**	47,530,611
Gross margin	**37,555,456**	35,943,041
Expenses		
Amortization of property and equipment (Schedules 1 and 2)	**1,467,126**	1,379,290
Credit and debit card charges	**617,975**	710,443
Insurance and property taxes (Note 13)	**254,644**	235,467
Interest on debentures (Notes 9, 13)	**9,249**	16,379
Interest on lease liabilities (Note 10)	**252,237**	249,144
Operating leases	**182,760**	204,271
Other operating expenses (Note 14)	**487,605**	593,591
Repairs and maintenance	**1,097,081**	932,811
Salaries and benefits (Notes 13, 15)	**11,041,092**	10,485,520
Store and office expenses	**637,835**	765,705
Travel	**98,264**	101,528
Utilities	**771,926**	802,096
	16,917,794	16,476,245
Income from operations	**20,637,662**	19,466,796
Other income (Note 16)	**2,776,767**	3,002,123
Net income	**$ 23,414,429**	$ 22,468,919

Notes 1 - 21 are an integral part of these financial statements

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PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION
Statement of Cash Flow
Year Ended March 31, 2021

	2021	2020
Cash flows from operating activities		
Net income	**$ 23,414,429**	$ 22,468,919
Items not affecting cash:		
Amortization of property and equipment	**1,467,126**	1,379,290
Gain on disposal of property and equipment	**-**	(17,000)
	24,881,555	23,831,209
Changes in non-cash working capital:		
Accounts receivable	**552,094**	(134,289)
Inventory	**(84,418)**	841,189
Prepaid expense	**(49,006)**	182,323
Accounts payable and accrued liabilities	**1,171,307**	782,061
Deferred revenue	**92,334**	40,408
	1,682,311	1,711,692
	26,563,866	25,542,901
Cash flows from investing activities		
Purchase of property and equipment	**(628,665)**	(931,949)
Purchase of right-of-use assets	**(125,422)**	(3,757,083)
Proceeds on disposal of property and equipment	**-**	48,169
	(754,087)	(4,640,863)
Cash flows from financing activities		
Annual income distribution to Province of Prince Edward Island	**(23,414,429)**	(22,468,919)
Advances (to) from the Province of Prince Edward Island	**(3,521,341)**	1,946,193
Repayment of lease liabilities	**(539,038)**	(295,426)
Repayment of debentures payable	**(177,053)**	(201,213)
Proceeds from lease liabilities	**122,454**	3,586,353
Deferred lease inducements	**(63,829)**	(63,830)
	(27,593,236)	(17,496,842)
Increase (decrease) in cash	**(1,783,457)**	3,405,196
Cash - beginning of year	**5,270,113**	1,864,917
Cash - end of year	**$ 3,486,656**	$ 5,270,113
Cash consists of:		
Cash on hand	**$ 120,195**	$ 112,195
Cash in financial intuitions	**3,366,461**	5,157,918
	$ 3,486,656	$ 5,270,113
Cash flow supplementary information		
Interest paid	**$ 263,973**	$ 268,103

Notes 1 - 21 are an integral part of these financial statements

MRSB

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION
Notes to Financial Statements
Year Ended March 31, 2021

1. DESCRIPTION OF BUSINESS

Prince Edward Island Liquor Control Commission (the Commission) is a wholly owned Crown corporation of the Province of Prince Edward Island, established under the provisions of the *Liquor Control Act* and is therefore a non-taxable entity under the provisions of the federal *Income Tax Act*. The Commission is responsible for managing the importation, sale, and distribution of beverage alcohol throughout Prince Edward Island. The head office is located at 3 Garfield Street in Charlottetown with outlets in various locations across the province.

2. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with, and are in compliance with, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of the financial statements are set out in Note 4.

These financial statements were authorized for issuance by the Board of Commissioners on June 24, 2021.

The board of directors have the power to amend the financial statements after issue.

3. BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is the functional currency of the Commission.

4. SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting standards

These financial statements have been prepared in accordance with IFRS, issued and in effect as of March 31, 2021. The significant accounting policies used in the preparation of these financial statements are summarized below.

An overview of the standards, amendments, and interpretations on the conversion to IFRS, those adapted in the current year, and those which are issued but not yet in effect are presented below.

IAS 1 Presentation of Financial Statements

On January 23, 2020, IASB issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current. The amendments to IAS 1 are required to be applied for annual periods beginning on or after January 1, 2023. The amendments must be applied retrospectively in accordance with IAS 8.

Cash

Cash is comprised of cash on hand and amounts on deposit with financial institutions.

Accounts receivable

Accounts receivable arise from trade sales, Prince Edward Island Cannabis Management Corporation, and the Province of Prince Edward Island. 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.

(continues)

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION
Notes to Financial Statements
Year Ended March 31, 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventory

Inventories are stated at the lower of cost and net realizable value on a first-in, first-out basis. Cost includes the costs to purchase, duty and excise taxes, and standard freight rates for goods received. Net realizable value represents the amount that may be realized from the sale of an inventory item under normal business conditions. When inventories are sold, the carrying amount of those inventories are recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories shall be recognized as an expense in the period the loss or write-down occurs. The amount of reversal of any write-downs, arising from an increase in net realizable value, shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Property and equipment

Property and equipment is stated at cost less accumulated amortization and any impairment losses. All capital asset additions over $1,000 are capitalized. Property and equipment are broken down into components when the components are significant and have differing useful lives than the rest of the asset. Amortization is calculated on a straight-line basis at the following rates:

Buildings	2.5%, 3.33%, 5%, 6.66%
Equipment	20%
Vehicles	20%
Leasehold improvements	5% and 10%
Financial information system	20%
Right-of-use assets	term of the lease

One-half of the annual rate is recorded in the year of acquisition; no amortization is recorded in the year of disposal.

Leases

The Corporation recognizes right-of-use assets and lease liabilities for its leases except for certain classes of underlying assets in which the lease terms are 12 months or less or for low valued assets. Right-of-use assets are included in property and equipment on the statement of financial position. The amortization expense on right-of-use assets is based on amortization of the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term

Impairment

The Commission assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are recorded, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Deferred lease inducements

The Commission received inducements to extend a lease at one of its locations. This amount will be amortized over the term of the lease to offset the cost of the leased premise.

(continues)

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION
Notes to Financial Statements
Year Ended March 31, 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets and financial liabilities

On initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: the asset is held within a business model whose objective is to hold assets to collect contractual cash flow; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All other financial assets are classified as measured at FVTPL. Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Commission changes its business model for managing financial assets. There were no changes to any of the Commission business models during the current or prior year.

The Commission classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL. The Commission derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Commission currently has legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Commission has classified its financial assets and liabilities as follows:

Cash - fair value through profit or loss

Accounts receivable, accounts payable and accrued liabilities, debentures payable, lease liabilities, and due to the Province of Prince Edward Island - amortized cost

Transaction costs for fair value through profit or loss instruments are recognized as profit or loss immediately while transaction costs for other financial instruments form part of the original value of the financial instrument.

De-recognition of a financial instrument occurs when the contractual rights to the cash flow generated by the asset expire, when the financial asset and substantially all of the risks and rewards are transferred to a third party, or when the obligation in the contract is discharged, cancelled, or expires.

(continues)

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION
Notes to Financial Statements
Year Ended March 31, 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is derived from the sale of goods and other income from the rendering of services.

Revenue is measured by reference to the fair value of the consideration received or receivable by the Commission for the goods or services supplied, exclusive of sales tax, deposits, and health tax.

Revenue from the sale of goods is recognized when the amount of revenue can be reliably measured, collection is probable, the costs incurred or to be incurred can be reliably measured, and when the Commission transfers control of the goods to the customer.

Other income includes permit, license, marketing fees, and limited time offer promotions. Revenues from permits and license fees are recognized when they can be reliably measured and the associated right to sell or produce beverage alcohol has been utilized. Revenues from marketing fees are recognized when the amount of revenues can be reliably measured and it is probably that economic benefits will flow to the Commission. Marketing fees are earned during the nine marketing periods of the fiscal year. Any variable amounts due can be reliably measured at the end of each marketing period. All other revenue amounts can be reliably measured at the beginning of the marketing period. All incremental costs of the programs are the responsibility of the supplier. Marketing fees do not span multiple fiscal years resulting in no restatement of prior fiscal years for contract revenues under marketing fees.

The Commission sells gift cards to its customers and initially records the amount to deferred revenue. Revenue is recognized as the gift cards are redeemed. If, in the opinion of management, the likelihood of the gift card balance not being redeemed is highly probably, then the revenue will be recognized at that time.

Expenses

Expenses are recognized on an accrual basis in the period in which the transaction or event that gave rise to the expense occurred.

Significant accounting judgments and estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. The actual results may materially differ from management's estimation. Items requiring the use of significant estimates include useful lives of property and equipment, accrued liabilities, legal contingencies and impairment. The estimates and underlying assumptions are reviewed on an ongoing basis based on historical experience, best knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances, including expectations of future events. The resulting accounting estimates will, by definition, seldom equal the related actual results, and actual results may ultimately differ from these estimates.

Revisions to accounting estimates are recorded in the period in which the estimate is reversed if the revision affects only that period or in the period of revision and in future periods if the revision affects both the current and future periods.

Future changes in significant accounting policies

A number of new standards and amendments to standards and interpretations are not yet effective for the year ended March 31, 2021 and have not been adopted by the Commission in preparing these financial statements. These changes are not expected to have a material impact on the Commission's financial statements.

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION
Notes to Financial Statements
Year Ended March 31, 2021

5. ACCOUNTS RECEIVABLE

	2021	2020
Trade accounts receivable	**$ 1,584,237**	$ 1,973,218
Province of Prince Edward Island	**-**	87,172
Prince Edward Island Cannabis Management Corporation	**(6,491)**	69,450
	1,577,746	2,129,840
Allowance for doubtful accounts	**(64,681)**	(64,681)
	$ 1,513,065	$ 2,065,159

All amounts in the accounts receivable balance are short-term. The net carrying value of accounts receivable is considered a reasonable approximation of fair value.

All of the Commission's trade and other receivables have been reviewed for indications of impairment. It is management's assessment that an allowance of $64,681 (2020 - $64,681) is required to fairly state the value of accounts receivable.

The receivables from the Prince Edward Island Cannabis Management Corporation consist primarily of accruals to account for the shared use of resources of the Commission and is based on a best estimate of the cost of those resources used.

The receivable from the Province of Prince Edward Island primarily relates to a wage reimbursement for one employee on secondment to the Commission. The carrying amount of the receivable is considered a reasonable approximation of fair values as this financial asset is expected to be paid within the year, such that the time value of money is not significant.

6. INVENTORY

	2021	2020
Warehouse	**$ 3,987,796**	$ 4,237,470
Stores	**3,929,549**	3,501,251
In-transit	**125,686**	219,892
	$ 8,043,031	$ 7,958,613

Inventories recognized in the statement of financial position consist of liquor products held for sale. In 2021, a total of $48,095,711 (2020 - $47,530,611) of inventories was included in the statement of profit or loss as cost of sales.

In-transit inventory consists of beverage alcohol that has been customs cleared at the dock in Halifax as part of a consolidated load destined for three liquor boards in the Maritimes. The Commission owns the inventory in this case after it has been cleared at the point of entry into Canada.

There were no write-downs of inventories. No reversals of previous write-downs were recognized as a reduction of expense in 2021 or 2020. None of the inventories are pledged as security for liabilities.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2021	2020
Accounts payable and accrued liabilities	**$ 6,262,059**	$ 5,090,753

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION
Notes to Financial Statements
Year Ended March 31, 2021

8. DUE TO THE PROVINCE OF PRINCE EDWARD ISLAND

Prince Edward Island Liquor Control Commission is a wholly owned Crown Corporation of the Province of Prince Edward Island. The Commission's employee salaries and benefits are paid by the Province and are subsequently reimbursed by the Commission. Net profit earned during the period is payable to the Province.

	2021	2020
Due to the Province of Prince Edward Island	**$ 10,978,655**	$ 14,499,996

9. DEBENTURES PAYABLE

	2021	2020
Province of PEI - 4.07%, repayable in annual blended installments of $49,488. The loan matures on January 2, 2024.	**$ 137,153**	$ 179,342
Province of PEI - 4.2%, repayable in annual blended installments of $86,542. The loan matured on September 13, 2020.	**-**	83,054
Province of PEI - 1.81%, repayable in annual blended installments of $52,747. The loan matured on February 5, 2021.	**-**	51,810
	137,153	314,206
Current portion	**(43,906)**	(177,053)
	$ 93,247	$ 137,153

Principal repayments of long term debt are expected to be repaid over the next three years as follows:

2022	$ 43,906
2023	45,693
2024	47,554
	$ 137,153

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION
Notes to Financial Statements
Year Ended March 31, 2021

10. LEASE LIABILITIES

	2021	2020
The Commission leases 10 retail outlets, a warehouse and office space. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions.	**$ 3,638,497**	$ 4,055,080
Current portion	**(809,082)**	(773,467)
	$ 2,829,415	$ 3,281,613

Future minimum capital lease payments are approximately:

2022	$ 809,082
2023	748,122
2024	652,892
2025	619,167
2026	470,630
Thereafter	1,361,877
Total minimum lease payments	4,661,770
Less: amount representing interest at various rates	1,023,273
	$ 3,638,497

11. CONTRACTUAL OBLIGATIONS

The Commission has entered into contracts with various suppliers for hardware maintenance, software support services, and security services. The total of these contracts is $941,517 and they expire between one and three years.

12. SALES

	2021	2020
Gross receipts	**$124,316,872**	$121,112,506
Less taxes collected and remitted		
Provincial Health Tax	**21,828,364**	21,246,773
Harmonized Sales Tax	**16,837,341**	16,392,081
Sales	**$ 85,651,167**	$ 83,473,652

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION
Notes to Financial Statements
Year Ended March 31, 2021

13. RELATED PARTY TRANSACTIONS

These financial statements include the results of normal operating transactions with various provincial departments, Crown corporations, and agencies with which the Commission is related. Operating transactions with related parties, such as insurance and property taxes of $129,637 (2020 - $139,225) and interest on debentures of $9,249 (2020 - $16,379), are recorded at rates as determined by the Province of Prince Edward Island.

Key management received $592,729 (2020 - $566,797) during the year for salaries and benefits. Post-employment benefits are the responsibility of the province and are not included in these financial statements.

The Commission's employees salaries and benefits are paid by the province and subsequently reimbursed by the Commission.

Profit earned during the period is payable to the Province. The outstanding balance due to the Province at year end is $10,978,655 (2020 - $14,499,996).

Management and staff of the Prince Edward Island Liquor Control Commission (PEILCC) assisted in the development, management, and ongoing operation of the Prince Edward Island Cannabis Management Corporation. An estimation of the cost of these services has been expensed in various accounts in the amount of $466,722 (2020 - $396,602). Interest received from PEICMC on line of credit was $10,342.

14. OTHER OPERATING EXPENSES

Other operating expenses include consulting, legal, professional development, security and vehicle expenses. Included as an expense for the current year is a provision for bad debt of $Nil (2020 - $Nil).

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION
Notes to Financial Statements
Year Ended March 31, 2021

15. EMPLOYEE BENEFITS

Pension benefits

Permanent employees of the Commission participate in the Province of Prince Edward Island Civil Service Superannuation Pension Plan (the Plan) which is a multi-employer contributory defined benefit pension plan. The Plan provides a pension on retirement based on two percent of the average salary for the highest three years times the number of years of pensionable service for service to December 31, 2013, and two percent of the career average salary indexed with cost of living adjustments for service after 2013. Indexing is subject to the funded level of the plan after December 31, 2016. The Plan is administered by the Province of Prince Edward Island. The Commission's annual portion of contribution's to the Plan of $473,524 (2020 - $445,415) was paid by the Province and is not reflected in these financial statements. Any unfunded liability of the Plan is the responsibility of the Province and therefore no liability has been recognized in these financial statements. For additional information on the Plan, see the Province's consolidated financial statements.

Retiring allowance

The Commission provides a retirement allowance to its permanent employees. The amount paid to eligible employees at retirement is based on the number of years of service and the rate of pay in effect at the retirement date. The benefit costs and liabilities related to the allowance are assumed by the Province and are not included in these financial statements.

Sick leave

Classified employees are credited 1.25 (1.5 - excluded employees) days per month for use as paid absences in the year, due to illness or injury. Under existing employment agreements, employees are allowed to accumulate unused sick day credits each year up to the allowable maximum. Accumulated credits may be used in future years to the extent the employee's illness or injury exceeds the current year's allocation. The use of accumulated sick days for sick leave compensation ceases on termination of employment and there is no obligation to settle these amounts with cash payments. A liability has not been calculated and no accrual has been recorded in these financial statements. The related liability is recorded by the Province. Salary expense is included in these financial statements.

16. OTHER INCOME

	2021	2020
LTO sales	**$ 1,417,110**	$ 1,477,601
Marketing fees	**471,035**	420,395
Program fees	**366,885**	403,426
LTO program fees	**360,117**	414,953
Miscellaneous	**78,835**	60,545
Amortization of leasehold Inducement	**63,831**	64,075
Permits, fees and licenses	**18,954**	144,128
Gain on disposal of property and equipment	**-**	17,000
	$ 2,776,767	$ 3,002,123

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION
Notes to Financial Statements
Year Ended March 31, 2021

17. FINANCIAL INSTRUMENTS

The Commission applies IFRS 9 when accounting for its financial instruments. IFRS 9 specifies how an entity should classify and measure financial assets and financial liabilities.

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and liabilities:

	2021	2020
Financial assets		
Financial assets measured at fair value through profit or loss	**$ 3,486,656**	$ 5,270,113
Financial assets measured at amortized cost	**1,513,065**	2,065,159
	4,999,721	7,335,272
Financial liabilities		
Financial liabilities measured at amortized cost		
Non-current		
Debentures payable	**93,247**	137,153
Lease liabilities	**2,829,415**	3,281,613
	2,922,662	3,418,766
Current		
Due to the Province of Prince Edward Island	**10,978,655**	14,499,996
Accounts payable and accrued liabilities	**6,262,059**	5,090,753
Current portion of debentures payable	**43,906**	177,053
Current portion of lease liabilities	**809,082**	773,467
	21,016,364	23,960,035

18. FAIR VALUE

Financial assets and liabilities are measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods is based on fair value through profit and loss or at amortized cost using the effective interest rate method.

Financial assets and liabilities recorded in the statement of financial position at fair market value are categorized based on the fair value hierarchy of inputs. The Level 1 hierarchy is unadjusted quoted prices in active markets for identical assets and liabilities. This level of inputs is used to measure the fair value of cash.

Fair value for accounts receivable, accounts payable and accrued liabilities, amounts due to/from the Province of Prince Edward Island approximate their carrying amounts due to their short term natures.

The fair value of debentures payable and lease liabilities are not materially different from their carrying value as there has not been a significant fluctuation in interest rates.

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION
Notes to Financial Statements
Year Ended March 31, 2021

19. FINANCIAL RISK MANAGEMENT

The Commission is exposed to various risks through its financial instruments. The Corporation's financial assets and liabilities by category are summarized in Note 17. The following analysis provides information about the Commission's risk exposure and concentration as of March 31, 2021.

(a) Credit risk

Credit risk is the risk that the Commission will incur a loss because a customer fails to meet an obligation. The Commission is exposed to this risk for financial instruments classified as financial assets measured at amortized cost by granting credit to customers. The Commission's maximum exposure to credit risk is limited to the carrying amount of these financial assets recognized at the reporting date, $1,513,065 (2020 - $2,065,159).

The Commission has mitigated its exposure to this risk through the limited extension of credit and its contractual relationships with its business partners. The Commission's management considers that an allowance of $64,681 (2020 - $64,681) is required for the above loans and receivables to be fairly stated. The loans and receivables are shown net of the expected credit losses.

The expected credit losses were calculated by reviewing the aging of receivables and assigning higher probability of credit losses to balances outstanding for longer periods of time. The financial condition of customers was also evaluated based on experience.

With respect to financial assets measured at amortized cost, the Commission is not exposed to any significant credit risk exposure to any single supplier. Trade receivables consist of a large number of customers in various industries and geographical areas. Management considers the credit quality of trade receivables to be good.

Some of the unimpaired financial assets measured at amortized costs are past due as at the reporting date. The aging of unimpaired assets is as follows:

Current	**$ 931,585**	$ 1,062,863
Less than 30 days	**282,898**	683,090
30 - 60 days	**264,803**	219,677
61 days -1 year	**33,779**	99,529
More than 1 year	**-**	-
	$ 1,513,065	$ 2,065,159

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency rate risk, interest ate risk and other price risk. The Commission's market risk management focuses on the unpredictability of financial and economic markets and seeks to minimize potential effects on the Corporation's financial performance. In common with many organizations that purchase in foreign currencies, the Commission may be exposed to a marginal degree of currency risk. Management has mitigated the exposure to this risk by limiting the number of purchase transactions in foreign currency.

The Commission's policy is to minimize interest rate cash flow risk exposure on long-term financing. Long-term borrowing is at fixed rates.

(continues)

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION
Notes to Financial Statements
Year Ended March 31, 2021

19. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Liquidity risk

Liquidity risk is the risk that the Commission would be unable to meet its obligations. The Commission manages liquidity needs by monitoring scheduled debt servicing payments for long term financial liabilities as well as cash inflows and outflows due in day-to-day business. The data used for analysing these cash flows is consistent with that used in the contractual maturity analysis below. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30 day outlook. Net cash requirements are compared to available borrowing facilities in order to determine any surplus or shortfall.

The Commission's objective is to maintain cash and marketable securities to meet its liquidity requirements for a minimum 60 day period. This objective was met for the reporting period. Funding for long term liquidity needs are secured by adequate amounts of committed credit facilities. The Commission's existing cash resources, trade receivables, and cash generated from operations significantly exceed the current cash outflow requirements.

The Commission's contractual financial liabilities as at March 31, 2021 matures as follows:

	Current		Non-current	
	Within 6 months	6 to 12 months	1 to 5 years	After 5 years
Accounts payable and accrued liabilities	$ 6,262,059	$ -	$ -	$ -
Due to the Province	-	10,978,655	-	-
Lease liabilities	404,541	404,541	1,618,164	1,211,251
Debentures payable	21,953	21,953	93,247	-
	$ 6,688,553	$ 11,405,149	$ 1,711,411	$ 1,211,251

20. CAPITAL MANAGEMENT

The capital structure of the Commission currently consists of amounts due to related parties, debentures payable, and lease liabilities. The Commission manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Commission may arrange more loans or advances from related parties. Management reviews its capital management approach on a regular basis. The Commission is not subject to externally imposed capital requirements.

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION
Notes to Financial Statements
Year Ended March 31, 2021

21. SUBSEQUENT EVENTS

The recent outbreak of the Coronavirus Disease 2019, or COVID-19, has spread across the globe and is impacting worldwide economic activity. This global pandemic poses the risk that the Commission or its clients, employees, contractors, suppliers and other partners may be unable to conduct regular business activities for an indefinite period of time. While it is not possible at this time to estimate the impact that COVID-19 could have on the Commission's business, the continued spread of COVID-19 and the measures taken by the federal, provincial and municipal governments to contain its impact could adversely impact the Commission's business, financial condition or results of operations. The extent to which the COVID-19 outbreak impacts the Commission's results will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the spread of the virus and government actions.

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION
SCHEDULE TO FINANCIAL STATEMENTS
PROPERTY AND EQUIPMENT
YEAR ENDED MARCH 31, 2021

Schedule 1

	Cost Beginning of Year	Additions	Disposals and Write Downs	Cost End of Year	Accum Amort Beginning of Year	Amort in the Year	Disposals and Write Downs	Accum Amort End of Year	Net Book Value
Land	$ 63,908	$ -	$ -	$ 63,908	$ -	$ -	$ -	$ -	$ 63,908
Buildings	6,254,117	-	-	6,254,117	4,015,476	146,670	-	4,162,146	2,091,971
Equipment	3,876,937	196,261	-	4,073,198	3,336,155	217,220	-	3,553,375	519,823
Vehicles	266,953	-	-	266,953	147,491	26,547	-	174,038	92,915
Leasehold improvements	7,424,961	224,265	-	7,649,226	5,357,843	279,937	-	5,637,780	2,011,446
Financial information systems	4,491,838	208,139	-	4,699,977	4,091,146	174,418	-	4,265,564	434,413
	-	-	-	-	-	-	-	-	-
	22,378,714	628,665	-	23,007,379	16,948,111	844,792	-	17,792,903	5,214,476
Right-of-use assets	4,638,880	125,423	-	4,764,303	773,789	622,334	-	1,396,123	3,368,180
	$ 27,017,594	$ 754,088	$ -	$ 27,771,682	$ 17,721,900	$ 1,467,126	$ -	$ 19,189,026	$ 8,582,656

The Commission has not pledged any of its property, plant, and equipment as security.

Notes 1 - 21 are an integral part of these financial statements

MRSB

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION
SCHEDULE TO FINANCIAL STATEMENTS
PROPERTY AND EQUIPMENT
YEAR ENDED MARCH 31, 2020

Schedule 2

	Cost Beginning of Year	Additions	Disposals and Write Downs	Cost End of Year	Accum Amort Beginning of Year	Amort in the Year	Disposals and Write Downs	Accum Amort End of Year	Net Book Value
Land	$ 63,908	$ -	$ -	$ 63,908	$ -	$ -	$ -	$ -	$ 63,908
Buildings	6,229,739	24,378	-	6,254,117	3,860,273	155,203	-	4,015,476	2,238,641
Equipment	3,799,528	77,410	-	3,876,938	3,123,474	212,681	-	3,336,155	540,783
Vehicles	235,068	132,735	(100,850)	266,953	233,353	14,989	(100,851)	147,491	119,462
Leasehold improvements	6,852,554	603,576	(31,169)	7,424,961	5,101,211	256,632	-	5,357,843	2,067,118
Financial information systems	4,397,989	93,849	-	4,491,838	3,911,970	179,176	-	4,091,146	400,692
	21,578,786	931,948	(132,019)	22,378,715	16,230,281	818,681	(100,851)	16,948,111	5,430,604
Right-of-use assets	881,797	3,757,083	-	4,638,880	213,180	560,609	-	773,789	3,865,091
	$ 22,460,583	$ 4,689,031	$ (132,019)	$ 27,017,595	$ 16,443,461	$ 1,379,290	$ (100,851)	$ 17,721,900	$ 9,295,695

Notes 1 - 21 are an integral part of these financial statements

MRSB

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Financial Statements
March 31, 2021

Prince Edward Island
Office of the
Auditor General
PO Box 2000, Charlottetown PE
Canada C1A 7N8

Île-du-Prince-Édouard
Bureau du
vérificateur général
C.P. 2000, Charlottetown PE
Canada C1A 7N8

INDEPENDENT AUDITOR'S REPORT

To the Members of the
Prince Edward Island Lotteries Commission

Opinion

I have audited the accompanying financial statements of the **Prince Edward Island Lotteries Commission** which comprise the statement of financial position as at March 31, 2021, and the statements of comprehensive income, changes in shareholder equity, and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2021, and its financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control that 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 the Commission'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 an intention exists to liquidate or cease the operations of the Commission, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee

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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 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, I exercise professional judgement and maintain professional scepticism throughout the audit. I 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 my 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 the Commission'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 the Commission's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Commission 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.

I 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 I identify during my audit.

Darren Noonan, CPA, CA
Auditor General

Elvis Alisic, CPA, CA
Audit Director

Charlottetown, Prince Edward Island
June 28, 2021

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Statement of Financial Position
March 31, 2021

	2021	2020
	$	$
Assets		
Current Assets		
Cash	24,904,977	14,466,759
Accounts receivable (Note 11)	-	-
	24,904,977	14,466,759
Non Current Assets		
Investment in Interprovincial Lottery Corporation	1	1
Investment in Atlantic Lottery Corporation Inc. (Note 8)	6,775,701	3,967,868
	6,775,702	3,967,869
Total Assets	31,680,679	18,434,628
Liabilities and Shareholder Equity		
Current Liabilities		
Accounts payable		
Province of Prince Edward Island	24,813,842	13,776,380
Atlantic Lottery Corporation Inc.	41,816	686,635
Other	49,319	3,744
	24,904,977	14,466,759
Shareholder Equity		
Contributed surplus (Note 5)	101	101
Accumulated other comprehensive loss	(49,132)	(490,803)
Retained earnings	6,824,733	4,458,571
	6,775,702	3,967,869
Total Liabilities and Shareholder Equity	31,680,679	18,434,628

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

Approved on behalf of the Prince Edward Island Lotteries Commission

Chair

Denise Lewis Fleming
Member

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Statement of Comprehensive Income
for the year ended March 31, 2021

	2021	2020
	$	$
Revenues		
Distributions of Atlantic Lottery Corporation Inc. net profit (Note 15)		
Lottery ticket sales - in person	4,740,737	4,241,421
Lottery ticket sales - online	2,713,632	720,560
Video lottery sales	8,061,256	12,227,986
Entertainment centres net profit (loss)		
Red Shores at Charlottetown Driving Park	(230,416)	1,706,858
Red Shores at Summerside Raceway	(579,170)	(221,787)
Entertainment centres net profit (loss)	(809,586)	1,485,071
	14,706,039	18,675,038
Other	1,200	2,295
Total Revenues	14,707,239	18,677,333
Expenses		
Grants to the harness racing industry (Note 10)	3,135,499	3,255,165
Grant to the City of Charlottetown (Note 12)	345,333	400,000
Grant to PEI Provincial Exhibition Inc.	-	59,000
Responsible Gaming Strategy (Note 13)	213,310	200,533
Other	1,256	5,298
Total Expenses	3,695,398	3,919,996
Net income	11,011,841	14,757,337
Other comprehensive income		
Commission share of other comprehensive income of Atlantic Lottery Corporation Inc. (Note 8)	2,807,833	1,206,148
Comprehensive income	13,819,674	15,963,485

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

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Statement of Changes in Shareholder Equity
for the year ended March 31, 2021

	Contributed Surplus $	Accumulated Other Comprehensive Income / (Loss) $	Retained Earnings $	2021 Shareholder Equity $
Balance, beginning of year	101	(490,803)	4,458,571	3,967,869
Net income	-	-	11,011,841	11,011,841
Other comprehensive income	-	441,671	2,366,162	2,807,833
Comprehensive income	-	441,671	13,378,003	13,819,674
Distributions to the Province of Prince Edward Island	-	-	(11,011,841)	(11,011,841)
Balance, end of year	101	(49,132)	6,824,733	6,775,702

	Contributed Surplus $	Accumulated Other Comprehensive Income / (Loss) $	Retained Earnings $	2020 Shareholder Equity $
Balance, beginning of year	101	(122,556)	1,785,113	1,662,658
Impact of changes in accounting policy (Note 3(d))	-	-	(291,201)	(291,201)
Adjusted balance, beginning of year	101	(122,556)	1,493,912	1,371,457
Net income	-	-	14,757,337	14,757,337
Other comprehensive income	-	(368,247)	1,574,395	1,206,148
Comprehensive income	-	(368,247)	16,331,732	15,963,485
Distributions to the Province of Prince Edward Island	-	-	(13,367,073)	(13,367,073)
Balance, end of year	101	(490,803)	4,458,571	3,967,869

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

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Statement of Cash Flow
March 31, 2021

	2021	2020
	$	$
Cash provided (used) by:		
Operating Activities		
Cash received from Atlantic Lottery Corporation Inc.	14,061,220	19,558,259
Cash received from other revenue	1,200	2,295
Cash paid to the harness racing industry	(3,077,079)	(3,239,233)
Cash paid to the City of Charlottetown	(345,333)	(400,000)
Cash paid for the Responsible Gaming Strategy	(200,534)	-
Cash paid to the PEI Provincial Exhibition Inc.	-	(59,000)
Cash paid for other expenses	(1,256)	(5,298)
Cash provided by operating activities	10,438,218	15,857,023
Financing Activities		
Deficit repayment	-	(1,153,062)
IFRS 16 adoption repayment (Note 3(d))	-	(237,202)
Cash used by financing activities	-	(1,390,264)
Change in cash	10,438,218	14,466,759
Cash, beginning of year	14,466,759	-
Cash, end of year	24,904,977	14,466,759

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

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements
March 31, 2021

1. Nature of Operations

The Government of Prince Edward Island operates no lotteries but the Province, through its ownership of the Prince Edward Island Lotteries Commission (the Commission), is a shareholder in the Atlantic Lottery Corporation Inc. (ALC) and the Interprovincial Lottery Corporation (ILC). ALC is jointly owned by the four Atlantic Provinces or their lottery agency with each having 25 percent ownership. ALC is responsible to develop, organize, undertake, conduct, and manage lotteries in Atlantic Canada. ALC also markets, and handles regionally, the products of the ILC, which is jointly owned by the ten Canadian provinces. Net profits (losses) of ALC and ILC are distributed to the shareholders.

An agreement between the Commission and ALC provides for ALC to develop, organize, conduct, manage, and operate gaming entertainment centres as agent for and on behalf of the Commission. In the event this agreement is terminated, all assets held by ALC on behalf of the Commission shall be transferred to the Commission and any related loans or other liabilities shall be assumed by and become obligations of the Commission.

ALC's net profit is distributed to each of the four Atlantic Provinces or their lottery agency in accordance with the Amended and Restated Unanimous Shareholders' Agreement. Distributions during the year are based on the estimated net profit for each province, less any distributions made by ALC on behalf of the provinces, with an adjustment subsequent to year-end to reflect the actual net profit for the year.

The Commission is owned by the Province of Prince Edward Island and is therefore a non-taxable entity under the provisions of the federal *Income Tax Act*. The head office of the Commission is located at:

Office of the Minister of Finance
Second Floor South, Shaw Building
95 Rochford Street, P.O. Box 2000
Charlottetown, PE, C1A 7N8

2. Statement of Compliance and Approval

The financial statements of the Commission have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

These financial statements were authorized for issuance by the Board of Commissioners on June 23, 2021.

PRINCE EDWARD ISLAND
LOTTERIES COMMISSION
Notes to Financial Statements
March 31, 2021

3. Summary of Significant Accounting Policies

a) International Financial Reporting Standards (IFRS)

The financial statements have been prepared using the accounting policies specified by IFRS, issued and in effect as of March 31, 2021. The significant accounting policies used in the preparation of these financial statements are summarized below.

These accounting policies have been used throughout all of the periods presented.

b) Presentation of the Financial Statements

The financial statements are presented in accordance with International Accounting Standard 1 (IAS 1), "*Presentation of Financial Statements*". The Commission has elected to present a single statement of comprehensive income. The financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is the functional currency of the Commission.

c) Continuity of Operations

On March 11, 2020, the World Health Organization declared the Coronavirus COVID-19 (COVID-19) outbreak a pandemic. This has resulted in governments worldwide, including the Canadian and provincial governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods, closures of non-essential businesses, and physical distancing, have caused material disruption to businesses in Atlantic Canada and globally, resulting in an economic slowdown.

On March 15, 2020, ALC ceased all video lottery operations and closed its entertainment centre. Operations resumed on June 26, 2020 when the Province moved into Phase 4 of the Renew PEI Together plan. Operations were again halted for a number of days in December and March as a result of province wide circuit breaker measures.

The COVID-19 situation is dynamic, causing significant uncertainty regarding when video lottery operations and the entertainment centre will operate. The ultimate duration and magnitude of the impact on the economy and the financial effect on ALC's future revenues, operating results, and overall financial performance is not known at this time; however, the impact could be material. At the reporting date, ALC determined that COVID-19 had no impact on its significant accounting policies, and its consolidated financial statements were prepared on a going concern basis.

PRINCE EDWARD ISLAND
LOTTERIES COMMISSION
Notes to Financial Statements
March 31, 2021

3. Summary of Significant Accounting Policies (continued...)

d) Adoption of Accounting Standard

IFRS 16 Leases (IFRS 16)
The Commission has adopted IFRS 16 effective April 1, 2019. IFRS 16 replaces International Accounting Standard 17, Leases, and requires lessees to recognize assets and liabilities for all leases with a term greater than one year in length.

The Commission is not party to any lease contracts, and therefore it has determined that the changes had no impact on the underlying accounting.

The Commission's exposure to leases is through ALC. ALC applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at April 1, 2019. Accordingly, the comparative information presented for ALC for 2019 is not restated.

As a result of the transition to IFRS 16, ALC recognized additional right-of-use assets and additional lease liabilities, recognizing the difference in retained earnings. The impact on transition for ALC was a reduction in opening retained earnings of $851,230, and the Commission's share was a reduction in opening retained earnings of $291,201. During fiscal year 2019-20, ALC withheld a one-time payment of $237,202 from profit distributions to the Commission to correct the resulting retained earnings deficit.

e) Revenues and Expenses

Revenues and expenses are recorded on an accrual basis in the period in which the transaction or event that gave rise to the revenue or expense occurred.

f) Investments

Investment in the Atlantic Lottery Corporation Inc. (ALC) is an equity investment accounted for using the equity method. Under the equity method, the investment is initially recognized at cost and subsequently the carrying amount is increased or decreased to recognize the Commission's share of income or losses from the investment and reduced by distributions received. Income and losses from the investment are recognized in the statement of comprehensive income.

Investment in the Interprovincial Lottery Corporation (ILC) is an equity investment with no quoted price on an active market whose fair value cannot be reliably measured. The Commission has adopted Fair Value through Profit and Loss as the basis for valuation of this asset class.

PRINCE EDWARD ISLAND
LOTTERIES COMMISSION
Notes to Financial Statements
March 31, 2021

3. Summary of Significant Accounting Policies (continued...)

g) International Financial Reporting Standards Not Yet in Effect

A number of new standards, amendments to standards, and interpretations of standards have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, the application of which is effective for periods beginning on or after April 1, 2021. The Commission has chosen not to early adopt as allowed by the International Financial Reporting Standards. The impact of these new accounting pronouncements is unknown at this time.

h) Financial Risk Management Objectives and Policies

The Commission's risk management policies are part of the overall management of the entity's operations. Management's direct involvement in day-to-day operations identifies risks and variations from expectations leading to changes in risk management activities, requirements, and actions. As part of the overall management of the entity's operations, management considers avoidance of undue concentrations of risk in managing the Commission's exposure.

4. Significant Accounting Judgments and Estimates

The preparation of financial statements in conformity with IFRS requires the use of judgments, assumptions, and estimates as at the date of the financial statements that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities, and the reported amounts of revenues and expenses during the reporting periods presented.

Measurement uncertainty exists when there is a variance between the recognized amount and another reasonable amount. Some accounting measurements require management's best estimate, based on assumptions as at the financial statement date that reflects the most probable set of economic conditions and planned courses of action.

Items requiring the use of significant estimates include expected credit losses of $98,075 (2020 - $99,275), and amounts recorded in Atlantic Lottery Corporation Inc. (ALC) financial statements such as the useful lives of tangible and intangible assets, impairment of financial and non financial assets, accrued liabilities, employee future benefits, development costs, fair value of financial instruments, liabilities for unclaimed prizes, and Player Loyalty Program which all impact the net distribution and allocation of undistributed income or loss to the Commission. Actual results could differ from the estimates made by management in these financial statements, and these differences, which may be material, could require adjustments in subsequent reporting periods.

PRINCE EDWARD ISLAND
LOTTERIES COMMISSION
Notes to Financial Statements
March 31, 2021

5. Contributed Surplus

Contributed surplus represents amounts paid by the Province of Prince Edward Island on behalf of the Commission to the Atlantic Lottery Corporation Inc. and the Interprovincial Lottery Corporation in exchange for share capital.

6. Financial Instruments

Financial instruments reported on the Commission's statement of financial position include cash, accounts receivable, accounts payable, and investment in Interprovincial Lottery Corporation.

All financial instruments are initially recognized at fair value. Cash is measured at fair value. Accounts receivable and payable are short-term in nature, and the net carrying value is considered a reasonable approximation of fair value. Accounts receivable and payable are subsequently measured at amortized cost.

The Investment in ILC represents one share of the ten shares issued by ILC to the ten provinces in Canada. The outstanding ten common shares have no par value. It has been classified in level 3 of the fair value hierarchy, meaning the inputs into the determination of fair value are unobservable and require significant management judgement.

The Commission has determined that the fair value of the investment in ILC should remain at a nominal value. The investment in ILC allows for the coordination of national games, holding the unclaimed prize pools on behalf of the regional lottery authorities including ALC. ILC distributes its annual surplus to (recovers its deficit from) the regional lottery authorities. The Commission's participation in lotteries is conducted through the ALC and any value generated from its investment in ILC is distributed through ALC. The ALC is responsible for marketing the national games within PEI and for the recording of revenue and expenses generated by the national games. As described in Note 3(f) PEI's proportionate share of ALC is included in the financial statements of the Commission.

7. Financial Risk Management

Credit risk management

The Commission is exposed to credit risk through its trade receivables. The Commission mitigates this risk through a regular monitoring process. Credit risk is also mitigated due to the fact that most of the non impaired receivables have been due from the associate company Atlantic Lottery Corporation. Expected credit losses are reviewed at each financial statement date.

The Commission has an impaired receivable totalling $98,075 (2020 - $99,275) as described in Note 11. During fiscal year 2020-21, the Commission received $1,200 (2020 - $2,295) in restitution as a result of a judgement placed on the impaired receivable. However, the Commission continues to consider the collectability of the remaining balance as doubtful.

PRINCE EDWARD ISLAND
LOTTERIES COMMISSION
Notes to Financial Statements
March 31, 2021

7. Financial Risk Management (continued...)

Liquidity risk management
Liquidity risk is the risk that the Commission will not be able to meet all its cash outflow obligations as they come due. The Commission mitigates this risk by monitoring cash activities and expected outflows. The Commission does not have material liabilities that can be called unexpectedly at the demand of a lender or claimant. The Commission has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of operations. All current liabilities are fully funded by the current assets of the Commission.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures, and methods used to measure the risk.

8. Investment in Atlantic Lottery Corporation Inc. (ALC)

The Commission uses the equity method to account for its investment in ALC which involves recognizing its share of income and losses less distributions. ALC reported the following results in its financial statements:

	2021 $ (in thousands)	2020 $ (in thousands)
Current assets	64,252	63,788
Non current assets	205,037	200,648
Current liabilities	(75,430)	(116,380)
Non current liabilities	(103,982)	(82,613)
Shareholder equity	89,877	65,443
Commission portion of shareholder equity	6,776	3,968

PRINCE EDWARD ISLAND
LOTTERIES COMMISSION
Notes to Financial Statements
March 31, 2021

8. Investment in Atlantic Lottery Corporation Inc. (ALC) (continued...)

	2021 $ (in thousands)	2020 $ (in thousands)
Revenues (net)	637,926	725,484
Expenses	(245,608)	(279,176)
Other losses	(45,744)	(50,625)
Net income	346,574	395,683
Other comprehensive income	24,813	13,089
Comprehensive income	371,387	408,772
Income allocated to shareholders	(346,703)	(395,427)
Dividends Paid	(250)	-
Undistributed income to shareholders	24,434	13,345
Commission portion of undistributed income	2,808	1,206

9. Gaming Entertainment Centres

On behalf of the Province, the Atlantic Lottery Corporation Inc. (ALC) constructed and operates Red Shores Racetrack & Casino at Charlottetown Driving Park. ALC's consolidated financial statements include capital assets related to the Charlottetown gaming entertainment centre having a net book value of $14,069,710 as at March 31, 2021 (2020 - $14,006,723).

ALC commenced operating Red Shores at Summerside Raceway in August 2009, occupying facilities which are being leased from the City of Summerside. ALC's consolidated financial statements include capital assets related to the Summerside gaming entertainment centre having a net book value of $1,805,298 as at March 31, 2021 (2020 - $2,335,472). This amount includes leasehold improvements of $469,641 (2020 - $608,277), and the right-to-use leased property of $876,259 (2020 - $1,139,137). Previously, the lease was classified as an operating lease. During fiscal year 2019-20, it was converted to a right-of-use asset as part of the adoption of IFRS 16.

ALC carried a loan related to the Charlottetown and Summerside gaming entertainment centres. During fiscal year 2020-21, ALC exercised its early repayment option, and has fully repaid the loan (2020 - $5,795,000).

ALC is recovering its debt amortization costs through depreciation charges which, along with the loan interest and Summerside centre lease charges, are included in the cost of operating the gaming entertainment centres. ALC's profit distributions to the Commission are adjusted to reflect any profit or loss resulting from its operation of the gaming entertainment centres and the stabling barn.

PRINCE EDWARD ISLAND
LOTTERIES COMMISSION
Notes to Financial Statements
March 31, 2021

10. Grants to the Harness Racing Industry

Grants to the harness racing industry provided through the Commission consist of the following:

	2021 $	2020 $
Grant to PEI Harness Racing Industry Association	2,491,000	2,480,000
Grant to Prince County Horsemen's Club	122,500	115,000
Grant to Atlantic Provinces Harness Racing Commission	110,567	111,233
Grants to support the Matinee Racetracks	25,946	13,782
Grants for sales tax due from pari-mutuel wagering	316,911	535,150
Grants for other expenses	68,575	-
	3,135,499	3,255,165

11. Accounts Receivable

	2021 $	2020 $
Other receivables	98,075	99,275
Less: Expected credit losses	(98,075)	(99,275)
	-	-

12. Grant to the City of Charlottetown

The grant to the City of Charlottetown is pursuant to an arrangement between the City and the Province of Prince Edward Island, whereby the City was to receive $400,000 per annum for ten years beginning with the year ended December 31, 2005. The original agreement ended in December 2014. Treasury Board authorized a five year extension of the agreement for fiscal year 2015-16 to 2019-20. Although the agreement expired in 2020, the Commission agreed to extend the grant by one year and included a $400,000 grant to the City of Charlottetown in the 2021 budget. This amount is subject to adjustment if the Charlottetown gaming entertainment centre operates less than 300 days in a given year. Due to the public health circumstances resulting from the COVID-19 pandemic the facility was not open for the required 300 days and as a result the amount payable for 2020-21 was determined to be $345,333.

13. Responsible Gaming Strategy

Implementation of the Province's Responsible Gaming Strategy began in 2010. The objective of the strategy is to prevent and reduce problems associated with gaming, while maximizing its potential social and economic aspects for Islanders. Activities carried out by the Department of Health and Wellness amounted to $213,310 (2020 - $200,533).

PRINCE EDWARD ISLAND
LOTTERIES COMMISSION
Notes to Financial Statements
March 31, 2021

14. Commitments

a) Responsible Gaming Strategy

The Commission has committed a maximum of $305,000 in 2020-21 to support the on-going implementation of a Responsible Gaming Strategy.

b) Operating Leases

The Commission, as a shareholder in ALC, is responsible for a portion of the variable, low value, and short term leases entered into by ALC. The following is a schedule of the portion of these lease payments pertaining to the operations of the Commission.

Fiscal Year	Amount $
2022	100,849
2023	100,849
2024	100,849
2025	100,849
2026	100,616
Thereafter	110,062

c) Other Commitments

The Commission, as a shareholder in ALC, is responsible for a portion of the multiple agreements for infrastructure services, application services, and project services entered into by ALC. The Commission's portion of ALC's annual payments for other commitments over the next five years are as follows:

Fiscal Year	Amount $
2022	1,008,000
2023	460,800
2024	247,400
2025	-
2026	-

PRINCE EDWARD ISLAND
LOTTERIES COMMISSION
Notes to Financial Statements
March 31, 2021

15. Related Party Transactions

The Commission is owned by the Province of Prince Edward Island. Any excess revenues over expenses of the Commission are distributed to the Province as shown on the statement of changes in shareholder equity. Other transactions with the Province, its Crown corporations, and agencies are recorded at rates as determined by the Province.

There are resources provided to the Commission by the Province of Prince Edward Island such as office facilities, support services, salaries, and employee future benefits. These costs are assumed by the Province and not reflected in these financial statements.

In prior years, the Commission did not have a separate bank account, and all transactions were processed through the Province's bank account. At the beginning of fiscal year 2019-20, the Commission opened a separate bank account for processing all Commission transactions.

The following is a summary of operations conducted by the Atlantic Lottery Corporation Inc. (ALC) on behalf of the Commission. Net profits were distributed to the Commission as follows:

	Gross Profit	Expenses	Net Profit 2021	Net Profit 2020
Lottery ticket sales - in person	11,793,684	(7,052,947)	4,740,737	4,241,421
Lottery ticket sales - online	3,496,018	(782,386)	2,713,632	720,560
Video lottery sales	12,146,594	(4,085,338)	8,061,256	12,227,986
Red Shores at Charlottetown Driving Park	10,632,132	(10,862,548)	(230,416)	1,706,858
Red Shores at Summerside Raceway	1,615,365	(2,194,535)	(579,170)	(221,787)
Total	39,683,793	(24,977,754)	14,706,039	18,675,038

Included in the net profit distribution is an expense of $288,146 (2020 - $285,000) that ALC remitted to the Interprovincial Lottery Corporation on behalf of the Commission.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of net profit attributable to the Commission as determined by the net profit of ALC in accordance with ALC's financial reporting framework.

16. Pensions and Employee Benefits

Atlantic Lottery Corporation Inc. participates in a multiple-employer defined benefit contributory pension plan. ALC also provides certain post-employment healthcare benefits, long service awards, extended health and dental benefits, life insurance, and ad-hoc supplementary pensions. The portion of expenditures allocated to the Commission through ALC's profit distributions related to pensions is $430,307 (2020 - $713,794) and $180,325 (2020 - $180,598) related to future employee benefits.

PRINCE EDWARD ISLAND
LOTTERIES COMMISSION
Notes to Financial Statements
March 31, 2021

17. Capital Management

The Commission's capital is its equity which consists of the outstanding investment in the Atlantic Lottery Corporation Inc. The objective when managing capital is to provide an adequate return to enable it to meet its funding obligations. The Commission sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Commission may reduce its funding contributions to the Province. The Commission is not subject to any externally imposed capital requirements or financial debt covenants and does not presently utilize any quantitative measures to maintain capital.

18. Subsequent Events

The COVID-19 situation is dynamic, causing significant uncertainty. Video lottery operations and the gaming entertainment centres in Prince Edward Island may, in accordance with all provincial health directives, be subject to intermittent closures and restricted operational capacity. The ultimate duration and magnitude of the impact on the economy and the financial effect on both ALC and the Commission's future revenues, operating results, and overall financial performance is not known at this time; however, the impact could be material.

19. Prior Period Comparative Figures

Certain prior period comparatives have been restated to conform to the presentation format adopted in the current period.

P.E.I. Pension Plan for Members of the Legislative Assembly

Audited Financial Statements for P.E.I. Pension Plan for Members of the Legislative Assembly for the year ended December 31, 2020 were not provided to the Office of the Comptroller as required by Section 70 (4) of the Financial Administration Act. Unaudited, draft financial statements were used in the preparation of the Public Accounts.

PRINCE EDWARD ISLAND
PUBLIC SECTOR PENSION PLAN

Financial Statements
March 31, 2020 and March 31, 2021

Management's Report

Management's Responsibility for the Financial Statements

The financial statements have been prepared by management in accordance with Canadian Accounting Standards for Pension Plans and the integrity and objectivity of these statements are management's responsibility. Management is responsible for the notes to the financial statements and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is responsible for implementing and maintaining a system of internal control to provide reasonable assurance that reliable financial information is produced.

The Prince Edward Island Public Sector Pension Commission is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Commission reviews internal financial reports on a regular basis and externally audited financial statements yearly.

The Office of the Auditor General conducts an independent examination, in accordance with Canadian generally accepted auditing standards, and expresses their opinion on the financial statements. The Office of the Auditor General has full and free access to financial information and management of the Prince Edward Island Public Sector Pension Plan to meet when required.

On behalf of the Prince Edward Island Public Sector Pension Plan

Terry Hogan
Manager, Pensions and Benefits
Department of Finance

June 29, 2021

Prince Edward Island
Office of the
Auditor General
PO Box 2000, Charlottetown PE
Canada C1A 7N8

Île-du-Prince-Édouard
Bureau du
vérificateur général
C.P. 2000, Charlottetown PE
Canada C1A 7N8

INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
Prince Edward Island Public Sector Pension Plan

Opinion

I have audited the financial statements of the **Prince Edward Island Public Sector Pension Plan**, which comprise the statements of financial position as at March 31, 2020 and March 31, 2021, the statements of changes in net assets available for benefits and changes in pension obligations for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements present fairly, in all material respects, the financial positions of the Plan as at March 31, 2020 and March 31, 2021 and the changes in its net assets available for benefits and its pension obligations for the years then ended in accordance with Canadian Accounting Standards for Pension Plans.

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian Accounting Standards for Pension Plans and for such internal control that 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 the Plan'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 an intention exists to liquidate or cease the operations of the Plan, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Plan's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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 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, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 audits 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 Plan'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 the Plan's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Plan 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.

I 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 I identify during my audit.

Darren Noonan, CPA, CA
Auditor General

Elvis Alisic, CPA, CA
Audit Director

Charlottetown, Prince Edward Island
June 29, 2021

PRINCE EDWARD ISLAND
PUBLIC SECTOR PENSION PLAN

Statement of Financial Position
March 31, 2020 and 2021

	2021	2020
	$	$
Assets		
Cash	4,942,156	2,160,059
Investments (Note 3)	2,064,472,528	1,716,843,592
Note receivable (Note 5)	261,682,280	276,758,420
Receivables		
Contributions - employee	2,632,661	2,389,442
- employer	2,716,748	2,450,225
Accrued interest	2,833,544	3,052,148
Other	649,168	634,750
Total Assets	2,339,929,085	2,004,288,636
Liabilities		
Accounts payable and accrued liabilities	1,283,434	1,996,836
Remittances payable	1,463,998	1,357,269
Investment fees payable	1,648,024	1,622,293
Due to the Province of Prince Edward Island	892,477	889,460
Total Liabilities	5,287,933	5,865,858
Net Assets Available for Benefits	2,334,641,152	1,998,422,778
Accrued Pension Obligation (Note 4)	2,334,641,152	1,998,422,778
Net Surplus (Deficit)	-	-

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

Approved on behalf of the Prince Edward Island Public Sector Pension Plan

Chairperson

Commissioner

PRINCE EDWARD ISLAND
PUBLIC SECTOR PENSION PLAN

Statement of Changes in Net Assets Available for Benefits
for the years ended March 31, 2020 and 2021

	2021	2020
	$	$
Increase in Assets		
Investment income (Note 3(a))	66,704,436	87,058,098
Change in fair value of investments (Note 3(a))	295,395,643	(177,683,083)
	362,100,079	(90,624,985)
Other interest income	10,486,743	10,991,946
Contributions		
Employee	36,774,436	36,056,499
Employer	36,773,652	36,056,499
Transfers from other plans	60,266	80,852
Purchased service	401,601	842,697
	446,596,777	(6,596,492)
Decrease in Assets		
Benefits paid (Note 6)	96,761,714	90,841,125
Operating expenses (Note 7)	10,876,394	10,831,620
Refunds	2,317,032	1,865,555
Transfers	423,263	649,754
	110,378,403	104,188,054
Change in Net Assets	336,218,374	(110,784,546)
Net Assets Available for Benefits, beginning of year	1,998,422,778	2,109,207,324
Net Assets Available for Benefits, end of year	2,334,641,152	1,998,422,778

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

PRINCE EDWARD ISLAND
PUBLIC SECTOR PENSION PLAN

Statement of Changes in Pension Obligation
for the years ended March 31, 2020 and 2021

	2021	2020
	$	$
Accrued Pension Obligation, beginning of year	1,998,422,778	2,109,207,324
Change in Accrued Pension Obligation		
Interest accrued on benefits	112,481,851	118,983,476
Benefits accrued	48,923,194	48,877,070
Increase due to purchased service	464,898	923,548
Benefits paid	(99,502,008)	(93,356,434)
Loss (gain) on experience and assumption changes, and contingent indexation	273,850,439	(186,212,206)
Change in Accrued Pension Obligation	336,218,374	(110,784,546)
Accrued Pension Obligation, end of year (Note 4)	2,334,641,152	1,998,422,778

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

PRINCE EDWARD ISLAND
PUBLIC SECTOR PENSION PLAN
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1. Plan Description

The following description of the Prince Edward Island Public Sector Pension Plan (the Plan, formerly known as the Civil Service Superannuation Fund) is a summary only. For more complete information, reference should be made to the *Public Sector Pension Plan Act* and *Regulations.*

a) General

The Plan is a contributory defined benefit plan covering members as defined in the *Public Sector Pension Plan Act.*

b) Contributions

Under the Plan, members make contributions amounting to 8.09 percent of that part of the members' salary up to the amount of the year's maximum pensionable earnings (YMPE) as defined in the *Canada Pension Plan Act* and 9.75 percent on the amount that exceeds the YMPE. Participating employers match member contributions. Herein these are considered the Base Contributions. Beginning in 2017, variable contributions have been introduced based on the funded benefits ratio as defined below (note that contribution changes by funded level are total and not cumulative).

Funded Benefits Ratio	Employee Contributions[1]	Participating Employer Contributions[1]
<100% [2]	Base Contributions plus 1%	Base Contributions plus 4%
100% to 110% [3]	Base Contributions plus 1%	Base Contributions plus 2%
110% to 135%	Base Contributions	Base Contributions
135% to 145% [4]	Base Contributions less 1%	Base Contributions less 2%
145% + [5]	Base Contributions less 1%	Base Contributions less 4%

1. *Subject to the Income Tax Act Rules for maximum contributions.*
2. *If triggered, contributions based on funded benefits ratio <100% remain in effect until funded benefits ratio of ≥ 105% is attained.*
3. *If triggered, contributions based on funded benefits ratio <110% remain in effect until funded benefits ratio of ≥ 115% is attained.*
4. *If triggered, contributions based on funded benefits ratio ≥135% remain in effect until funded benefits ratio of ≤ 130% is attained.*
5. *If triggered, contributions based on funded benefits ratio ≥145% remain in effect until funded benefits ratio of ≤ 140% is attained.*

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1. Plan Description (continued...)

c) Retirement Benefits

Pension Formula: The annual pension is based on the number of years of service times two percent of average salary with a reduction at age 65 for estimated Canada Pension Plan (CPP) benefits. The reduction is referred to as a bridge pension and only payable to age 65. The bridge is based on the number of years of service times 0.7 percent of average salary to a maximum of the average CPP year's maximum pensionable earnings. For service prior to December 31, 2013, average salary and year's maximum pensionable earnings is based on the best three year average. For service commencing January 1, 2014, average salary and year's maximum pensionable earnings is based on career average.

Pre-Retirement Indexation: Benefits earned during 2014 to 2016 were automatically indexed at 1.5 percent per annum. As this indexation is guaranteed, it is included in the Base Benefits, which are the Plan benefits prior to any future contingent indexation. In 2017 and beyond, pre-retirement indexation will only be awarded if the funded benefits ratio (as determined at the April 1st immediately prior to the calendar year in which indexation is to be awarded) is greater than 100 percent. If there are years that full indexation is not awarded, and if the funded benefits ratio subsequently reaches 115 percent, then a portion of Plan funds is available to make up for missed indexation in the past. The maximum indexation is 100 percent of the increase in the Average Industrial Wage (AIW) in Canada; however, if in any year the assets available to be spent on inflation protection are not adequate to provide the full amount, partial indexation will be awarded.

Post-Retirement Indexation: For 2014 to 2016, post-retirement indexation was automatically awarded at 1.5 percent per annum. As this indexation is guaranteed, it is included in the Base Benefits. In 2017 and beyond, post-retirement indexation will only be awarded if the funded benefits ratio (as determined at the April 1st immediately prior to the calendar year in which indexation is to be awarded) is greater than 110 percent. If there are years that full post-retirement indexation is not awarded, and if the funded benefit ratio subsequently reaches 118 percent, then a portion of Plan funds is available to make up for missed past indexation on a go-forward basis (i.e. no retroactive payments). The maximum indexation is 100 percent of the consumer price index (CPI); however, if the Plan cannot afford that amount, partial indexation will be awarded. Indexation also applies to deferred vested benefits and is applied in the same manner as the post-retirement indexation.

Retirement Age: For pensionable service prior to January 1, 2019, the earliest unreduced retirement age remains at the earlier of 30 years of pensionable service (minimum of age 55) and attained age 60. For pensionable service after December 31, 2018, the earliest unreduced retirement age will be the earlier of 32 years of pensionable service (minimum of age 55) and attained age 62. The earliest retirement age is 55 with two years of continuous service.

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1. **Plan Description (continued...)**

d) Death Benefits

Less than two years of continuous service: On the death of a member prior to completing two years of pensionable service, the member's accumulated contributions with interest will be refunded.

Greater than or equal to two years of continuous service: If a member dies prior to retirement but after completing two years of service, the member's spouse is entitled to an immediate lifetime pension equal to 60 percent of the accrued, unreduced pension of the member at the time of death. In addition to the spousal pension, an allowance equal to one-sixth of the pension paid to the surviving spouse is payable in respect of each dependent child, up to a maximum of four children, until the child is no longer a dependent child or upon the death of the dependent child. Where a member dies after two years of service and before retirement and does not leave a surviving spouse or dependent children, the personal representative of the member shall receive a lump sum amount equal to one and a half times the member's accumulated contributions plus interest.

If the spouse of the member dies before the member, or where having survived the member the surviving spouse dies leaving children by the member, the 60 percent pension that was payable to the spouse will be paid to the dependent child or the guardian of that child, if the member or vested former member is survived by only one dependent child, or the oldest dependent child or the guardian of that child.

e) Termination and Portability of Benefits

In the event of termination of employment for reasons other than retirement or death, a member may elect to receive either:

- a refund of the member's own contributions with interest (provided the member is 60 years of age or less at the time the refund application is received); or
- if the member has completed at least two years of service, a deferred pension subject to the provisions outlined in the Retirement Age section at Note 1(c).

Where there are portability arrangements between the Plan and other plans, members may be able to carry certain pension rights to those other plans or transfer contributions and service from those other plans to increase pension benefits under the Plan.

f) Marriage Breakdowns

Upon application, the pension benefits to which a person is entitled may be divided between the person and the spouse or former spouse.

g) Income Tax

The Plan is a Registered Pension Plan as defined under the federal *Income Tax Act* and is not subject to taxation.

PRINCE EDWARD ISLAND
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2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared in accordance with Canadian Accounting Standards for Pension Plans as outlined in the Chartered Professional Accountants of Canada (CPA) Handbook Section 4600, Pension Plans. For accounting policies that do not relate to either investments or pension obligations, the Plan elected to comply on a consistent basis with accounting standards for International Financial Reporting Standards (IFRS) in Part 1 of the CPA Handbook. To the extent that IFRS in Part I is inconsistent with Section 4600, Section 4600 takes precedence.

Included in the determination of the accrued pension obligation for pension retirement benefits is a liability for contingent indexation.

For the years ended March 31, 2020 and March 31, 2021, the contingent indexation liability is calculated based on total plan assets less the accrued pension obligation assuming no further contingent indexation. This calculation does not incorporate the potential impact of future events such as contributions, gains or losses on asset returns and new benefit accruals.

Significant judgment is involved in the accounting treatment of contingent indexation. Management recognizes that the contingent indexation liability represents a new challenge for pensions in Canada. Going forward, management will continue to monitor developments in the accounting standards and practices when assessing the most appropriate accounting treatment for plans with a contingent indexation liability component.

These financial statements are prepared on a going concern basis and present the aggregate financial position of the Plan as a separate reporting entity.

a) Use of Estimates and Measurement Uncertainty

The preparation of financial statements in conformity with Canadian Accounting Standards for Pension Plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include investments, accrued interest, accrued liabilities, and the accrued pension obligation.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates and the differences could be material.

PRINCE EDWARD ISLAND
PUBLIC SECTOR PENSION PLAN
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2. Summary of Significant Accounting Policies (continued...)

b) Foreign Currency Translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the transaction date. The fair value of foreign investments and cash held at year-end are translated at the rates in effect at that date. The resulting gain or loss from changes in these rates is included in the current period change in fair value of investments.

c) Fair Value Measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Plan measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Plan establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, and/or discounted cash flow analysis.

d) Financial Instruments

The Plan's financial instruments include cash, contributions and other receivables, accrued interest, note receivable, investments, accounts payable, accrued liabilities, remittances payable, amounts due to the Province of Prince Edward Island, and investment fees payable. Due to their nature, the Plan's financial instruments, with the exception of investments, are carried at cost which approximates their fair value. Investments are carried at fair value and are subject to interest rate, price, credit, foreign currency, and liquidity risks as described in Note 3.

e) Investments

The Province sponsors various defined benefit pension plans. The primary plans are the PEI Public Sector Pension Plan, the PEI Teachers' Pension Plan, and the Pension Plan for Members of the Legislative Assembly of the Province of PEI. Investments of the primary plans are held within the Province of PEI Master Trust, which is administered by external investment managers under policy guidelines set down by Executive Council and supervised by a Joint Investment Advisory Committee to the Minister of Finance. Investments are allocated to each primary plan by units of their participation.

PRINCE EDWARD ISLAND
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2. Summary of Significant Accounting Policies (continued...)

Significant accounting policies for the pool of assets held in the Master Trust consist of:

(i) Investment Transactions
Investment transactions are recognized on the transaction date. Distributions are recognized on the record date. Investments include receivables and payables at March 31, 2020 and March 31, 2021 for interest, dividends, and settled derivative contracts.

(ii) Income Recognition
Income from investments is recorded on an accrual basis and includes interest and dividends as well as realized and unrealized gains and losses on investments.

(iii) Investment Valuation

Equity and debt
Equity and debt investments are valued at fair value based on quoted market values. Changes in the market value of investments, including realized and unrealized gains and losses, are reflected in the financial statements as a change in the fair value of investments.

Equity investment in real estate
Investment in real estate is represented by an equity investment in a corporation that invests in real estate, participating mortgages, and property for development or resale. Properties within the corporation are valued annually by independent appraisers in accordance with generally accepted appraisal practices and procedures. The appraisal methodology followed is an income approach which is mainly based on discounted cash flows. In estimating future cash flows, certain assumptions are made with respect to future economic conditions and rates of return.

Pooled funds
Pooled funds are valued at the unit values supplied by the pooled fund administrator, which represents the Plan's proportionate share of underlying net assets at fair values determined using closing market prices.

Derivative contracts
The derivative contracts held by the Plan are stated at fair value and are valued using quoted market indices. Realized and unrealized gains or losses on investments from derivative contracts are included in the change in the fair value of investments.

Investment in foreign infrastructure
The Plan owns units in a foreign infrastructure partnership. The partnership invests in portfolio companies that own, operate, develop, manage, and support infrastructure assets. Fair value is based upon a number of factors, including readily available market quotes with appropriate adjustments for trading restrictions, the most recent round of financings, earning-multiple analysis using comparable companies or discounted cash flow analysis.

PRINCE EDWARD ISLAND
PUBLIC SECTOR PENSION PLAN
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2. Summary of Significant Accounting Policies (continued...)

(iv) Transaction Costs

Investment management fees are costs directly attributable to the external management of the assets. All fees incurred on the management of investments are recorded as an investment expense. This policy has been updated to be in line with Canadian Accounting Standards for Pension Plans. Investment expenses are disclosed in Note 7.

f) Revenues and Expenses

Revenues and expenses are recorded on an accrual basis in the period in which the transaction or event that gave rise to the revenue or expense occurred.

g) Accrued Pension Obligation

The value of the accrued pension obligation of the Plan is based on an annual actuarial valuation prepared on an accounting basis by an independent actuary using the projected unit credit method pro-rated on service and best estimate assumptions. The accrued pension obligation is measured in accordance with accepted actuarial methods using actuarial assumptions and methods adopted by the Plan.

3. Investments and Derivatives

a) Investments

Investments consist of units held in the Master Trust. At year-end, there were 1,476,309.135 units held in the Master Trust (2020 - 1,368,186.682), with a fair value of $1,398.40 (2020 - $1,254.83) per unit.

Investments of the Master Trust consist of the following listed assets.

	2021 $	%	2020 $	%
Cash and Short-Term Investments	48,671,531	1.7	59,898,161	2.4
Long Core Plus Bond	275,408,954	9.2	232,235,612	9.3
Core Plus Bond	809,236,152	27.1	745,826,207	30.0
Canadian Equities	367,012,305	12.3	249,507,511	10.1
Global Equities	1,028,098,687	34.5	809,324,563	32.5
Canadian Real Estate	106,761,572	3.6	108,184,968	4.3
Global Real Estate	159,275,062	5.3	170,333,838	6.8
Global Infrastructure	176,905,642	5.9	151,742,651	6.1
Currency Overlay	10,725,116	0.4	(38,170,310)	(1.5)
Total	2,982,095,021	100.0	2,488,883,201	100.0
Plan's pro-rated share	69.2289%		68.9805%	
Plan investments*	2,064,472,528		1,716,843,592	

*Rounded

PRINCE EDWARD ISLAND
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3. Investments and Derivatives (continued...)

Investment income and realized and unrealized gains (losses) of the Master Trust consist of the following:

	Investment Income 2021 $	Change in Fair Value of Investments* 2021 $	Investment Income 2020 $	Change in Fair Value of Investments* 2020 $
Cash and Short-Term Investments	92,167	13,162,045	215,115	(2,206,723)
Long Core Plus Bond	16,032,939	(14,059,597)	14,518,076	(5,895,713)
Core Plus Bond	38,207,427	6,469,518	28,912,968	(8,786,014)
Canadian Equities	9,477,660	107,887,342	9,551,324	(63,990,724)
Global Equities	20,381,619	248,392,506	58,876,072	(143,017,908)
Canadian Real Estate	-	(1,423,396)	-	8,960,294
Global Real Estate	4,338,375	(14,391,889)	5,064,762	13,556,875
Global Infrastructure	7,925,901	3,409,588	9,220,365	(14,431,488)
Currency Overlay	-	78,318,824	-	(41,524,811)
Total	96,456,088	427,764,941	126,358,682	(257,336,212)
Plan's pro-rated share	69.1552%	69.0556%	68.8976%	69.0471%
Plan investments**	66,704,436	295,395,643	87,058,098	(177,683,083)

*Includes realized gains of $143.0 million (2020 - gains of $0.3 million) and unrealized gains of $284.8 million (2020 - losses of $257.6 million).
**Rounded

Investments include amounts which investment managers of the Master Trust have invested in their own pooled funds. The fair values of these investments are as follows:

	2021 $	2020 $
Baillie Gifford Overseas Ltd.	362,139,262	263,030,190
Beutel, Goodman & Company Limited	38,212,896	24,002,592
CBRE Global Investment Management	78,049,604	81,566,098
Global Infrastructure Partners (GIP)	127,796,991	124,756,085
Goldman Sachs Asset Management	492,736,100	446,454,241
Lazard Asset Management LLC	49,108,651	26,986,566
Morgan Stanley Prime Property Fund	77,862,204	85,967,298
State Street Global Advisors Ltd.	3,363,254	2,800,442
TD Asset Management	1,143,148,566	1,051,323,463
Wellington Global PERSP (CAD)	221,481,439	134,763,456
Total	2,593,898,967	2,241,650,431
Plan's pro-rated share	69.2289%	68.9805%
Plan's pooled funds*	1,795,728,546	1,546,301,239
Plan's non-pooled investments*	268,743,982	170,542,353
Plan investments*	2,064,472,528	1,716,843,592

*Rounded

PRINCE EDWARD ISLAND
PUBLIC SECTOR PENSION PLAN
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3. Investments and Derivatives (continued...)

b) Derivative Contracts

Derivative contracts are financial contracts, the value of which is "derived" from the value of underlying assets or exchange rates. Derivative contracts provide flexibility in implementing investment strategy.

Forward contracts are used to manage currency exposure and mitigate risk with respect to investments held in foreign currencies. The net notional amount of the currency forwards represents the volume of the outstanding transactions and serves as the basis upon which the return and market value of the contract is determined.

The details of the Master Trust's derivative contracts are as follows:

	2021 $	2020 $
Notional Amount	806,403,805	655,937,135
Fair Value	10,725,116	(38,170,310)

c) Fair Value Disclosure

Plan investment assets recorded at fair value have been categorized based upon a fair value hierarchy of significant inputs used in measuring fair value. The following fair value hierarchy table presents information about the Plan's assets measured at fair value on a recurring basis at March 31, 2020 and March 31, 2021.

The three levels of the fair value hierarchy are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the investment manager has the ability to access at the measurement date. Level 1 primarily includes publicly listed investments.

Level 2: Inputs other than quoted prices, that are observable either directly or indirectly, including inputs in markets that are not considered to be active. Level 2 primarily includes debt securities and derivative contracts not traded in an open market.

Level 3: Inputs that are unobservable. There is little, if any, market activity. Inputs into the determination of fair value require significant management judgment and/or estimation. Level 3 primarily consists of foreign infrastructure investments.

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3. Investments and Derivatives (continued...)

The following table illustrates the classifications of the Plan's financial instruments using the fair value hierarchy as at March 31:

	2021			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash and Short-Term Investments	48,671,531	-	-	48,671,531
Long Core Plus Bond	-	275,408,954	-	275,408,954
Core Plus Bond	-	809,236,152	-	809,236,152
Canadian Equities	367,012,305	-	-	367,012,305
Global Equities	1,028,098,687	-	-	1,028,098,687
Canadian Real Estate	-	106,761,572	-	106,761,572
Global Real Estate	-	159,275,062	-	159,275,062
Global Infrastructure	49,108,651	-	127,796,991	176,905,642
Currency Overlay	-	10,725,116	-	10,725,116
Total financial assets at fair value	1,492,891,174	1,361,406,856	127,796,991	2,982,095,021
Plan's pro-rated share				69.2289%
Plan investments*				2,064,472,528

*Rounded

	2020			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash and Short-Term Investments	59,898,161	-	-	59,898,161
Long Core Plus Bond	-	232,235,612	-	232,235,612
Core Plus Bond	-	745,826,207	-	745,826,207
Canadian Equities	249,507,511	-	-	249,507,511
Global Equities	809,324,563	-	-	809,324,563
Canadian Real Estate	-	108,184,968	-	108,184,968
Global Real Estate	-	170,333,838	-	170,333,838
Global Infrastructure	26,986,566	-	124,756,085	151,742,651
Currency Overlay	-	(38,170,310)	-	(38,170,310)
Total financial assets at fair value	1,145,716,801	1,218,410,315	124,756,085	2,488,883,201
Plan's pro-rated share				68.9805%
Plan investments*				1,716,843,592

*Rounded

There were no significant transfers between any financial instrument levels during the years ended March 31, 2020 and March 31, 2021.

PRINCE EDWARD ISLAND
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3. Investments and Derivatives (continued...)

The following table details changes in fair value measurement in Level 3 of the fair value hierarchy:

	2021 $	2020 $
Level 3 investments, April 1	124,756,085	135,501,911
Transfers in	7,116,329	6,276,804
Disbursements	(5,403,567)	(10,294,268)
Net income received	3,215,914	4,499,348
Realized gains	1,665,625	2,745,496
Unrealized losses	(3,553,395)	(13,973,206)
Level 3 investments at fair value	127,796,991	124,756,085
Plan's pro-rated share	69.2289%	68.9805%
Level 3 investments, March 31*	88,472,492	86,057,348

* Rounded

d) Investment Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to interest rate, price, credit, foreign currency, and liquidity risk. The Plan has set formal goals, policies, and operating procedures that establish an asset mix among equity and fixed income, require diversification of investments within categories, and set limits on the size of exposure to individual investments and counter parties. Risk and credit considerations are periodically assessed in consultation with external consultants, the Department of Finance and the Joint Investment Advisory Committee. Plan sponsor oversight, procedures, and compliance functions are incorporated into Plan processes to achieve consistent controls and to mitigate operational risk.

(i) Interest Rate Risk

Interest rate risk refers to the fact that the Plan's financial position will change with market interest rate changes as fixed income securities are sensitive to changes in nominal interest rates. Interest rate risk is inherent in the management of a pension plan due to prolonged timing differences between cash flows related to the Plan's assets and liabilities.

PRINCE EDWARD ISLAND
PUBLIC SECTOR PENSION PLAN
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3. Investments and Derivatives (continued...)

Assuming all other variables are held constant, a one percentage point change in nominal interest rates would change the fair value of the Plan by $70.7 million (2020 - $61.9 million).

	Value of Fixed Income Securities (millions) $	Weighted Average Duration years	Percentage Point Change %	Impact on Fair Value of the Master Trust (millions) $	Plan's Pro-rated Share %	Pro-rated Impact on Fair Value of the Plan (millions) $
2021	1,084.6	9.42	1	102.1	69.2289	70.7*
2020	978.1	9.18	1	89.8	68.9805	61.9*

* Rounded

(ii) Price Risk

Price risk is the risk of fluctuation in market values of investments from influences specific to a particular investment or from influences on the market as a whole. Price risk includes interest rate and foreign currency risk. Market price risk is managed by the Plan through the use of diversified investment portfolios traded on various markets and across various industries. Assuming all other variables are held constant, a 10 percent change in market values of all public equities would change the fair value of the Plan by $115.0 million (2020 - $92.3 million).

	Value of Public Equities (millions) $	Percentage Change %	Impact on Fair Value of the Master Trust (millions) $	Plan's Pro-rated Share %	Pro-rated Impact on Fair Value of the Plan (millions) $
2021	1,661.1	10	166.1	69.2289	115.0*
2020	1,337.4	10	133.7	68.9805	92.3*

* Rounded

(iii) Credit Risk

Credit risk is the risk of loss in the event the counter party to a transaction fails to discharge an obligation and causes the other party to incur a loss. Credit risk associated with the Plan is periodically assessed in consultation with external consultants, the Department of Finance and the Joint Investment Advisory Committee.

PRINCE EDWARD ISLAND
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Notes to Financial Statements
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3. Investments and Derivatives (continued...)

Fixed income
The Plan is exposed to credit risk from interest earning investments at March 31, as follows:

	2021 (millions) $	2020 (millions) $
Federal government	102.4	76.0
Provincial government	417.0	383.4
Corporate	564.2	479.6
Government agencies	1.0	39.1
Total investment credit risk exposure	1,084.6	978.1
Plan's pro-rated share	69.2289%	68.9805%
Plan's investment credit risk exposure	750.9	674.6
Provincial government promissory notes	261.7	276.8
Plan's total credit risk exposure*	1,012.6	951.4

*Rounded

All fixed income investments are considered to have low credit risk.

Security Lending
The Plan participates in a Securities Lending Program whereby it lends securities for a fee to approved borrowers. To alleviate the credit risk, borrowers must provide collateral with a value of 105 percent when the value of the securities lent is denominated in a different currency and 102 percent when denominated in the same currency. The market value of the collateral is monitored by the custodian at least daily to ensure that the security thresholds are maintained. In addition, security loans are allocated across various borrowers within the program and the Plan holds indemnification coverage, which mitigates the credit and market risk on the collateral.

The fair value of security loans outstanding and collateral held is as follows:

	2021 $	2020 $
Total security loans outstanding	49,345,525	11,440,685
Plan's pro-rated share	69.2289%	68.9805%
Plan's security loans outstanding*	34,161,380	7,891,839
Total collateral held	52,161,121	12,121,745
Plan's pro-rated share	69.2289%	68.9805%
Plan's collateral held*	36,110,587	8,361,638

*Rounded

PRINCE EDWARD ISLAND
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3. Investments and Derivatives (continued...)

Derivatives
The Plan is exposed to credit related losses in the event of non performance by counter parties to derivative financial instruments. In order to mitigate this risk, the Plan deals only with highly-rated counter parties, with whom International Swap and Derivative Association agreements have been executed, normally major financial institutions with a minimum credit standard of "A-/A3" rating, as supported by a recognized credit rating agency.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counter parties failed completely to perform under the contracts, and if the right of offset proved to be non enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counter parties, less any prepayment collateral or margin received as at the reporting date.

(iv) Foreign Currency Risk

Foreign currency risk is the risk that the value of the future cash flow of the financial instrument will fluctuate because of changes in foreign exchange rates. Consequently, the Plan is exposed to the risk that the exchange rates of the various currencies may change in a manner that has an adverse effect on the value of the portion of the Plan's assets denominated in currencies other than the Canadian dollar. Foreign currency exposure arises from the holding of investments denominated in foreign currencies. A policy of hedging a portion of the currency exposure is used to mitigate this risk.

The Plan's unhedged currency exposure from net investment assets is summarized as follows:

	2021 (millions) $	2020 (millions) $
Currency		
China	28.4	21.9
Euro Zone	27.2	23.1
India	13.5	8.6
Japan	86.7	77.0
Malaysia	12.8	9.4
South Africa	13.6	8.4
Sweden	15.8	11.9
Taiwan	31.8	24.0
United Kingdom	41.9	26.3
United States	68.3	118.0
Other	39.5	34.0
Total	379.5	362.6
Plan's pro-rated share	69.2289%	68.9805%
Plan's foreign currency exposure*	262.7	250.1

*Rounded

PRINCE EDWARD ISLAND
PUBLIC SECTOR PENSION PLAN
Notes to Financial Statements
March 31, 2020 and 2021

3. Investments and Derivatives (continued...)

After the effect of hedging, and without a change in all other variables, a 10 percent change in the Canadian dollar against all other currencies would change the fair value of the Plan by $26.3 million (2020 - $25.0 million).

(v) Liquidity Risk

Liquidity risk is the risk of not meeting the cash obligations of the Plan in an efficient manner. Cash obligations are fulfilled from contributions to the Plan, cash income of the Plan, and disposition of Plan assets as required. Cash requirements of the Plan are reviewed on an ongoing basis to provide for the orderly availability of resources to meet the financial obligations of the Plan.

The Plan's cash management policy ensures that the quality and liquidity of the investment vehicles within the portfolios are consistent with the needs of the Plan.

4. Accrued Pension Obligation

a) Actuarial Valuation

The present value of the accrued pension obligation was determined using the projected unit credit method pro-rated on service and management's best estimate, as at the valuation dates, of future economic events and involves economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality and retirement rates. The primary economic assumptions include the return on investment, discount, inflation, and salary escalation rates.

The most recent actuarial valuations for accounting purposes, prepared by the actuarial consulting firm LifeWorks Inc. (formerly Morneau Shepell Inc.), disclosed a base benefit liability of $1,765,203,000 as at April 1, 2020 and $1,928,052,000 as at April 1, 2021.

The actuarial valuations on April 1, 2020 and April 1, 2021 were based on data as at January 1, 2019 and the actuarial liability was then extrapolated to April 1st, based on current period benefit cost, benefit payments and interest, and adjusted for changes in actuarial assumptions. An actuarial valuation of the Public Sector Pension Plan is performed annually as at April 1st.

The world is in the midst of the COVID-19 health pandemic. Although the pandemic could have a material impact on the financial status of the Plan, there is currently insufficient information to determine the extent of either the short-term impact or the long-term impact of this pandemic on the Plan. The results of the accounting valuations as at April 1, 2020 and April 1, 2021 only reflect the financial impact on plan assets and future return expectations up to those dates, but do not reflect any further potential impacts on the Plan to occur after those dates which may be caused by either economic and/or demographic outcomes different from the assumptions being used in the valuations. Such impacts will result in gains and losses to be revealed in future valuations.

PRINCE EDWARD ISLAND
PUBLIC SECTOR PENSION PLAN
Notes to Financial Statements
March 31, 2020 and 2021

4. Accrued Pension Obligation (continued...)

The total accrued pension obligations consist of the following:

	2021 $	2020 $
Base benefit liability	1,928,052,000	1,765,203,000
Contingent indexation liability[1]	406,589,152	233,219,778
Total accrued pension obligation	2,334,641,152	1,998,422,778

[1] The contingent indexation liability is calculated based on total plan assets less the accrued pension obligation assuming no future contingent indexation. This calculation does not incorporate the potential impact of future events such as contributions, gains or losses on asset returns and new benefit accruals.

The assumptions used in the valuations performed as at April 1 are as follows:

	2021	2020
Inflation	Same	2.05%
Discount Rate	5.40%	5.70%
Expected Rate of Return of Plan Assets	5.40%	5.70%
Salary Escalation	Same	Basic increase of 2.55% per annum + promotional scale
Pre-Retirement Indexation	3.22% per annum for 2021, 2.55% per annum for 17 years, 0% thereafter	2.26% per annum for 2020, 2.55% per annum for 12 years, 0% thereafter
Post-Retirement Indexation (includes deferred pensioners)	2.00% per annum for 2021, 2.05% per annum for 8 years, 0% thereafter	2.15% per annum for 2020, 2.05% per annum for 3 years, 0% thereafter
Mortality	Same	CPM2014Publ with future improvements based on CPM Scale B and adjustments of 1.10 for males and 0.95 for females
Termination	Same	Tenure - based scale
Retirement Age	Same	Service and age - based scale
Proportion Married	Same	Males: 80% Females: 75%
Age Difference for Spouses	Same	Males 2 years older than female spouses

b) Sensitivity of Changes in Major Assumptions

The Plan's future experience may differ from the assumptions used in the actuarial valuations. Any differences between the actuarial assumptions and future experience could be significant and will emerge as experience gains or losses in future valuations which will affect the financial position of the Plan.

PRINCE EDWARD ISLAND
PUBLIC SECTOR PENSION PLAN
Notes to Financial Statements
March 31, 2020 and 2021

5. Funding Policy

Prior to the plan amendments in 2014, the Province was committed to make payments if the assets of the Plan were insufficient to provide for pension payments as they became due. In addition, a funding policy existed which required the Province to make special contributions when the Plan's funding level declined below 90 percent.

Special contributions made under this funding policy were as follows:

As a result of an unfunded liability at April 1, 2011, the Province of Prince Edward Island made a special contribution through the signing of a $150,761,400 promissory note. The note, issued December 11, 2012, is held by the Plan and is receivable in ten equal annual instalments of $15,076,140 beginning April 1, 2013. Interest on the note is accrued from April 1, 2012, at a rate of 2.9 percent per annum, and is receivable semi-annually on April 1 and October 1.

The following is a schedule of principal and interest payments as disclosed in the promissory note:

Principal Payments		Interest Payments	
Date of Payment	Principal Payment $	April 1 $	October 1 $
April 1, 2012	-	-	2,186,041
April 1, 2013	15,076,140	2,186,041	1,967,436
April 1, 2014	15,076,140	1,967,436	1,748,832
April 1, 2015	15,076,140	1,748,832	1,530,228
April 1, 2016	15,076,140	1,530,228	1,311,624
April 1, 2017	15,076,140	1,311,624	1,093,020
April 1, 2018	15,076,140	1,093,020	874,416
April 1, 2019	15,076,140	874,416	655,812
April 1, 2020	15,076,140	655,812	437,208
April 1, 2021	15,076,140	437,208	218,604
April 1, 2022	15,076,140	218,604	-
	150,761,400	12,023,221	12,023,221

As part of the plan amendments in 2014, the Province's requirement to make payments if the assets of the Plan were insufficient to provide for pension payments as they became due was removed. The funding policy was rescinded and was replaced by the following Government guarantee:

- Beginning on April 1, 2016, if the funded benefits ratio of the Plan falls below 100 percent (of base benefits) and, after reflecting the future contributions as described in Note 1(b), the Plan is still not projected to achieve a funded benefits ratio of at least 100 percent within five years, the Province is required to make an additional contribution within six months equal to one fifth of the additional amount required to restore the funded benefits ratio to 100 percent within five years. This is reviewed on an annual basis and the contribution amount will be subject to change each year.

PRINCE EDWARD ISLAND
PUBLIC SECTOR PENSION PLAN
Notes to Financial Statements
March 31, 2020 and 2021

5. Funding Policy (continued...)

In addition, the Province committed to make a one-time transitional contribution (transitional government funding amount) to the Plan on or before December 31, 2014 such that, if that contribution had been made on January 1, 2014, the total assets of the Plan would have equalled:

1. 122 percent of the total liabilities of the Plan, excluding the liabilities for salary indexing and pension indexing for any year after 2013; plus
2. 100 percent of the liabilities for salary indexing and pension indexing for 2014, 2015 and 2016.

The transitional government funding amount was contributed to the Plan by the Province of Prince Edward Island through the signing of a $231,530,000 promissory note. The note, issued December 29, 2014, is held by the Plan and is receivable in seven equal annual instalments of $33,075,714 beginning January 1, 2023. Interest on the note is accrued from January 1, 2014 at a rate of 4.14 percent per annum and is receivable semi-annually on January 1 and July 1. At March 31, 2014, a receivable was recognized for the outstanding note and classified as an employer special contribution.

The following is a schedule of principal and interest payments as disclosed in the promissory note:

Principal Payments		Interest Payments	
Date of Payment	Principal Payment $	January 1 $	July 1 $
January 1, 2014	-	-	4,792,671
January 1, 2015	-	4,792,671	4,792,671
January 1, 2016	-	4,792,671	4,792,671
January 1, 2017	-	4,792,671	4,792,671
January 1, 2018	-	4,792,671	4,792,671
January 1, 2019	-	4,792,671	4,792,671
January 1, 2020	-	4,792,671	4,792,671
January 1, 2021	-	4,792,671	4,792,671
January 1, 2022	-	4,792,671	4,792,671
January 1, 2023	33,075,714	4,792,671	4,108,004
January 1, 2024	33,075,714	4,108,004	3,423,336
January 1, 2025	33,075,714	3,423,336	2,738,669
January 1, 2026	33,075,714	2,738,669	2,054,002
January 1, 2027	33,075,714	2,054,002	1,369,335
January 1, 2028	33,075,714	1,369,335	684,667
January 1, 2029	33,075,716	684,667	-
	231,530,000	57,512,052	57,512,052

Subsection 5(5) of the *Public Sector Pension Plan Act* stipulates that none of the above promissory notes may be cancelled or recalled by the Province prior to maturity unless the Province contributes to the Plan assets equal to or greater than the value of the promissory notes on the date of cancellation or recall.

PRINCE EDWARD ISLAND
PUBLIC SECTOR PENSION PLAN
Notes to Financial Statements
March 31, 2020 and 2021

6. Benefits

A breakdown of benefits by type is as follows:

	2021 $	2020 $
Benefits paid to retired members	90,278,247	84,768,769
Benefits paid to survivors	6,483,467	6,072,356
	96,761,714	90,841,125

7. Operating Expenses

The Plan is charged with administrative and operating expenses. The following is a summary of these expenses.

	2021 $	2020 $
Administration expenses - pension section	930,005	936,733
- investment section	124,091	118,221
	1,054,096	1,054,954
Consulting fees*	441,156	391,604
Actuarial fees	34,619	73,459
Investment expenses		
Custodian	148,218	119,660
Monitoring	149,774	159,468
Management	9,048,531	9,032,475
	10,876,394	10,831,620

*Includes other actuarial services

8. Related Party Transactions

The Province of Prince Edward Island is the sponsor of the Plan. At the financial statement date, the Province has committed to the funding requirements as defined by the Funding Policy (Note 5). As a participating employer, the Province contributes regular bi-weekly employee, employer and eligible prior period service contributions. Employee and employer contributions receivable from the Province as at March 31, 2021 totalled $1,902,761 (2020 - $1,774,278).

The Province provides pension and investment administration services to the Plan. A portion of the Province's costs relating to these services is recovered annually from the Plan. Costs recovered for the Pension section totalled $752,003 (2020 - $748,028) and recoveries related to the Investment section totalled $124,091 (2020 - $118,221). Other costs recovered by the Province totalled $169,023 (2020 - $162,561).

PRINCE EDWARD ISLAND
PUBLIC SECTOR PENSION PLAN
Notes to Financial Statements
March 31, 2020 and 2021

8. Related Party Transactions (continued...)

The total amount payable to the Province at March 31, 2021 was $892,477 (2020 - $889,460).

Total promissory note, special contribution and interest receivable from the Province at March 31, 2021, was $264,515,824 (2020 - $279,810,568).

9. Capital Management

The main objective of the Plan is to sustain a level of net assets in order to meet the pension obligations of the Plan. The Plan sponsor manages the contributions received and benefits paid as required by the *Public Sector Pension Plan Act.*

In an effort to utilize economies of scale, contributions for the Province's three registered pension plans are pooled and invested together in the Province's Master Trust. Each pension plan holds units of the Master Trust in proportion to the value of contributions made. The Province has developed a Statement of Investment Policies and Procedures (SIP&P) to provide the framework for how the Master Trust's assets are to be invested, monitored, and evaluated. Assets are managed by engaging knowledgeable, external investment managers who are charged with the responsibility of investing new and existing funds in accordance with the SIP&P. A Joint Investment Advisory Committee exists for the purpose of protecting the pension fund assets, monitoring asset mix, reviewing costs, reviewing investment returns, and assessing investment manager performance, as well as providing advice to the Minister of Finance who serves as Trustee for the Province's three registered pension plans.

10. Commitments

The Master Trust has entered into an arrangement with Global Infrastructure Partners (GIP). GIP is an independent infrastructure fund manager that invests in high quality infrastructure assets in the energy, transport, water, and waste sectors. The Master Trust has committed to invest $35.0 (US) million in its GIP II Fund; $31.8 (US) million has been invested as of the audit report date. The Master Trust has committed to invest $75.0 (US) million in its GIP III Fund; $60.5 (US) million has been invested as of the audit report date. The Master Trust has committed to invest $60.0 (US) million in its GIP IV Fund; $6.4 (US) million has been invested as of the audit report date.

11. Impact of COVID-19

On March 11, 2020, the World Health Organization declared a global pandemic due to Coronavirus (COVID-19). The pandemic had significant impacts on the financial status of the Plan for both fiscal years. Global financial markets have experienced significant volatility, and given the extent of the crisis, it is difficult to estimate the future financial impact on the Plan at this time.

P.E.I. Public Trustee

Audited Financial Statements for P.E.I. Public Trustee for the year ended March 31, 2021 were not provided to the Office of the Comptroller as required by Section 70 (4) of the Financial Administration Act. Unaudited, draft financial statements were used in the preparation of the Public Accounts.

PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND

Financial Statements
June 30, 2020

Management's Report

Management's Responsibility for the Financial Statements

The financial statements have been prepared by management in accordance with Canadian Accounting Standards for Pension Plans and the integrity and objectivity of these statements are management's responsibility. Management is responsible for the notes to the financial statements and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is responsible for implementing and maintaining a system of internal control to provide reasonable assurance that reliable financial information is produced.

The Teachers' Superannuation Commission is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Commission reviews internal financial reports on a regular basis and externally audited financial statements yearly.

The Office of the Auditor General conducts an independent examination, in accordance with Canadian generally accepted auditing standards and expresses their opinion on the financial statements. The Office of the Auditor General has full and free access to financial information and management of the Prince Edward Island Teachers' Superannuation Fund to meet as required.

On behalf of the Prince Edward Island Teachers' Superannuation Fund

Denise Lewis Fleming, MPA, CPA, CA
Deputy Minister
Department of Finance

Terry Hogan
Manager, Pensions and Benefits
Department of Finance

May 27, 2021

Prince Edward Island
Office of the Auditor General
PO Box 2000, Charlottetown PE
Canada C1A 7N8

Île-du-Prince-Édouard
Bureau du vérificateur général
C.P. 2000, Charlottetown PE
Canada C1A 7N8

INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
Prince Edward Island Teachers' Superannuation Fund

Opinion

I have audited the financial statements of the **Prince Edward Island Teachers' Superannuation Fund**, which comprise the statement of financial position as at June 30, 2020, the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at June 30, 2020, and the changes in its net assets available for benefits and its pension obligation for the year then ended in accordance with Canadian Accounting Standards for Pension Plans.

Basis for Opinion

I conducted the audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Prince Edward Island Teachers' Superannuation Fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian Accounting Standards for Pension Plans and for such internal control that 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 the Fund'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 an intention exists to liquidate or cease the operations of the Fund, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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 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, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 the Fund'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 the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund 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.

I 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 I identify during my audit.

Darren Noonan, CPA, CA
Auditor General

Elvis Alisic, CPA, CA
Audit Director

Charlottetown, Prince Edward Island
May 27, 2021

PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND

Statement of Financial Position
June 30, 2020

	2020	2019
	$	$
Assets		
Cash	3,510,178	2,111,490
Investments (Note 3)	820,232,549	826,816,244
Notes receivable (Note 5)	180,713,900	188,750,800
Receivables		
Contributions - employee	807,643	1,295,906
- employer	816,730	1,326,480
Accrued interest	3,524,585	3,581,897
Other	395,713	240,666
Total Assets	1,010,001,298	1,024,123,483
Liabilities		
Accounts payable and accrued liabilities	1,216,256	1,415,998
Remittances payable	883,353	875,766
Investment fees payable	735,940	686,954
Due to the Province of Prince Edward Island	371,348	-
Total Liabilities	3,206,897	2,978,718
Net Assets Available for Benefits	1,006,794,401	1,021,144,765
Accrued Pension Obligation (Note 4)	1,006,794,401	1,021,144,765
Net Surplus (Deficit)	-	-

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

Approved on behalf of the Prince Edward Island Teachers' Superannuation Fund

Chairperson

Commissioner

PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND

Statement of Changes in Net Assets Available for Benefits
for the year ended June 30, 2020

	2020	2019
	$	$
Increase in Assets		
Investment income (Note 3(a))	38,378,653	33,130,746
Change in fair value of investments (Note 3(a))	(33,342,741)	22,491,602
	5,035,912	55,622,348
Interest income on notes receivable	7,495,362	7,733,253
Contributions		
Employee	12,994,960	12,547,983
Employer	12,994,960	12,547,983
Transfers from other plans	738,844	261,520
Purchased service	220,057	144,183
	39,480,095	88,857,270
Decrease in Assets		
Benefits paid (Note 6)	49,945,417	48,251,446
Operating expenses (Note 7)	3,456,904	3,089,476
Refunds	366,208	3,870
Transfers	61,930	-
	53,830,459	51,344,792
Change in Net Assets	(14,350,364)	37,512,478
Net Assets Available for Benefits, beginning of year	1,021,144,765	983,632,287
Net Assets Available for Benefits, end of year	1,006,794,401	1,021,144,765

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

PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND

Statement of Changes in Pension Obligation
for the year ended June 30, 2020

	2020	2019
	$	$
Accrued Pension Obligation, beginning of year	1,021,144,765	983,632,287
Change in Accrued Pension Obligation		
Interest accrued on benefits	56,524,397	55,019,985
Benefits accrued	17,434,567	16,987,067
Increase due to purchased service	958,902	405,702
Benefits paid	(50,373,554)	(48,255,316)
(Gain) loss on experience and assumption changes and contingent indexation	(38,894,676)	13,355,040
Change in Accrued Pension Obligation	(14,350,364)	37,512,478
Accrued Pension Obligation, end of year (Note 4)	1,006,794,401	1,021,144,765

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

PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND
Notes to Financial Statements
June 30, 2020

1. Plan Description

The following description of the Prince Edward Island Teachers' Superannuation Pension Plan (the Plan) is a summary only. For more complete information, reference should be made to the *Teachers' Superannuation Act* and *Regulations.*

a) General

The Plan is a contributory defined benefit plan covering members as defined in the *Teachers' Superannuation Act.* Effective December 4, 2020, the name of the Plan was changed to the Prince Edward Island Teachers' Pension Plan which is now governed by the *Prince Edward Island Teachers' Pension Plan Act* (formerly the *Teachers' Superannuation Act).*

b) Contributions

Under the Plan, members make contributions amounting to 8.3 percent of that part of the members' salary up to the amount of the year's maximum pensionable earnings (YMPE) as defined in the *Canada Pension Plan Act* and 10.0 percent on the amount that exceeds the YMPE. Participating employers match member contributions. Herein these are considered the Base Contributions. Beginning January 1, 2017, variable contributions have been introduced based on the funded benefits ratio as defined below (note that contribution changes by funded level are total and not cumulative).

Funded Benefits Ratio	Employee Contributions[1]	Participating Employer Contributions[1]
<100% [2]	Base Contributions plus 1%	Base Contributions plus 4%
100% to 110% [3]	Base Contributions plus 1%	Base Contributions plus 2%
110% to 135%	Base Contributions	Base Contributions
135% to 145% [4]	Base Contributions less 1%	Base Contributions less 2%
145% + [5]	Base Contributions less 1%	Base Contributions less 4%

1. *Subject to the Income Tax Act Rules for maximum contributions.*
2. *If triggered, contributions based on funded benefits ratio <100% remain in effect until funded benefits ratio of ≥ 105% is attained.*
3. *If triggered, contributions based on funded benefits ratio <110% remain in effect until funded benefits ratio of ≥ 115% is attained.*
4. *If triggered, contributions based on funded benefits ratio ≥135% remain in effect until funded benefits ratio of ≤ 130% is attained.*
5. *If triggered, contributions based on funded benefits ratio ≥145% remain in effect until funded benefits ratio of ≤ 140% is attained.*

c) Retirement Benefits

Pension Formula: The annual pension is based on the number of years of service times two percent of average salary with a reduction at age 65 for estimated Canada Pension Plan ("CPP") benefits. The reduction is referred to as a bridge pension and only payable to age 65. The bridge is based on the number of years of service times 0.7% of average salary to a maximum of the average CPP year's maximum pensionable earnings. For Service prior to December 31, 2013, average salary and year's maximum pensionable earnings is based on the best five-year average. For service commencing January 1, 2014, average salary and year's maximum pensionable earnings is based on career average.

PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND
Notes to Financial Statements
June 30, 2020

1. Plan Description (continued...)

Pre-Retirement Indexation: Benefits earned during 2014 to 2016, were automatically indexed at 1.5 percent per annum. As this indexation is guaranteed, it is included in the Base Benefits, which are the Plan benefits prior to any future contingent indexation. In 2017 and beyond, pre-retirement indexation will only be awarded if the funded benefits ratio (as determined at the April 1st immediately prior to the calendar year in which indexation is to be awarded) is greater than 100 percent. If there are years that full indexation is not awarded, and if the funded benefits ratio subsequently reaches 115 percent, then a portion of Plan funds is available to make up for missed indexation in the past. The maximum indexation is 100 percent of the increase in the Average Industrial Wage ("AIW") in Canada. However, if in any year the assets available to be spent on inflation protection are not adequate to provide the full amount, partial indexation will be awarded.

Post-Retirement Indexation: For 2014 to 2016, post-retirement indexation was automatically awarded at 0.9 percent per annum. As this indexation is guaranteed, it is included in the Base Benefits. In 2017 and beyond, post-retirement indexation will only be awarded if the funded benefits ratio (as determined at the April 1st immediately prior to the calendar year in which indexation is to be awarded) is greater than 110 percent. If there are years that full post-retirement indexation is not awarded, and if the funded benefit ratio subsequently reaches 118 percent, then a portion of Plan funds is available to make up for missed past indexation on a go-forward basis (i.e. no retroactive payments). The maximum indexation is 100 percent of Consumer Price Index (CPI); however, if the Plan cannot afford that amount, partial indexation will be awarded. Indexation also applies to deferred vested benefits and is applied in the same manner as the post-retirement indexation.

Retirement Age: For pensionable service prior to January 1, 2019, the earliest unreduced retirement age remains at the earlier of 30 years of pensionable service (minimum of age 55) and attained age 60. For pensionable service after December 31, 2018, the earliest unreduced retirement age will be the earlier of 32 years of pensionable service (minimum of age 55) and attained age 62. The earliest retirement age is 55 with two years of continuous service.

d) Disability Benefits

Disability benefits are available at any age to a member who retires from teaching service because of total and permanent disability provided the member contributed to the Plan for two or more years.

e) Death Benefits

Less than two years of continuous service: On the death of a member prior to completing two years of pensionable service, the member's accumulated contributions with interest will be refunded.

PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND
Notes to Financial Statements
June 30, 2020

1. Plan Description (continued...)

Greater than or equal to two years of continuous service: If a member dies prior to retirement but after completing two years of service, the member's spouse is entitled to an immediate lifetime pension equal to 60 percent of the accrued, unreduced pension of the member at the time of death. In addition to the spousal pension, an allowance equal to ten percent of the members' or vested former members' pension entitlement at death prior to retirement is payable in respect of each dependent child, up to a maximum of four children, until the child is no longer a dependent child or upon the death of the dependent child. Where a member dies after two years of service and before retirement and does not leave a surviving spouse or dependent children, the personal representative of the member shall receive a lump sum amount equal to one and a half times the member's accumulated contributions plus interest.

If the spouse of the member dies before the member, or where having survived the member the surviving spouse dies leaving children by the member, the sixty percent pension that was payable to the spouse will be paid to the dependent child or the guardian of that child, if the member or vested former member is survived by only one dependent child, or the oldest dependent child or the guardian of that child.

f) Termination and Portability of Benefits

In the event of termination of employment for reasons other than retirement or death, a member may elect to receive either:

- a refund of the member's own contributions with interest; or
- if the member has completed at least two years of service, a deferred pension subject to the provisions outlined in the *Retirement Age* section above.

Where there are portability arrangements between the Plan and other plans, members may be able to carry certain pension benefits to those other plans or transfer contributions and service from those other plans to increase pension benefits under the Plan.

g) Marriage Breakdown

Upon application, the pension benefits to which a person is entitled may be divided between the person and the spouse or former spouse.

h) Income Tax

The Fund is a registered pension plan as defined under the federal *Income Tax Act* and is not subject to taxation.

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2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared in accordance with Canadian Accounting Standards for Pension Plans as outlined in the Chartered Professional Accountants of Canada (CPA) Handbook Section 4600, Pension Plans. For accounting policies that do not relate to either investments or pension obligations, the Fund has elected to comply on a consistent basis with International Financial Reporting Standards (IFRS) in Part I of the CPA Handbook. To the extent that IFRS in Part I is inconsistent with Section 4600, Section 4600 takes precedence.

Included in the determination of the accrued benefit obligation for pension retirement benefits is a liability for contingent indexation.

For the year ended June 30, 2020, the contingent indexation liability is calculated based on total plan assets less the accrued benefit obligation on base benefits assuming no further contingent indexation. This calculation does not incorporate the potential impact of future events such as contributions, gains and losses on asset returns, and new benefit accruals.

Significant judgment is involved in the accounting treatment of contingent indexation. Management recognizes that the contingent indexation liability represents a new challenge for pensions in Canada. Going forward, management will continue to monitor developments in the accounting standards and practices when assessing the most appropriate accounting treatment for plans with a contingent indexation liability component.

These financial statements are prepared on a going concern basis and present the aggregate financial position of the Fund as a separate reporting entity.

a) Use of Estimates and Measurement Uncertainty

The preparation of financial statements in conformity with Canadian Accounting Standards for Pension Plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Items requiring the use of significant estimates include investments, accrued interest, accrued liabilities, and the accrued pension obligation.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates and the differences could be material.

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2. Summary of Significant Accounting Policies (continued...)

b) Foreign Currency Translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the transaction date. The fair value of foreign investments and cash held at year-end are translated at the rates in effect at that date. The resulting gain or loss from changes in these rates is included in the current period change in fair value of investments.

c) Fair Value Measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Fund measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Fund establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, and/or discounted cash flow analysis.

d) Financial Instruments

The Fund's financial instruments include cash, contributions and other receivables, accrued interest, notes receivable, investments, accounts payable, accrued liabilities, amounts due to the Province of Prince Edward Island, investment fees payable, and remittances payable. Due to their nature, the Fund's financial instruments, with the exception of investments, are carried at cost which approximates their fair values. Investments are carried at fair value and are subject to interest rate, credit, foreign currency, price, and liquidity risks as described in Note 3.

e) Investments

Investments represent a pool of assets held in a master trust and allocated to each member by units of participation. The Prince Edward Island Master Trust represents a contract between the members (contributors) and the trustee (Minister of Finance). All investments held by the Master Trust are classified as held for trading. Investments are designated at fair value through the statement of changes in net assets available for benefits. Investment purchase and sale decisions are based on their fair value in accordance with the Master Trust's Statement of Investment Policies and Procedures.

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2. Summary of Significant Accounting Policies (continued...)

Significant accounting policies for the pool of assets held in the Master Trust consist of:

(i) Investment transactions
Investment transactions are recognized on the transaction date. Distributions are recognized on the record date. Investments include receivables and payables at June 30, 2020, for interest, dividends, and settled derivative contracts.

(ii) Income recognition
Income from investments is recorded on an accrual basis and includes interest and dividends as well as realized and unrealized gains and losses on investments.

(iii) Investment valuation

Equity and debt
Equity and debt investments are valued at fair value based on quoted market values. Changes in the market value of investments, including realized and unrealized gains and losses, are reflected in the financial statements as a change in the fair value of investments.

Equity investment in real estate
Investment in real estate is represented by an equity investment in a corporation that invests in real estate, participating mortgages, and property for development or resale. Properties within the corporation are valued annually by independent appraisers in accordance with generally accepted appraisal practices and procedures. The appraisal methodology followed is an income approach which is mainly based on discounted cash flows. In estimating future cash flows, certain assumptions are made with respect to future economic conditions and rates of return.

Pooled funds
Pooled funds are valued at the unit values supplied by the pooled fund administrator, which represents the Fund's proportionate share of underlying net assets at fair values determined using closing market prices.

Derivative contracts
The derivative contracts held by the Fund are stated at fair value and are valued using quoted market indices. Realized and unrealized gains or losses on investments from derivative contracts are included in the change in the fair value of investments.

Investment in foreign infrastructure
The Fund owns units in a foreign infrastructure partnership. The partnership invests in portfolio companies that own, operate, develop, manage, and support infrastructure assets. Fair value is based upon a number of factors, including readily available market quotes with appropriate adjustments for trading restrictions, the most recent round of financings, earnings-multiple analysis using comparable companies, or discounted cash flow analysis.

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2. Summary of Significant Accounting Policies (continued...)

(iv) Transaction costs

Investment management fees are costs directly attributable to the external management of the assets. Fees incurred on the management of equity holdings in real estate and foreign infrastructure investments are paid directly as a reduction in the fair value of the investment. Fees incurred on the management of other investments are recorded as an investment expense.

f) Revenues and Expenses

Revenues and expenses are recorded on an accrual basis in the period in which the transaction or event that gave rise to the revenue or expense occurred.

g) Accrued Pension Obligation

The value of the accrued pension obligation of the Fund is based on an annual actuarial valuation prepared on an accounting basis by an independent actuary using the projected unit credit method pro-rated on service and best estimate assumptions. The accrued pension obligation is measured in accordance with accepted actuarial methods using actuarial assumptions and methods adopted by the Fund.

3. Investments and Derivatives

a) Investments

Investments consist of units held in the Master Trust. At year-end, there were 601,666.941 units held in the Master Trust (2019 - 582,736.096) with a fair value of $1,363.27 (2019 - $1,418.85) per unit.

Investments of the Master Trust consist of the following listed assets:

	2020 $	%	2019 $	%
Cash and Short-Term Investments	57,382,218	2.1	21,262,770	0.8
Long Core Plus Bond	262,073,241	9.7	235,589,010	8.7
Core Plus Bond	804,264,584	29.6	794,729,532	29.3
Canadian Equities	270,661,541	10.0	301,030,501	11.1
Global Equities	899,492,141	33.1	928,410,790	34.2
Canadian Real Estate	104,418,690	3.8	101,123,633	3.7
Global Real Estate	161,746,342	6.0	152,038,432	5.6
Global Infrastructure	146,697,416	5.4	161,513,169	6.0
Currency Overlay	7,895,375	0.3	16,970,553	0.6
Total	2,714,631,548	100.0	2,712,668,390	100.0
Fund's pro-rated share	30.2152%		30.4798%	
Fund investments*	820,232,549		826,816,244	

*Rounded

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3. Investments and Derivatives (continued...)

Investment income and realized and unrealized gains (losses) of the Master Trust consist of the following:

	Investment Income 2020 $	Change in Fair Value of Investments* 2020 $	Investment Income 2019 $	Change in Fair Value of Investments* 2019 $
Cash and Short-Term Investments	150,059	8,896,032	260,775	7,560,829
Long Core Plus Bond	14,518,076	11,966,155	5,523,098	18,807,380
Core Plus Bond	28,551,722	26,066,352	24,789,307	35,401,058
Canadian Equities	9,663,798	(47,958,696)	9,436,440	(3,733,037)
Global Equities	58,876,072	(69,794,720)	58,511,180	(11,919,679)
Canadian Real Estate	-	3,295,057	-	6,469,647
Global Real Estate	4,650,229	5,057,680	3,975,307	3,605,844
Global Infrastructure	10,255,036	(19,665,072)	5,937,240	14,138,438
Currency Overlay	-	(28,147,753)	85	3,232,507
Total	126,664,992	(110,284,965)	108,433,432	73,562,987
Fund's pro-rated share	30.2993%	30.2333%	30.5540%	30.5746%
Fund investments**	38,378,653	(33,342,741)	33,130,746	22,491,602

*Includes realized gains of $2.8 million (2019 - gains of $15.0 million) and unrealized losses of $113.1 million (2019 - gains of $58.6 million).
**Rounded

Investments include amounts which investment managers of the Master Trust have invested in their own pooled funds. The fair values of these investments are as follows:

	2020 $	2019 $
Baillie Gifford Overseas Limited	325,884,606	289,686,078
Beutel, Goodman & Company Limited	28,668,149	39,416,438
CBRE Global Investment Management	78,050,392	72,488,781
Global Infrastructure Partners (GIP)	117,038,861	130,984,313
Goldman Sachs Asset Management	490,401,616	499,515,743
Greystone Management Investments Inc.	198,362,115	133,113,480
Lazard Asset Management	29,658,555	30,528,856
Morgan Stanley Prime Property Fund	80,736,013	76,193,740
State Street Global Advisors Ltd.	2,959,936	3,355,912
TD Asset Management	899,254,891	968,485,052
Wellington Global PERSP (CAD)	156,345,429	169,052,611
Total	2,407,360,563	2,412,821,004
Fund's pro-rated share	30.2152%	30.4798%
Fund's pooled funds*	727,389,871	735,423,322
Fund's non-pooled investments*	92,842,678	91,392,922
Fund investments*	820,232,549	826,816,244

*Rounded

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3. Investments and Derivatives (continued...)

b) Derivative Contracts

Derivative contracts are financial contracts, the value of which is "derived" from the value of underlying assets or exchange rates. Derivative contracts provide flexibility in implementing investment strategy.

Forward contracts are used to manage currency exposure and mitigate risk with respect to investments held in foreign currencies. The net notional amount of the currency forwards represents the volume of outstanding transactions and serves as the basis upon which the return and market value of the contract is determined.

The details of the Master Trust's derivative contracts are as follows:

	2020 $	2019 $
Notional Amount	730,384,344	593,260,152
Fair Value	7,895,375	16,970,553

c) Fair Value Disclosure

Fund investment assets recorded at fair value have been categorized based upon a fair value hierarchy on significant inputs used in measuring fair value. The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis at June 30, 2020.

The three levels of the fair value hierarchy are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the investment manager has the ability to access at the measurement date. Level 1 primarily includes publicly listed investments.

Level 2: Inputs other than quoted prices that are observable either directly or indirectly, including inputs in markets that are not considered to be active. Level 2 primarily includes debt securities, investments in real estate and derivative contracts not traded in an open market.

Level 3: Inputs that are unobservable. There is little, if any, market activity. Inputs into the determination of fair value require significant management judgment and/or estimation. Level 3 primarily consists of foreign infrastructure investments.

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3. Investments and Derivatives (continued...)

The following table illustrates the classifications of the Fund's financial instruments using the fair value hierarchy as at June 30.

	2020			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash and Short-Term Investments	57,382,218	-	-	57,382,218
Long Core Plus Bond	-	262,073,241	-	262,073,241
Core Plus Bond	-	804,264,584	-	804,264,584
Canadian Equities	270,661,541	-	-	270,661,541
Global Equities	899,492,141	-	-	899,492,141
Canadian Real Estate	-	104,418,690	-	104,418,690
Global Real Estate	-	161,746,342	-	161,746,342
Global Infrastructure	29,658,555	-	117,038,861	146,697,416
Currency Overlay	-	7,895,375	-	7,895,375
Totals	1,257,194,455	1,340,398,232	117,038,861	2,714,631,548
Total financial assets at fair value				2,714,631,548
Fund's pro-rated share				30.2152%
Fund investments*				820,232,549

*Rounded

	2019			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash and Short-Term Investments	21,262,770	-	-	21,262,770
Long Core Plus Bond	-	235,589,010	-	235,589,010
Core Plus Bond	-	794,729,532	-	794,729,532
Canadian Equities	301,030,501	-	-	301,030,501
Global Equities	928,410,790	-	-	928,410,790
Canadian Real Estate	-	101,123,633	-	101,123,633
Global Real Estate	-	152,038,432	-	152,038,432
Global Infrastructure	30,528,856	-	130,984,313	161,513,169
Currency Overlay	-	16,970,553	-	16,970,553
Totals	1,281,232,917	1,300,451,160	130,984,313	2,712,668,390
Total financial assets at fair value				2,712,668,390
Fund's pro-rated share				30.4798%
Fund investments*				826,816,244

*Rounded

There were no significant transfers between any financial instruments during the year.

PRINCE EDWARD ISLAND
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3. Investments and Derivatives (continued...)

The following table details changes in fair value measurement in Level 3 of the fair value hierarchy:

	2020	2019
	$	$
Level 3 investments, July 1	130,984,313	99,588,923
Transfers in	4,501,517	21,851,659
Disbursements	(9,875,222)	(7,654,310)
Net income received	9,203,684	5,047,011
Realized gains	1,135,698	2,440,830
Unrealized gains (losses)	(18,911,129)	9,710,200
Level 3 investments at fair value	117,038,861	130,984,313
Fund's pro-rated share	30.2152%	30.4798%
Level 3 investments, June 30*	35,363,577	39,923,757

*Rounded

d) Investment Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate, price, credit, and liquidity risks. The Fund has set formal goals, policies, and operating procedures that establish an asset mix among equity and fixed income, require diversification of investments within categories, and set limits on the size of exposure to individual investments and counter parties.

Risk and credit considerations are periodically assessed in consultation with external consultants, the Department of Finance, and the Master Trust Investment Advisory Committee. Plan sponsor oversight, procedures, and compliance functions are incorporated into Fund processes to achieve consistent controls and to mitigate operational risk.

(i) Interest Rate Risk

Interest rate risk refers to the fact that the Fund's financial position will change with market interest rate changes as fixed income securities are sensitive to changes in nominal interest rates. Interest rate risk is inherent in the management of a pension plan due to prolonged timing differences between cash flows related to the Fund's assets and liabilities.

Assuming all other variables are held constant, a one percentage point change in nominal interest rates would change the fair value of the Fund by $31.2 million (2019 - $30.4 million).

	Value of Fixed Income Securities	Weighted Average Duration	Percentage Point Change	Impact on Fair Value of the Master Trust	Fund's Pro-rated Share	Pro-rated Impact on Fair Value of the Fund
	$	yrs	%	$	%	$
2020	1,066.3 m	9.70	1	103.4 m	30.2152	31.2 m

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3. Investments and Derivatives (continued...)

(ii) Price Risk

Price risk is the risk of fluctuation in market values of investments from influences specific to a particular investment or from influences on the market as a whole. Price risk is managed by the Fund through the use of diversified investment portfolios traded on various markets and across various industries. Assuming all other variables are held constant, a 10 percent change in market values of all public equities would change the fair value of the Fund by $43.4 million (2019 - $45.2 million).

	Value of Public Equities $	Percentage Change %	Impact on Fair Value of the Master Trust $	Fund's Pro-rated Share %	Pro-rated Impact on Fair Value of the Plan $
2020	1,436.3 m	10	143.6 m	30.2152	43.4 m

(iii) Credit Risk

Credit risk is the risk of loss in the event the counter party to a transaction fails to discharge an obligation and causes the other party to incur a loss. Credit risk associated with the Fund is periodically assessed in consultation with external consultants, the Department of Finance, and the Master Trust Investment Advisory Committee.

Fixed Income

The Fund is exposed to credit risk from interest earning investments at June 30 as follows:

	2020 (millions) $	2019 (millions) $
Federal government	71.4	82.6
Provincial government	405.6	397.9
Corporate	575.7	544.9
Government Agencies	13.7	4.9
Total investment credit risk exposure	1,066.4	1,030.3
Fund's pro-rated share	30.2152%	30.4798%
Fund's investment credit risk exposure	322.2	314.0
Provincial government promissory notes	180.7	188.8
Fund's total credit risk exposure	502.9	502.8

All fixed income investments are considered to have low credit risk.

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3. Investments and Derivatives (continued...)

Security Lending

The Fund participates in a Securities Lending Program whereby it lends securities for a fee to approved borrowers. To alleviate the credit risk, borrowers must provide collateral with a value of 105 percent when the value of the securities lent is denominated in a different currency and 102 percent when denominated in the same currency. The market value of the collateral is monitored by the custodian at least daily to ensure that the security thresholds are maintained. In addition, security loans are allocated across various borrowers within the program and the Fund holds indemnification coverage, which mitigates the credit and market risk on the collateral.

The fair value of the security loans outstanding and collateral held is as follows:

	2020 $	2019 $
Total security loans outstanding	18,926,956	16,793,820
Fund's pro-rated share	30.2152%	30.4798%
Fund's security loans outstanding*	5,718,826	5,118,723
Total collateral held	20,097,679	17,801,281
Fund's pro-rated share	30.2152%	30.4798%
Fund's collateral held*	6,072,563	5,425,795

*Rounded

Derivatives

The Fund is exposed to credit related losses in the event of non performance by counter parties to derivative financial instruments. In order to mitigate this risk, the Fund deals only with highly rated counter parties, with whom International Swap and Derivative Association agreements have been executed, normally major financial institutions with a minimum credit standard of "A-/A3" rating, as supported by a recognized credit rating agency.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counter parties failed completely to perform under the contracts and if the right of offset proved to be non enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counter parties, less any prepayment collateral or margin received as at the reporting date.

(iv) Foreign Currency Risk

Foreign currency risk is the risk that the value of the future cash flow of the financial instrument will fluctuate because of changes in foreign exchange rates. Consequently, the Fund is exposed to the risk that the exchange rates of the various currencies may change in a manner that has an adverse effect on the value of the

PRINCE EDWARD ISLAND
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3. Investments and Derivatives (continued...)

portion of the Fund's assets denominated in currencies other than the Canadian dollar. Foreign currency exposure arises from the holding of investments denominated in foreign currencies. A strategy of hedging a portion of the currency exposure is used to mitigate this risk.

The Fund's unhedged currency exposure from net investment assets is summarized as follows:

	2020 (millions) $	2019 (millions) $
Currency		
China	24.7	20.6
Euro Zone	27.3	20.0
United Kingdom	27.6	25.2
India	10.0	13.2
Malaysia	11.7	8.2
Japan	80.9	79.9
Sweden	15.2	18.0
Taiwan	25.8	26.9
United States	60.8	190.7
South Africa	12.4	11.6
Other	34.0	54.8
Total	330.4	469.1
Fund's pro-rated share	30.2152%	30.4798%
Fund's foreign currency exposure*	99.8	143.0

*Rounded

After the effect of hedging, and without a change in all other variables, a 10 percent change in the Canadian dollar against all other currencies would change the fair value of the Fund by $10.0 million (2019 - $14.3 million).

(v) Liquidity Risk

Liquidity risk is the risk of not meeting the cash obligations of the Fund in an efficient manner. Cash obligations are fulfilled from contributions to the Fund, cash income of the Fund, and dispositions of Fund assets as required. Cash requirements of the Fund are reviewed on an ongoing basis to provide for the orderly availability of resources to meet the financial obligations of the Fund.

The Fund's cash management policy ensures that the quality and liquidity of the investment vehicles within the portfolio are consistent with the needs of the Fund.

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4. Accrued Pension Obligation

a) Actuarial Valuation

The present value of the accrued pension obligation was determined using the projected unit credit method pro-rated on service and management's best estimate, as at the valuation date, of future economic events and involves economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality and retirement rates. The primary economic assumptions include the return on investment, discount, inflation, and salary escalation rates.

The most recent actuarial valuation for accounting purposes, prepared by the actuarial consulting firm Morneau Shepell, disclosed a base benefit liability of $849,239,500 as at April 1, 2020.

The actuarial valuation on April 1, 2020 was based on data as at September 1st of the previous year and the actuarial liability was then extrapolated to April 1st, based on current period benefit cost, benefit payments and interest and adjusted for changes in actuarial assumptions. An actuarial valuation of the Teachers' Superannuation Fund is performed annually as at April 1st.

The world is in the midst of the COVID-19 health pandemic. Although the pandemic could have a material impact on the financial status of the Plan, there is currently insufficient information to determine the extent of either the short-term impact or the long-term impact of this pandemic on the Plan. As such, the results of the accounting valuation as at April 1, 2020, only reflect the financial impact on plan assets and future return expectations up to that date, but do not reflect any further potential impacts on the Plan to occur after that date which may be caused by either economic and/or demographic outcomes different from the assumptions being used in the valuations. Such impacts will result in gains and losses to be revealed in future valuations.

The total accrued pension obligation as at April 1st, 2020 consists of the following:

	2020
Base benefit liability	$849,239,500
Contingent indexation liability[1]	93,840,100
Total accrued pension obligation	$943,079,600

[1] The contingent indexation liability is calculated based on total plan assets less the accrued pension obligation assuming no future contingent indexation. This calculation does not incorporate the potential impact of future events such as contributions, gains and losses on asset returns and new benefit accruals.

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4. Accrued Pension Obligation (continued...)

The assumptions used in the valuations performed as at April 1st, are as follows:

	2020	2019
Inflation	2.05%	2.10%
Discount Rate	Same	5.70%
Expected Rate of Return of Plan Assets	Same	5.70%
Salary Escalation	Basic increase of 2.55% per annum + promotional scale	Basic increase of 2.60% per annum + promotional scale
Pre-Retirement Indexation	2.26% per annum for 2020, 2.55% per annum for 11 years, 0% thereafter	2.43% per annum for 2019, 2.60% per annum for 17 years, 0% thereafter
Post-Retirement Indexation (includes deferred pensioners)	2.15% per annum for 2020, 2.05% per annum for 2 years, 0% thereafter	1.63% per annum for 2019, 2.10% per annum for 9 years, 0% thereafter
Mortality	Same	CPM2014Publ with future improvements based on CPM Scale B and size adjustments of 1.0 for males and 0.95 for females
Termination	Same	Tenure - based scale
Retirement Age	Same	Service and age - based scale
Proportion Married	Same	Males: 80% Females: 75%
Age Difference for Spouses	Same	Males 2 years older than female spouses

b) Extrapolation

The accrued pension obligation at June 30, 2020 is estimated by the Fund, based on an extrapolation of the April 1, 2020 actuarial valuation. The total accrued pension obligation at June 30, 2020 consists of the following:

	2020
Base benefit liability	$853,202,996
Contingent indexation liability	153,591,405
Total accrued pension obligation	$1,006,794,401

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4. Accrued Pension Obligation (continued...)

c) Sensitivity of Changes in Major Assumptions

The Fund's future experience may differ from the assumptions used in the actuarial valuation and the extrapolation. Any differences between the actuarial assumptions and future experience could be significant and will emerge as experience gains or losses in future valuations which will affect the financial position of the Fund.

5. Funding Policy

a) Prior to plan amendments in 2014, the Province was committed to make payments if the assets of the Fund were insufficient to provide for pension payments as they became due. In addition, a funding policy existed which required the Province to make special contributions when the Fund's funded level declined below 90 percent.

Special contributions made under this funding policy were as follows:

(i) As a result of an unfunded liability at July 1, 2011, the Province made a special contribution through the signing of a $80,369,000 promissory note. The note, issued December 11, 2012, is held by the Fund and is receivable in ten equal annual instalments of $8,063,900 beginning April 1, 2013. Interest on the note is accrued from April 1, 2012, at a rate of 2.9 percent per annum, and is receivable semi-annually on April 1 and October 1.

The following is a schedule of principal and interest payments as disclosed in the promissory note:

Principal Payments		Interest Payments	
Date of Payment	Principal Payment $	April 1 $	October 1 $
April 1, 2012	-	-	1,165,351
April 1, 2013	8,036,900	1,165,351	1,048,815
April 1, 2014	8,036,900	1,048,815	932,281
April 1, 2015	8,036,900	932,281	815,746
April 1, 2016	8,036,900	815,746	699,210
April 1, 2017	8,036,900	699,210	582,675
April 1, 2018	8,036,900	582,675	466,140
April 1, 2019	8,036,900	466,140	349,605
April 1, 2020	8,036,900	349,605	233,070
April 1, 2021	8,036,900	233,070	116,535
April 1, 2022	8,036,900	116,535	-
	80,369,000	6,409,428	6,409,428

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Notes to Financial Statements
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5. Funding Policy (continued...)

b) As part of the plan amendments in 2014, the Province's requirement to make payments if the assets of the Fund were insufficient to provide for pension payments as they became due was removed and the funding policy was rescinded and was replaced by the following Government guarantee:

- Effective April 1, 2016, if the funded benefits ratio of the Plan falls below 100 percent (of base benefits) and, after reflecting the future contributions as described in Note 1(b), the Plan is still not projected to achieve a funded benefits ratio of at least 100 percent within five years, the Province is required to make an additional contribution equal to one fifth of the additional amount required to restore the funded benefits ratio to 100 percent within five years. This is reviewed on an annual basis and the contribution amount will be subject to change each year.

In addition, the Province committed to make a one-time transitional contribution (transitional government funding amount) to the Plan on or before December 31, 2014 such that, if that contribution had been made on January 1, 2014, the total assets of the Fund would have equalled:

- 122 percent of the total liabilities of the Fund excluding the liabilities for salary indexing and pension indexing for any year after 2013; plus

- 100 percent of the liabilities for salary indexing and pension indexing for 2014, 2015, and 2016.

The transitional government funding amount was contributed to the Fund by the Province of Prince Edward Island through the signing of a $164,640,100 promissory note. The note, issued December 22, 2014, is held by the Fund and is receivable in seven equal annual instalments of $23,520,014 beginning January 1, 2023. Interest on the note is accrued from January 1, 2014 at a rate of 4.14 percent per annum and is receivable semi-annually on January 1 and July 1.

PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND
Notes to Financial Statements
June 30, 2020

5. Funding Policy (continued...)

The following is a schedule of principal and interest payments as disclosed in the promissory note:

Principal Payments		Interest Payments	
Date of Payment	Principal Payment $	January 1 $	July 1 $
January 1, 2014	-	-	3,408,050
January 1, 2015	-	3,408,050	3,408,050
January 1, 2016	-	3,408,050	3,408,050
January 1, 2017	-	3,408,050	3,408,050
January 1, 2018	-	3,408,050	3,408,050
January 1, 2019	-	3,408,050	3,408,050
January 1, 2020	-	3,408,050	3,408,050
January 1, 2021	-	3,408,050	3,408,050
January 1, 2022	-	3,408,050	3,408,050
January 1, 2023	23,520,014	3,408,050	2,921,186
January 1, 2024	23,520,014	2,921,186	2,434,321
January 1, 2025	23,520,014	2,434,321	1,947,457
January 1, 2026	23,520,014	1,947,457	1,460,593
January 1, 2027	23,520,014	1,460,593	973,729
January 1, 2028	23,520,014	973,729	486,865
January 1, 2029	23,520,016	486,865	-
	164,640,100	40,896,601	40,896,601

Subsection 9(5) of the *Teachers Superannuation Act* stipulates that none of the above promissory notes may be cancelled or recalled by the Province prior to maturity unless the Province contributes to the TSF assets equal to or greater than the value of the promissory notes on the date of cancellation or recall. The notes are non-transferrable.

6. Benefits

	2020 $	2019 $
Benefits paid to retired members	47,382,972	45,855,168
Benefits paid to surviving members	2,562,445	2,396,278
	49,945,417	48,251,446

PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND
Notes to Financial Statements
June 30, 2020

7. Operating Expenses

The Fund is charged with administrative and operating expenses. The following is a summary of these expenses.

		2020 $	2019 $
Administrative expenses	- pension section	367,295	302,655
	- investment section	54,838	57,270
		422,133	359,925
Consulting fees*		353,175	273,845
Actuarial fees		69,988	57,278
Investment expenses			
Custodian		41,039	21,000
Monitoring		75,218	72,834
Management		2,495,351	2,304,594
		3,456,904	3,089,476

*Includes other actuarial services

8. Related Party Transactions

The Province of Prince Edward Island is the sponsor of the Plan. At the financial statement date, the Province has committed to the funding requirements as defined by the Funding Policy (Note 5). As a participating employer, the Province contributes regular bi-weekly employee and eligible prior period service contributions. Employer contributions receivable from the Province as at June 30, 2020, totalled $811,960 (2019 - $1,322,556).

The Province provides pension and investment administration services to the Fund. A portion of the Province's costs relating to these services is recovered annually from the Fund. Costs recovered for the pension section totalled $316,510 (2019 - $248,420) and recoveries related to the investment section totalled $54,838 (2019 - $57,270). Other costs recovered by the Province totalled $39,493 (2019 - $36,742).

Total amount payable to the Province at June 30, 2020, was $371,348 (2019 - nil).

Total notes, special contributions and interest receivable from the Province at June 30, 2020, was $184,238,485 (2019 - $192,332,697).

9. Capital Management

The main objective of the Fund is to sustain a level of net assets in order to meet the pension obligations of the Fund. The Plan sponsor manages the contributions received and benefits issued as required by the *Teachers' Superannuation Act.*

PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND
Notes to Financial Statements
June 30, 2020

9. Capital Management (continued...)

In an effort to utilize economies of scale, contributions for the Province's three registered pension plans are pooled and invested together in the Province's Master Trust. Each pension plan holds units of the Master Trust in proportion to the value of contributions made. The Province has developed a Statement of Investment Policies and Procedures (SIP&P) to provide the framework for how the Master Trust's assets are to be invested, monitored, and evaluated. Assets are managed by engaging knowledgeable, external investment managers who are charged with the responsibility of investing new and existing funds in accordance with the SIP&P. A Master Trust Investment Advisory Committee exists for the purpose of protecting the pension fund assets, monitoring asset mix, reviewing costs, reviewing investment returns, and assessing investment manager performance, as well as providing advice to the Minister of Finance who serves as Trustee for the Province's three registered pension plans.

10. Commitments

The Master Trust has entered into an arrangement with Global Infrastructure Partners (GIP). GIP is an independent infrastructure fund manager that invests in high quality infrastructure assets in the energy, transport, water, and waste sectors. The Master Trust has committed to invest $35 (US) million in its GIP II Fund; $31.8 (US) million has been invested as of the audit report date. The Master Trust has committed to invest $75 (US) million in its GIP III Fund; $60.5 (US) million has been invested as of the audit report date. The Master Trust has committed to invest $60 (US) million in its GIP IV Fund; $6.4 (US) million has been invested as of the audit report date.

11. Impact of COVID-19

On March 11, 2020, the World Health Organization declared a global pandemic due to Coronavirus (COVID-19). The pandemic had significant impacts on the financial status of the Plan at year-end. Global financial markets have experienced significant volatility, and given the extent of the crisis, it is difficult to estimate the future financial impact on the Plan at this time.

12. Comparative Figures

Certain prior period comparative figures have been restated to conform to the presentation format adopted in the current year.

Supreme Court of Prince Edward Island Trust Accounts

Audited Financial Statements for P.E.I. Supreme Court of Prince Edward Island Trust Accounts for the year ended March 31, 2021 were not provided to the Office of the Comptroller as required by Section 70 (4) of the Financial Administration Act. Unaudited, draft financial statements were used in the preparation of the Public Accounts.

Financial Statements

Workers Compensation Board of Prince Edward Island

December 31, 2020

Workers Compensation Board of Prince Edward Island

Contents

Independent Auditor's Report

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To the members of the Board of the

Workers Compensation Board of Prince Edward Island

Opinion

We have audited the financial statements of the Workers Compensation Board of Prince Edward Island ("the Board"), which comprise the statement of financial position as at December 31, 2020, and the statement of comprehensive income, changes in fund balance 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 accompanying financial statements present fairly, in all material respects, the financial position of the Workers Compensation Board of Prince Edward Island as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 the Board 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 International Financial Reporting Standards (IFRS), 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 the Board'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 the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board'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 the Board'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 the Board'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 the Board 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.

Grant Thornton LLP

Charlottetown, Prince Edward Island

May 13, 2021

Chartered Professional Accountants

Workers Compensation Board of Prince Edward Island
Statements of Comprehensive Income

Year ended December 31	Notes	2020	2019
Revenues			
Current assessments		$ 35,657,296	$ 36,420,916
Investments	4	11,652,890	28,273,638
Interest on receivables		50,797	98,634
Administration fees to self-insured employers	12	249,988	258,601
		47,610,971	65,051,789
Expenses			
Claims cost expenses			
Expected increase	11	8,309,000	8,339,000
Experience gains	11	(7,722,000)	(7,410,000)
Claims and administrative costs incurred	11	25,151,000	26,045,000
Latent occupational disease costs incurred	11	(45,000)	4,545,000
Changes in actuarial assumption	11	-	(645,000)
		25,693,000	30,874,000
Administration expenses			
Administration (Page 32)		7,773,899	7,974,353
Workers' Advisor Program	14	154,385	104,261
Employers' Advisor Program	14	115,084	113,052
Appeals Tribunal	14	108,494	129,710
		8,151,862	8,321,376
Other expenses			
Investment management	4	869,454	1,137,172
Bad debt (recovery)		(33,179)	52,632
Grant program		100,536	273,666
		936,811	1,463,470
Total expenses		34,781,673	40,658,846
Operating income		12,829,298	24,392,943
Distribution to employers		-	(19,815,482)
Net income		12,829,298	4,577,461
Other comprehensive loss			
Items that will not be classified in the statement of operations			
Change in actuarial gains or losses		(289,100)	(106,400)
Total comprehensive income		$ 12,540,198	$ 4,471,061

See accompanying notes and schedule to the financial statements.

Workers Compensation Board of Prince Edward Island
Statements of Changes in Fund Balance

Year ended December 31

	Fund balance	Total accumulated comprehensive loss	Total fund balance
Balance, January 1, 2020	$ 79,922,994	$ (378,805)	$ 79,544,189
Net income	12,829,298	-	12,829,298
Other comprehensive loss	-	(289,100)	(289,100)
Balance, December 31, 2020	$ 92,752,292	$ (667,905)	$ 92,084,387

	Fund balance	Total accumulated comprehensive loss	Total fund balance
Balance, January 1, 2019	$ 75,345,533	$ (272,405)	$ 75,073,128
Net income	4,577,461	-	4,577,461
Other comprehensive loss	-	(106,400)	(106,400)
Balance, December 31, 2019	$ 79,922,994	$ (378,805)	$ 79,544,189

See accompanying notes and schedule to the financial statements.

Workers Compensation Board of Prince Edward Island
Statements of Financial Position

December 31	Notes	2020	2019
Assets			
Cash and cash equivalents		**$ 8,508,480**	$ 8,215,717
Receivables	3	**1,933,918**	1,793,939
Investments	4	**243,371,679**	231,329,111
Property and equipment	6	**2,747,014**	2,609,953
Intangible assets	7	**1,844,229**	2,013,216
		$ 258,405,320	$ 245,961,936
Liabilities and fund balance			
Payables and accruals	9	**$ 1,959,533**	$ 1,711,347
Employee future benefits	10	**1,952,400**	1,644,400
Benefits liabilities	11	**162,409,000**	163,062,000
		166,320,933	166,417,747
Fund balance	13	**92,084,387**	79,544,189
		$ 258,405,320	$ 245,961,936

On behalf of the Board

_____ Chair

_____ Chief Executive Officer

See accompanying notes and schedule to the financial statements.

Workers Compensation Board of Prince Edward Island
Statements of Cash Flows

Year ended December 31	2020	2019
Cash flow from operating activities		
Cash received from:		
Assessed employers	**$ 35,623,468**	$ 36,119,986
Self-insured employers for assessments	**728,332**	780,945
	36,351,800	36,900,931
Cash paid:		
To claimants or third parties on their behalf	**(24,738,000)**	(24,829,000)
Self-insured claims	**(728,332)**	(780,945)
Distribution to employers	**-**	(19,815,482)
For administration requirements and other goods	**(2,330,001)**	(2,755,794)
For salaries to employees	**(6,924,641)**	(6,920,275)
	(34,720,974)	(55,101,496)
Net cash provided (used) by operating activities	**1,630,826**	(18,200,565)
Cash flow from investing activities		
Cash received from:		
Investment income, net of fees	**3,784,793**	4,522,919
Sale of investments	**42,497,092**	54,611,583
	46,281,885	59,134,502
Cash paid for:		
Purchase of investments	**(47,158,792)**	(35,996,694)
Purchase of intangible assets	**(134,928)**	(813,014)
Purchase of property and equipment	**(326,228)**	(278,219)
	(47,619,948)	(37,087,927)
Net cash (used) provided by investing activities	**(1,338,063)**	22,046,575
Net increase in cash and cash equivalents	**292,763**	3,846,010
Cash and cash equivalents		
Beginning of year	**8,215,717**	4,369,707
End of year	**$ 8,508,480**	$ 8,215,717

See accompanying notes and schedule to the financial statements.

Workers Compensation Board of Prince Edward Island
Notes to the Financial Statements
December 31, 2020

1. Nature of operations

The Workers Compensation Board of Prince Edward Island ("the Board") was established by the Prince Edward Island Legislature in 1949 under the *Workers Compensation Act*. The Board has a mandate for the administration of a workers' compensation system as defined by the *Workers Compensation Act* and for the administration of health and safety programs as defined by the *Occupational Health and Safety Act*. The Board's head office is located in Charlottetown, Prince Edward Island, Canada.

The nature of operations includes administering payments of benefits to or on behalf of workers, levying and collecting assessment revenues from employers, investing Board funds, inspecting Prince Edward Island workplaces, enforcing health and safety standards defined by legislation and delivering health and safety education and prevention programs. The current *Workers Compensation Act* became effective on January 1, 1995. The current *Occupational Health & Safety Act* became effective on May 20, 2006.

The Board does not receive government funding.

The financial statements were authorized for issue in accordance with a resolution of the Board of Directors on May 13, 2021.

2. Summary of significant accounting policies

Basis of presentation and adoption of IFRS
The financial statements of the Board have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements of the Workers Compensation Board of Prince Edward Island comply, in all material respects, with IFRS as issued by the International Accounting Standards Board (IASB) in effect as at December 31, 2020.

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied, except where departure from IFRS is explicitly permitted under the transitional provisions for first time application of IFRS or another IFRS.

Basis of measurement
The financial statements of the Board have been prepared on a historical cost basis except for investments in the statement of financial position that are reported at fair value. The Board's functional currency is the Canadian dollar, which is the currency of the primary economic environment in which the Board operates, which is also the presentation currency of the financial statements.

Cash and cash equivalents
Cash and cash equivalents include cash on hand and balances with banks. Cash and short-term investments held by custodians for investment purposes are not available for general use and, accordingly, are included in investments.

Foreign currency translation
Monetary assets and liabilities denominated in foreign currency are translated into Canadian dollars at the closing rate, which is the spot exchange rate in effect at the date of the statement of financial position. Exchange differences arising from settlement of monetary items and the subsequent translation of monetary items are included in the statement of operations in the period in which they arise.

Workers Compensation Board of Prince Edward Island
Notes to the Financial Statements
December 31, 2020

2. Summary of significant accounting policies (cont'd)

Accounting estimates and measurement uncertainty
The preparation of financial statements in conformity with IFRS requires the use of judgements, assumptions and estimates as at the date of the financial statements that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities and the reported amounts of revenues and expenses during the reporting periods presented.

Measurement uncertainty exists when there is a variance between the recognized amount and another reasonable amount. Some accounting measurements require management's best estimate, based on assumptions as at the financial statement date, that reflect the most probable set of economic conditions and planned courses of action.

Benefits liabilities, employee future benefits, accrued assessments, allowance for doubtful accounts and depreciation are the most significant items that are based on accounting estimates. Actual results could differ from the estimates made by management in these financial statements and these differences, which may be material, could require adjustment in subsequent reporting periods. See Note 11 for additional details on benefits liabilities.

COVID-19 estimation uncertainty
In March 2020, the World Health Organization declared a global pandemic as a result of the emergence and rapid transmission of a novel strain of the coronavirus (COVID-19). The pandemic has significantly affected the global economy, disrupting business operations and economic activity worldwide. The Board has not observed any material impairment on assets or a significant change in operations as a result of the COVID-19 pandemic. However, due to rapid developments and uncertainty surrounding COVID-19 it is not possible to predict the future impact that COVID-19 may have on the Board's financial position and operating results in the future. It is possible that estimates will change as a result of COVID-19 and the impact of changes could be material to the Board. Management is closely monitoring the global pandemic's impact on the Board's operations and will update results, as necessary.

Revenue recognition
The Board recognizes revenue when services have been provided, it is probable that the associated economic benefits will flow to the Board and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business. The Board's primary source of revenue is assessed premiums.

Self-insured employers are individually responsible for costs attributable to claims arising from their employees. These claim costs are subject to a transactional based administration fee which is recognized in revenue as they occur.

Workers Compensation Board of Prince Edward Island
Notes to the Financial Statements
December 31, 2020

2. Summary of significant accounting policies (cont'd)

Specific accounting policies
To facilitate a better understanding of the Board's financial statements, significant accounting policies are disclosed in the notes, where applicable, of the related accounting topics. A listing of these notes is as follows:

Note	Topic	Page
3	Receivables	10
4	Investments	10
6	Property and equipment	18
7	Intangible assets	20
9	Payables and accruals	21
10	Employee benefits	21
11	Benefits liabilities	23
12	Self-insured employers	29

Future accounting standards and reporting changes not yet adopted
The International Accounting Standards Board (the IASB) is continually working toward improving and developing new accounting standards. The IASB has issued a number of exposure drafts of new standards that are expected to come into effect over the next several years. The Board continually monitors the IASB work plans and publications to assess any potential impact on the organization.

IFRS 17 Insurance Contracts ("IFRS 17") supersedes IFRS 4 Insurance Contracts ("IFRS 4"). IFRS 17 fundamentally changes how entities account for insurance contracts, introducing a default "building block approach", which disaggregates the cash flows in an insurance contract and provides a different measurement basis for each component, and a simplified "premium allocation approach" for certain short-term contracts. Assumptions used in measuring insurance assets and liabilities such as cash flows, discount rates and risk adjustment will be updated at each reporting period. The discount rate will reflect the characteristics of the insurance liabilities and the estimated future cash flows to settle claims incurred and will be discounted unless the period of time between claim occurrence and settlement is less than one year. Presentation changes include 'insurance revenue' replacing the current reporting of 'premiums' and insurance contract assets and liabilities will not be netted. Under this standard, premiums receivable, unearned premiums and claims payable may no longer be presented separately from other insurance assets and liabilities. The effective date for IFRS 17 is January 1, 2023 with mandatory restatement of comparative periods. The Board is currently assessing the impact IFRS 17 will have on the financial statements and benefits liabilities.

Workers Compensation Board of Prince Edward Island
Notes to the Financial Statements
December 31, 2020

3. Receivables

Accounting policy
Trade receivables are amounts due from employers for assessed premiums, or estimated premiums, when a final return for insurance coverage for the period has not been filed. Assessed premiums receivable are initially recognized at the invoiced amount and, subsequently, measured at recoverable value that is net of a provision for uncollectible amounts. Trade and other receivables are classified as financial assets and are recorded at amortized cost.

At the beginning of each year, an assessment is levied on non-monthly employers by applying industry assessment rates to their estimated payrolls. During the year, employers' actual payrolls may vary from their estimate; therefore, at year end, accrued assessments receivable are adjusted based on payroll adjustments from the prior year. The accrued assessments are determined excluding those employers whose assessments are levied on a monthly basis.

Other receivables include amounts due from employees for computer purchases and other payroll related items.

	2020	2019
Receivables		
Assessments	**$ 1,680,666**	$ 1,123,102
Less allowance for doubtful accounts	**(95,796)**	(89,396)
Accrued assessments	**40,535**	564,270
Self-insured employers	**(71,614)**	(98,401)
Other receivables	**380,127**	294,364
	$ 1,933,918	$ 1,793,939

4. Investments

Accounting policy
All the Board's portfolio investments, except real-return bonds, are mandatorily classified as fair value through profit or loss investments. Real return bonds have been designated by the Board as fair value through profit or loss as permitted under IFRS 9. As such, all portfolio investments are recorded at their fair value. The Board recognizes interest revenue as earned, dividends when declared and investment gains and losses when realized. Realized gains and losses represent the difference between the amounts received through the sale of the investments and their respective cost base. Unrealized gains and losses on fair value through profit or loss investments are recognized as investment income at year end based on the fair value of the investments at that time. When an investment is sold, the cumulative unrealized gain or loss is reclassified as a realized gain or loss in investment income on the statement of operations. Investment income also includes interest income and income distributions from pooled funds. The Board utilizes trade date accounting for all purchases and sales of financial instruments in its investment portfolio. Transactions are recorded on the date an agreement is entered (the trade date) and not on the date the transaction is finalized (the settlement date). Investments denominated in foreign currency are translated into Canadian dollars at the exchange rate in effect at the statement of financial position date. Revenues and expenses are translated at the exchange rates in effect on the transactions date. The foreign currency exchange gains or losses for these investments are recorded in the same manner as other investment gains or losses.

Workers Compensation Board of Prince Edward Island
Notes to the Financial Statements
December 31, 2020

4. Investments (cont'd)

Fair values of specific investments are determined as follows:

- Equities are valued at their year end quoted market prices as reported on recognized public securities exchange.
- Fixed-term investments are valued at their year end closing or bid price based on available public quotations from recognized dealers in such securities.
- Commercial paper, short-term notes and treasury bills and term deposits maturing within a year are valued at either their year end closing or bid price based on available quotations from recognized dealers in such securities, or cost plus accrued interest, which approximates fair value.
- Pooled fund units other than infrastructure are valued at their year-end net asset value, as determined by the fund manager or administrator. For pooled funds holdings equity and fixed-income assets, these values represent the Board's proportionate share of underlying net assets at fair values determined using either quoted market prices or year-end closing market prices or the average of the latest bid/ask prices based on available public quotations from recognized dealers in such securities. For pooled funds holding derivatives, cleared derivatives are valued at the closing price quoted by the relevant clearing house, and over-the-counter derivatives are valued using an industry standard model. Exchange-traded options are valued at the last sale price or the closing bid price for long positions and the closing ask price for short positions. For real estate pooled funds, these values represent the Board's proportionate share of the underlying net assets at fair values determined using independent appraisals, net of any liabilities against the fund assets.
- Infrastructure pooled funds are held through a separate corporate entity controlled by WorkSafeNB and in which the Board does not have significant influence. Therefore, these infrastructure pooled funds are considered financial instruments and are valued at their most recent net asset value prior to year-end, adjusted for any capital contributions or withdrawals between the net asset value date and year-end, as determined by the fund manager or administrator. The net asset value represents the Board's proportionate share of the underlying net assets at fair values estimated using one or more methodologies, including discounted cash flows, multiples of earnings measures, and recent comparable transactions.
- Forward foreign exchange contracts are valued at their net unrealized gain or loss, based on quoted market exchange rates at the balance sheet date. The Board has not designated the forward exchange contracts as a hedging instrument. Any changes in the fair market value of the instruments are recognized directly into earnings.

Workers Compensation Board of Prince Edward Island
Notes to the Financial Statements
December 31, 2020

4. Investments (cont'd)

	2020	2019
Investments		
Cash and short-term investments	$ 6,605,611	$ 7,356,831
Forward foreign exchange contracts	2,815,442	494,264
Real estate	37,232,767	34,336,087
Fixed term investments	38,197,140	43,659,665
Infrastructure	18,734,900	14,312,453
Equities	117,113,677	108,336,871
Global opportunistic	22,672,142	22,832,940
	$ 243,371,679	$ 231,329,111

	2020	2019
Investment income		
Earned during the year	$ 4,603,450	$ 5,972,858
Realized investment (loss) gain	(333,976)	4,987,847
Change in unrealized investment gain	7,383,416	17,312,933
	$ 11,652,890	$ 28,273,638
Investment expenses		
External management fees	$ 817,701	$ 1,026,705
Management fees paid to WorkSafeNB	51,753	110,467
	$ 869,454	$ 1,137,172

Pooled funds

A number of the Board's portfolio investments are held through pooled funds. The fair value of the investments held through pooled funds is as follows:

	2020	2019
Conventional bonds	$ 23,249,006	$ 36,610,698
Real return bonds	14,948,134	7,048,967
Non North American equities	9,981,251	8,868,763
Real estate	37,232,767	34,336,087
Absolute return	22,672,142	22,832,940
Infrastructure	18,734,900	14,312,453
	$ 126,818,200	$ 124,009,908

Investment agreement

The Board has entered into an Investment Agreement (January 1995) for the management of its investment assets with those of WorkSafeNB. These financial statements report the Board's proportionate share of the investment assets held in the pooled fund which was 12.7% at December 31, 2020 (2019 – 12.8%). The Board pays a fee to WorkSafeNB for the administration of the combined investments.

Workers Compensation Board of Prince Edward Island
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4. Investments (cont'd)

Commitments
The Board, through its investment in pooled infrastructure and real estate funds, has committed to contribute investments in these funds, which may be drawn down over the next several years. Unfunded commitments as of December 31, 2020 are $10.4 million (2019 - $15.7 million).

5. Financial risk management

The Board has established policies for management of its investments. All of the Board's pooled investments are managed by independent, external investment managers. The compliance of these managers with the established policies is monitored on a regular basis. The pooled investments are managed to reduce investment risk by diversifying its portfolio among asset classes, industry sectors, geographic locations and individual securities. Further diversification is achieved by selecting investment managers with varying investment philosophies and styles. From time to time, in conjunction with WorkSafeNB, independent consultants are retained to advise on the appropriateness and effectiveness of its investment policies and practices.

The following sections describe the Board's financial risk exposure and related mitigation strategies.

Market risk
The Board invests in publicly traded equities listed on domestic and foreign exchanges, and bonds traded over the counter through broker dealers. These securities are affected by fluctuations in market prices. Such market changes are subject to economic factors and other fluctuations in domestic and global capital markets, as well as risks to issuers, which may affect the market value of individual securities. Policy guidelines have been established to ensure that the Board's investments are diversified by issuer, industry and geographic location.

The table below indicates the total exposure in each of the equity mandates within the Board's portfolio:

	2020	2019
Canada	**$ 39,429,169**	$ 35,386,770
United States	**46,623,882**	42,661,020
International equities	**37,432,519**	37,544,207
Real estate	**37,723,232**	34,336,087
Emerging markets	**16,300,249**	15,577,814
	$ 177,509,051	$ 165,505,898

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5. Financial risk management (cont'd)

The table below presents the effect of a change in value of equities held based on management estimates for each of the equity mandates in the Boards' portfolio:

	2020			
Equities				
Change in market value	**15%**	**5%**	**-5%**	**-15%**
Impact on fund balance				
Canadian	**$ 5,914,000**	**$ 1,971,000**	**$ (1,878,000)**	**$ (5,143,000)**
United States	**6,994,000**	**2,331,000**	**(2,220,000)**	**(6,081,000)**
International equities	**5,615,000**	**1,872,000**	**(1,783,000)**	**(4,883,000)**
Real estate	**5,658,000**	**1,886,000**	**(1,796,000)**	**(4,920,000)**
Emerging markets	**2,445,000**	**815,000**	**(776,000)**	**(2,126,000)**

	2019			
Equities				
Change in market value	15%	5%	-5%	-15%
Impact on fund balance				
Canadian	$ 5,308,000	$ 1,769,000	$ (1,685,000)	$ (4,616,000)
United States	6,399,000	2,133,000	(2,031,000)	(5,564,000)
International equities	5,632,000	1,877,000	(1,788,000)	(4,897,000)
Real estate	5,150,000	1,717,000	(1,635,000)	(4,479,000)
Emerging markets	2,337,000	779,000	(742,000)	(2,032,000)

Foreign currency risk

The Board has certain investments denominated in foreign currencies. Currency risk is the risk that the value of these investments will fluctuate due to changes in foreign exchange rates. For its U.S. and non-North American equities, the Board has adopted a policy to hedge 50% of its developed market foreign currency exposure using forward exchange contracts. Forward foreign exchange contracts are agreements to exchange an amount of one currency for another at a future date and at a set price, agreed upon at the contract's inception. The fair value of these financial instruments would change in response to changes in the foreign exchange rates of the currencies involved in the contracts. The notional amounts in forward foreign exchange contracts are the contractual amounts on which payments are made. These notional amounts have been converted into Canadian dollars at the contractual exchange rates in effect at the inception of the contracts.

The Board has significant current exposure in the US dollar, the Euro, the Japanese Yen and the British Pound. Exposure to changes in these four currencies represents 93.1% of the Board's total exposure to developed market foreign currencies and 80.3% of the total foreign currency exposure including emerging markets. The Board has holdings of $63,440,000 (2019 - $52,075,000) in US dollar or 26.2% of the portfolio, $22,593,000 (2019 - $20,339,000) or 9.3% in the Euro, $11,753,000 (2019 - $10,156,000) or 4.9% in the Japanese Yen and $6,647,000 (2019 - $7,443,000) or 2.8% in the British Pound.

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5. Financial risk management (cont'd)

The table below presents the effects of a 15% appreciation in the Canadian dollar as compared to the US dollar, Euro, Japanese Yen and British Pound on the fund balance:

	2020	2019
CAD/USD	**$ (8,274,839)**	$ (6,792,000)
CAD/EURO	**$ (2,947,000)**	$ (2,653,000)
CAD/YEN	**$ (1,533,000)**	$ (1,325,000)
CAD/POUND	**$ (867,000)**	$ (971,000)

At December 31, 2020, the notional value of outstanding forward foreign exchange contracts was $86,575,533 (2019 - $71,611,560). The fair value of these contracts was a gain of $2,815,442 (2019 - $494,264). Unrealized gain on forward foreign exchange contracts of $2,321,177 (2019 - $3,183,109) were included in investment income.

Inflation risk
Inflation risk is the risk that a general increase in price level may result in loss of future purchasing power for current monetary assets. To mitigate the effect of inflation on the Board's future liabilities, the portfolio holds inflation sensitive investments, such as real return bonds and real estate. Canadian real return bonds are indexed to the annual change in the Canadian Consumer Price Index.

Interest risk management
Interest rate risk is the risk that the value of a financial security will fluctuate due to changes in market interest rates. The Board's investment portfolio is exposed to interest rate risk from its holdings of fixed income securities. Fluctuations in interest rates are managed by varying the duration of the fixed income portfolio. The following table presents the remaining term to maturity of the Board's outstanding fixed term investments.

	Remaining term to maturity				
	Within 1 year	From 1 year to 5 years	Over 5 years	**Total 2020**	Total 2019
Fixed term investments (market value)	$ (142,346)	$ 9,700,414	$ 28,639,072	**$ 38,197,140**	$ 43,659,665

The average effective yield of these fixed term investments is 1.2% (2019 - 2.3%) per annum based on market value.

As of December 31, 2020, had the prevailing interest rate changed by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, the value of the fixed term investments would have increased or decreased by $3,706,000 (2019 - $4,298,000) or approximately 9.7% (2019 - 9.8%) of their value.

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5. Financial risk management (cont'd)

Credit risk management
Credit risk on fixed term or money market investments or forward foreign exchange contracts arises from the possibility that the counterparty to an instrument fails to meet its obligation to the Board. Policy guidelines have been established to ensure the Board holds corporate fixed term investments with a credit rating of A or higher, and Canadian federal or provincial government fixed term investments with a credit rating of BBB or higher. The Board may only invest in money market instruments that are provincially or federally guaranteed by one of the five largest Canadian chartered banks. Counterparties to forward foreign exchange contracts must have a credit rating of at least AA. As at December 31, 2020, the aggregate amount of fixed income securities with counterparty ratings of BBB was $35,000 (2019 - $5,500).

The Board is also exposed to credit risk through its trade receivables. The Board mitigates this risk through a regular monitoring process. Credit risk is mitigated due to the large number of customers and their dispersion across geographic areas and various industries. Allowance for doubtful accounts is reviewed at each balance sheet date. The Board updates its estimates of allowances for doubtful accounts based on customer history.

Fair value hierarchy
In compliance with IFRS 7, Financial Instruments – Disclosures, the Board has categorized its assets and liabilities that are carried at fair value on a recurring basis, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Financial assets and liabilities measured at fair value are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2: Fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs or inputs that are derived principally for or corroborated with observable market data through correlation or other means.

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs or the use of broker quotes. These unobservable inputs reflect the Board's assumptions about the assumptions market participants would use in pricing the assets or liabilities.

	2020			
	Level 1	Level 2	Level 3	**Total**
Cash and cash equivalents	$ 6,605,611	$ -	$ -	**$ 6,605,611**
Investments				
Forward foreign exchange contracts	-	2,815,442	-	**2,815,442**
Real estate	24,291,407	-	12,941,360	**37,232,767**
Fixed term	38,197,140	-	-	**38,197,140**
Infrastructure	-	-	18,734,900	**18,734,900**
Equities	139,785,819	-	-	**139,785,819**
	$ 208,879,977	**$ 2,815,442**	**$ 31,676,260**	**$ 243,371,679**

During 2020 and 2019, there were no significant transfers of investments between level 1 and level 2.

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5. Financial risk management (cont'd)

	2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 7,356,831	$ -	$ -	$ 7,356,831
Investments				
Forward foreign exchange contracts	-	494,264	-	494,264
Real estate	24,262,785	-	10,073,302	34,336,087
Fixed term	43,659,665	-	-	43,659,665
Infrastructure	-	-	14,312,453	14,312,453
Equities	131,169,811	-	-	131,169,811
	$ 206,449,092	$ 494,264	$ 24,385,755	$ 231,329,111

The following summarizes the changes in the level 3 investments for the year:

	2020	2019
Balance beginning of year	**$ 24,385,755**	$ 27,465,695
Purchase of level 3 investments	**6,273,955**	1,703,104
Investment income	**326,917**	632,590
Return of capital	**(1,597,588)**	(5,333,443)
Unrealized gains recognized	**2,287,221**	(82,191)
Balance at end of year	**$ 31,676,260**	$ 24,385,755

There are five investments classified as level 3:

(1) A limited partnership interest in a fund investing in global infrastructure assets with a market value of $7.5M (2019 - $7.1M). This is a closed-end fund with no active market for its units and no published net asset value as at December 31, 2020 and, therefore, classified as level 3 investments in the fair market hierarchy. This fund has a 12-year life that commenced on October 30, 2013. The general partner has the option to extend the fund's life by 2 years;

(2) A limited partnership interest in a fund investing in global infrastructure assets with a market value of $9.3M (2019 - $7.1M). This is an open-ended fund that allows quarterly redemptions at net asset value, but with some restrictions. It is classified as a level 3 investment in the fair value hierarchy;

(3) A limited partnership interest in a fund investing in European real estate with a market value of $9.8M (2019 - $8.4M). This is a closed-end fund with no active market for its units and no published net asset value as of December 31, 2020 and is therefore classified as a level 3 investment in the fair value hierarchy. This fund has a 9-year life that commenced on August 22, 2014;

(4) A limited partnership interest in a fund investing in European real estate with a market value of $3.2M (2019 - $1.7M). This is a closed-end fund with no active market for its units and no published net asset value as of December 31, 2020 and is therefore classified as a level 3 investment in the fair value hierarchy. This fund has a 10-year life that commenced on March 29, 2018; and

(5) A limited partnership interest in a fund investing in global infrastructure assets with a market value of $2.0M (2019 - $nil). This is a closed-end fund with no active market for its units and no published net asset value as of December 31, 2020, and therefore classified as a level 3 investment in the fair value hierarchy. The fund has a 12-year life commenced on May 10, 2019. The general partner has the option to extend the fund's life by two years.

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5. Financial risk management (cont'd)

Liquidity risk
Liquidity risk is the risk that the Board will not be able to meet all cash outflow obligations as they come due. The Board mitigates this risk by monitoring cash activities and expected outflows. The Board's current liabilities arise as claims are made. The Board does not have material liabilities that can be called unexpectedly at the demand of a lender or claimant. The Board has no material commitments for capital expenditure and there is no need for such expenditures in the normal course of operations. Claim payments are funded by current operating cash flow including investment income.

There have been no significant changes from the previous year in the exposure to risk or policies, procedure and methods used to measure the risk.

6. Property and equipment

Accounting policy
Property and equipment are reported at cost less subsequent depreciation and impairment losses. The cost of property and equipment includes expenditures that are directly attributable to their acquisition or construction and any other cost directly attributable to the installation and decommissioning of the asset. Property and equipment are depreciated over their estimated lives on the straight line basis. Assets are depreciated at 50% of the applicable rate in the year of acquisition. When parts of an item of property and equipment have materially different useful lives or patterns of benefit consumption, they are accounted for separately (i.e., as major components). The rates used are as follows:

Buildings and components	10 to 40 years, straight line
Furniture and fixtures	10 years, straight line
Computer equipment	5 years, straight line

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

IAS 36, Impairment of Assets, requires an entity to test assets for impairment if indications of impairment exist. Based on an analysis of cash flows, the Board has established that the appropriate cash generating unit for impairment review is the entire entity. As the Board has the statutory power under the Act to increase premiums and/or impose levies to ensure full funding unto the foreseeable future, impairment at the entity level is remote. As at December 31, 2020, management conducted an impairment review at the entity level, which confirmed that there were no significant indicators of impairment which would have a material impact on the Board's ability to generate future economic benefits from its operating non-financial assets.

Workers Compensation Board of Prince Edward Island
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6. Property and equipment (cont'd)

Gross carrying amount	Land	Buildings	Furniture & Fixtures	Computer Equipment	**2020 Total**
Balance January 1, 2020	$ 368,460	$3,308,675	$ 724,919	$ 856,778	**$5,258,832**
Additions	-	237,654	89,106	83,407	**410,167**
Disposals	-	-	-	(5,890)	**(5,890)**
Balance December 31, 2020	368,460	3,546,329	814,025	934,295	**5,663,109**
Depreciation and impairment					
Balance January 1, 2020	-	(1,475,847)	(529,886)	(643,146)	**(2,648,879)**
Disposals	-	-	-	5,890	**5,890**
Depreciation	-	(130,184)	(51,481)	(91,441)	**(273,106)**
Balance December 31, 2020	-	(1,606,031)	(581,367)	(728,697)	**(2,916,095)**
Carrying amount Dec 31, 2020	**$ 368,460**	**$1,940,298**	**$ 232,658**	**$ 205,598**	**$2,747,014**

Gross carrying amount	Land	Buildings	Furniture & Fixtures	Computer Equipment	2019 Total
Balance January 1, 2019	$ 368,460	$3,123,589	$ 704,410	$ 803,248	$4,999,707
Additions	-	185,086	20,509	72,624	278,219
Disposals	-	-	-	(19,094)	(19,094)
Balance December 31, 2019	368,460	3,308,675	724,919	856,778	5,258,832
Depreciation and impairment					
Balance January 1, 2019	-	(1,356,535)	(494,751)	(576,363)	(2,427,649)
Disposals	-	-	-	18,941	18,941
Depreciation	-	(119,312)	(35,135)	(85,724)	(240,171)
Balance December 31, 2019	-	(1,475,847)	(529,886)	(643,146)	(2,648,879)
Carrying amount Dec 31, 2019	$ 368,460	$1,832,828	$ 195,033	$ 213,632	$2,609,953

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7. Intangible assets

Accounting policy
Computer software development expenditure is capitalized only if the directly related costs (both internal and external) can be measured reliably, the product or process is technically feasible, future economic benefits are probable and the Board has the intention and sufficient resources to complete development and to use the asset. Computer software assets are derecognized when these factors no longer exist. The capitalized expenditure includes the direct cost of materials and labour, but not administrative costs, including training. Other development expenditures are expensed as incurred if they do not meet the prescribed capitalization criteria. Similarly, costs associated with maintaining computer software programs in a functional condition, as originally intended, are expensed as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

The Board's intangible assets are comprised of computer software developed internally or acquired through third party vendors and customized as necessary. These costs are accounted for using the cost model whereby capitalized costs are amortized on a straight line or declining balance basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing.

Internally developed software is amortized on a straight line basis over 10 years for certain software and 3 years for other smaller software programs.

Computer software	**2020**	2019
Gross carrying amount		
Balance at January 1	**$ 6,586,355**	$ 5,708,640
Addition, separately acquired	**134,928**	877,715
Balance at December 31	**6,721,283**	6,586,355
Amortization and impairment		
Balance at January 1	**(4,573,139)**	(4,316,160)
Amortization	**(303,915)**	(256,979)
Balance at December 31	**(4,877,054)**	(4,573,139)
Carrying amount December 31	**$ 1,844,229**	$ 2,013,216

8. Bank indebtedness

The Board has a $1,000,000 unsecured operating line of credit of which $nil was used at December 31, 2020.

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9. Payables and accruals

	2020	2019
Trade and other payables	$ 1,271,384	$ 1,130,757
Accrued staff salaries	340,238	324,642
Accrued vacation pay	347,911	255,948
	$ 1,959,533	$ 1,711,347

10. Employee benefits

Accounting policy
Permanent employees of the Board participate in a defined benefit pension plan sponsored by the Province of Prince Edward Island. As these multi-employer plans meet the accounting requirements for treatment as defined contribution plans, the current year employer contributions are accounted for as current pension expense. The cost of retirement pay benefits earned by employees is actuarially determined using the projected unit credit method prorated on service. Benefits are projected with management's best estimate of salary escalations to retirement and then pro-rated based on service. Remeasurement changes in benefits liabilities, composed of actuarial changes in assumptions and experience gains and losses, are recognized in other comprehensive income.

Short-term benefits
The Board's short-term benefits for qualified active employees include base salary, compensated absences, group life insurance, dental and medical coverage.

Pension plan
The Board and its employees participate in a multi-employer contributory defined benefit pension plan, administered by the Province of Prince Edward Island under the Civil Service Superannuation Act. The Civil Service Superannuation Fund provides pensions to employees of the Provincial Government and certain Crown Corporations and agencies. Changes were made to the Civil Service Superannuation Act effective January 1, 2016. For service after 2013, the average salary used to determine pension benefits will be calculated using an average of all earnings indexed to the year of retirement. Also, for service after 2018, the age at which an unreduced pension is available will move from 60 to 62 and the years of service will move from 30 to 32. Retirement benefits will be indexed at 1.5% up until 2017. In 2017, pension benefits indexing will depend on the financial health of the fund. The plans are similar to state plans as defined in IAS 19 whereby they are established by legislation to provide retirement benefits for eligible provincial employees. State plans share similar characteristics as multi-employer plans and are treated as defined contribution plans under IAS 19. For these plans, the Board has no further payment obligations once the contributions have been paid. Since sufficient information is not readily available to account for the Board's participation in the plan using defined benefit pension plan accounting, these financial statements have been prepared using accounting rules for defined contribution pension plans. The current year expense for this pension plan is $482,401 (2019 - $446,440). As the Board maintains no obligation to cover funding deficiencies within the plan, should any exist, there are no provisions to be recorded for future funding obligations.

At March 31, 2020, the Civil Service Superannuation Fund reported that the pension plan was fully funded.

Workers Compensation Board of Prince Edward Island
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10. Employee benefits (cont'd)

Retirement pay benefits
The Board provides a retirement pay benefit equal to one weeks pay for each year of service, subject to a maximum benefit equal to 26 weeks pay. The retirement pay benefit is payable upon retirement. Unionized employees qualify at retirement if they have accrued 10 years of service and attained age 55. Non-unionized employees qualify at retirement if they have accrued 5 years of service and attained age 55, accrued 30 years of service (moving to 34 years of service as of December 2020), or accrued 5 years of service and die or become disabled. The significant actuarial assumptions adopted in measuring the Board's accrued retirement pay benefits obligations are a discount rate of 2.30% (2019 - 3.00%) and a rate of compensation increase of 3.5%. The retirement pay benefits liability has been estimated to equal $1,952,400 (2019 - $1,644,400) based on the last actuarial calculation as of December 31, 2020.

Other information about the Board's retirement pay benefits is as follows:

	2020	2019
Opening retirement pay benefits	**$ 1,644,400**	$ 1,613,500
Changes in retirement pay benefits	**18,900**	(75,500)
Change in assumptions	**132,900**	106,400
Change in experience adjustments	**156,200**	-
Ending retirement pay benefits	**$ 1,952,400**	$ 1,644,400

Employee benefits risks
The Board's defined benefit plan is indirectly exposed to economic risks with respect to measurement risk from assumptions based on economic factors, such as discount rates affected by volatile bond markets. Benefit obligations are exposed to uncertainty of future economic conditions, primarily inflation risk due to uncertainty of the timing of the payments.

Demographic factors affect current and future benefit costs with respect to the amount and time horizon of expected payments due to such factors as workforce average age and earnings levels, attrition and retirement rates.

The Board is also exposed to funding risk in the multi-employer plans arising from legislative changes affecting eligibility for and amount of pension and related benefits and performance of plan assets affected by investment policies set by the government. Because these plans are governed by legislation rather than contract, there is little flexibility for participants with respect to withdrawal from the plan, plan wind up or amendments, and funding requirements.

11. Benefits liabilities

The benefits liabilities represent the actuarial present value of all future benefit payments expected to be made for claims which occurred in the current fiscal year or in any prior year. The benefits liabilities include provision for all benefits provided by current legislation policies and administrative practices in respect of existing claims.

The Board believes that the amount provided for benefits liabilities as at December 31, 2020, is adequate, recognizing that actuarial assumptions as disclosed below may change over time to reflect underlying economic trends. When they do, it is possible to cause a material change in the actuarial present value of the future payments.

Benefits liabilities as at December 31, 2020, have been independently valued by the Board's external actuary. Benefits liabilities include a provision for all benefits provided by current legislation, Board policies, and administrative practices. These liabilities also include a provision for future expenses of administering those benefits. Benefits liabilities do not include a provision for benefits costs of self-insured employers.

Since the benefits liabilities of the Board are of a long-term nature, the actuarial assumptions and methods used to calculate the reported benefits liabilities are based on considerations of future expenses over the long-term. As the determination of these liabilities requires assumptions about economic and other events that may occur many years in the future, but which are based on best information as at the valuation date, a significant degree of professional judgement must be exercised in developing these assumptions. Accordingly, changes in future conditions within one year of the financial statement date could require a material change in the recognized amounts.

Key actuarial assumptions
Important components of the benefits liabilities are long-term in nature, meaning that many claims continue in payment for many years following the accident.

The independent consulting actuary makes significant estimates and judgments in respect of certain liability amounts disclosed in the financial statements and the discount rates used to calculate the present value of future benefit payments. These estimates and judgments are continually being evaluated and are based on historical experience, as well as enhancements to actuarial modeling techniques.

The key areas of significant estimates and judgments and the methodologies used to determine key assumptions are set out below.

A provision is made at year-end for the estimated cost of claims incurred but not settled at the balance sheet date. This provision includes the cost of claims incurred but not reported to the Board.

The estimation of outstanding benefits liabilities is based largely on the assumption that past developments are an appropriate predictor of the future and involves a variety of actuarial techniques that analyze experience, trends and other relevant factors. The process commences with the actuarial projection of the future claims payments and administration costs incurred to the reporting date. The various payment codes of the Board are grouped into a number of benefit categories and analyzed separately.

Modeling approaches are used to analyze and project the various benefit types. These approaches fall into three broad categories, which are as follows:

- Payments per claim for active long-term wage loss, pension and survivor claims;
- Projected payments based on past payment patterns for short-term disability, health care and the first seven years for long-term disability awards; and
- Estimated average benefit payments per claim for projected future long-term wage loss and physical impairment awards.

Workers Compensation Board of Prince Edward Island
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11. Benefits liabilities (cont'd)

Projected future claims payments and associated administration costs are obtained by examining the results from the above methods. This projection is made without bias toward over or under estimation. As such, the resulting estimate is considered to be a net central estimate of outstanding benefits liabilities that has an approximately equal chance of proving adequate as not.

The projected future claims payments are converted to inflated values, taking into account assumptions about future inflation. The present value of this liability is then calculated, by discounting the inflated cash flows to allow for future returns on the underlying assets using appropriate discount rates. Both implicit and explicit assumptions are made for future inflation. For the first fifteen years of the projection period for short-term disability, health care and the first seven years for long-term disability awards, the future inflation is implied in the development factors. Explicit future inflation assumptions are used for all other liability estimates.

The table below presents key assumptions used to determine the benefits liabilities.

	2020	2019
Gross rate of return	**5.50%**	5.50%
Real rate of return	**3.25%**	3.25%
Increase in inflation	**2.25%**	2.25%
Future administration	**6.50%**	6.50%
Latent occupational diseases	**7.50%**	7.50%

Process used to determine assumptions
A description of the processes used to determine these assumptions is provided below:

General statement
Assumptions are formulated to be consistent with the funding and investment policies adopted by the Board. Benefits liabilities are valued based on the primary assumption that the system will be in operation for the very long-term. Hence, the focus is on long-term trends as opposed to short-term fluctuations around those trends.

Gross rate of return
The gross rate of return reflects the best estimate of the long-term average rate of return that can be expected using the benchmark asset allocation adopted by the Board in its statement of investment policies and beliefs. The process is based on the estimate of a real rate of return that is then compounded with the long-term average future inflation estimate to obtain the gross rate of return.

Future awards liabilities
For the purposes of projecting future cash flows for the future award liabilities, other than those for future extended wage loss awards, the calculation uses a weighted average of payments made over the 2018 to 2020 period. The weightings are 17% of 2018, 33% of 2019, and 50% of 2020, all adjusted to constant 2020 dollars. In the case of medical aid and hospital expenses, certain large individual cases that are expected to require long-term care have been removed from historical data. For these cases, the ongoing payments have been estimated based on an analysis of the individual file.

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11. Benefits liabilities (cont'd)

Pension in pay
The liabilities in respect of pensions and extended wage loss awards, including survivor benefits that are already in payment, are included in this category. Cash flows, in respect of these categories have been projected on an individual claimant basis using mortality as the only decrement. No provision for termination of benefits from other causes such as recoveries has been made. To the extent such terminations occur, there will be a gain.

Future extended wage loss awards
Included in the valuation is a provision for future extended wage loss awards. A claims run off table has been developed based in part on the Board's limited experience with respect to wage loss claims. This table is used to predict the emergence of future extended wage loss claims. The table was developed using a run off table used by another Board with legislation similar to Prince Edward Island's with experience modifications noted in Prince Edward Island as compared to the other jurisdiction.

Future administration
When a claim occurs, it triggers an obligation to provide claims management, maintenance and support in terms of paying the various providers of health care services and compensating workers for lost wages for as long as the claim is open. The future administration expense liability is intended to provide a reasonable allowance for this obligation. A detailed review of future administration expenses is conducted periodically. In this review an estimate is made of the portion of operating expenses that can be attributed to claims maintenance, including a proportionate share of overhead expenses. Based on this review, a liability for future administration expenses of 6.5% of the total benefits liability is included in the liability estimate (before the provision for latent occupational disease). A 7.5% provision for latent occupational disease claims expected to be diagnosed after December 31, 2020 has been made.

An analysis of the components of and changes in benefits liabilities is as follows:

	Temporary wage loss	Pension and extended wage loss	Health care	Rehabilitation	Administration	**2020** **Total**	2019 Total
Balance, beginning of year	$11,012,000	$ 95,427,000	$ 34,353,000	$ 1,636,000	$ 9,258,000	**$ 151,686,000**	$ 151,800,000
Expected increase	594,000	5,256,000	1,866,000	86,000	507,000	**8,309,000**	8,339,000
Assumption changes	-	-	-	-	-	**-**	(645,000)
Experience (gains) losses	40,000	(7,406,000)	(270,000)	385,000	(471,000)	**(7,722,000)**	(7,410,000)
	11,646,000	93,277,000	35,949,000	2,107,000	9,294,000	**152,273,000**	152,084,000
Costs incurred	6,900,000	9,112,000	7,059,000	545,000	1,535,000	**25,151,000**	26,045,000
	18,546,000	102,389,000	43,008,000	2,652,000	10,829,000	**177,424,000**	178,129,000
Payments made	(7,311,000)	(8,838,000)	(7,907,000)	(682,000)	(1,608,000)	**(26,346,000)**	(26,443,000)
	$11,235,000	$ 93,551,000	$ 35,101,000	$ 1,970,000	$ 9,221,000	**151,078,000**	151,686,000
Latent occupational diseases						**11,331,000**	11,376,000
Balance, end of year						**$ 162,409,000**	$ 163,062,000

Workers Compensation Board of Prince Edward Island
Notes to the Financial Statements
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11. Benefits liabilities (cont'd)

Benefits liabilities of self-insured employers are not included in the benefits liability. These liabilities will be borne by those employers when paid in the future years. They do not add to the Board's liabilities on its net fund balance.

Current year injuries

	2020		
	Current year cost	**Present value of future costs**	**Total incurred claims**
Health care	$ 1,853,000	$ 5,206,000	**$ 7,059,000**
Temporary wage loss	2,578,000	4,322,000	**6,900,000**
Rehabilitation	-	545,000	**545,000**
Lump sums	145,000	328,000	**473,000**
Future permanent awards	-	8,639,000	**8,639,000**
Administration	297,000	1,238,000	**1,535,000**
Total	**$ 4,873,000**	**$ 20,278,000**	**$25,151,000**

	2019		
	Current year cost	Present value of future costs	Total incurred claims
Health care	$ 2,546,000	$ 4,712,000	$ 7,258,000
Temporary wage loss	3,179,000	4,213,000	7,392,000
Rehabilitation	7,000	478,000	485,000
Lump sums	104,000	337,000	441,000
Future permanent awards	-	8,839,000	8,839,000
New permanent awards	5,000	35,000	40,000
Administration	380,000	1,210,000	1,590,000
Total	$ 6,221,000	$ 19,824,000	$26,045,000

Workers Compensation Board of Prince Edward Island
Notes to the Financial Statements
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11. Benefits liabilities (cont'd)

Reconciliation of movement in benefits liabilities

	2020	2019
Balance, beginning of year	**$ 163,062,000**	$ 158,631,000
Expected increase	**8,309,000**	8,339,000
Payments and other transitions	**(26,346,000)**	(26,443,000)
Balance, end of year for prior accident years	**145,025,000**	140,527,000
Impact of experience (gains) losses on change in liability for prior accident years due to:		
Mortality and termination	**(1,300,000)**	(2,300,000)
Award inflation less than expected	**-**	(500,000)
New awards	**(4,900,000)**	(3,600,000)
Change in expected claim run-off	**(1,200,000)**	900,000
Difference between actual and expected payments	**200,000**	(1,200,000)
Other	**(522,000)**	(710,000)
Total change in liability	**(7,722,000)**	(7,410,000)
Assumption changes	**-**	(645,000)
Change in latent occupational diseases liability	**(45,000)**	4,545,000
Liability for new accidents	**25,151,000**	26,045,000
	25,106,000	29,945,000
Balance, end of year	**$ 162,409,000**	$ 163,062,000

Claims development

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Board's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims, the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The table that follows presents the development of claims payments and the estimated ultimate cost of claims for the claim years 2011 to 2020. The upper half of the table shows the cumulative amounts paid or estimate to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

Workers Compensation Board of Prince Edward Island
Notes to the Financial Statements
December 31, 2020

11. Benefits liabilities (cont'd)

		($'000) Accident year										
	Year of estimate	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Estimated total cash flow (including past and future cash flows)	2011	$ 29,273										
	2012	28,208	$ 31,901									
	2013	26,348	29,649	$ 32,752								
	2014	25,585	27,025	28,539	$ 33,271							
	2015	25,638	28,580	28,182	30,346	$ 32,825						
	2016	24,243	27,064	25,792	28,515	28,898	$ 32,894					
	2017	23,430	25,878	24,325	25,723	26,011	30,869	32,645				
	2018	22,704	27,439	22,944	23,831	22,432	27,577	29,526	$ 31,569			
	2019	22,192	26,741	22,309	21,727	20,618	25,388	30,306	31,161	$ 35,908		
	2020	21,370	25,905	22,486	21,612	19,732	22,300	27,207	29,577	34,912	$ 34,918	
Current (2020) estimate of total cash flow		$ 21,370	$ 25,905	$ 22,486	$ 21,612	$ 19,732	$ 22,300	$ 27,207	$ 29,577	$ 34,912	$ 34,918	$ 260,019
Total cash flows paid December 31, 2020		(15,942)	(16,916)	(14,465)	(13,583)	(12,525)	(12,473)	(12,984)	(11,301)	(11,239)	(4,576)	(126,004)
Estimated future cash flows		5,428	8,989	8,021	8,029	7,207	9,827	14,223	18,276	23,673	30,342	134,015
Impact of discounting		(2,099)	(3,397)	(3,069)	(3,206)	(3,050)	(3,771)	(5,336)	(6,945)	(9,033)	(10,979)	(50,885)
Liability for accident years 2011 - 2020		$ 3,329	$ 5,592	$ 4,952	$ 4,823	$ 4,157	$ 6,056	$ 8,887	$ 11,331	$ 14,640	$ 19,363	83,130
Liability for accident years 2010 and prior												58,727
Claims administration												9,221
Latent occupational diseases liability												11,331
Balance sheet liabiltiy at December 31, 2020												**$ 162,409**

Workers Compensation Board of Prince Edward Island
Notes to the Financial Statements
December 31, 2020

11. Benefits liabilities (cont'd)

Claims risk
Because there is no statutory limit on the benefit amount payable or the duration of the risk exposure related to work related injuries, the Board bears risk with respect to its future claims costs, which could have material implications for liability estimation. In determining the Board's claim benefit liabilities, a primary risk is that the actual benefits payments may exceed the estimation of the amount of the liabilities. This may occur due to changes in claim reporting patterns, frequency and/or size of claim payments or duration of claims. Compensable injuries and benefits payable may also change due to legislation or policy changes. With potentially long claim run off periods, inflation is also a factor because future costs could escalate at a faster rate than expected.

Sensitivity of actuarial assumptions
The benefits liabilities are determined by using many actuarial assumptions. The two most significant assumptions are the real rate of return and inflation rate. The liability estimates are highly sensitive to small changes in these assumptions. The following table presents the sensitivity of the liabilities to the following change in the real rate of return and inflation rate:

	2020	2019
1% Decrease in real rate of return	**$ 11,431,000**	$11,570,000
1% Increase in healthcare inflation rate	**$ 3,919,000**	$ 3,942,000
1% Decrease in real rate of return, 1% increase in inflation	**$ 10,389,000**	$10,504,000

12. Self-insured employers

Self-insured employers, principally the Government of Canada, whose claims are administered by the Board, directly bear the cost of their own incurred claims plus an administration fee. The total amount of the administration fee is included in the statement of operations and fund balance and for 2020 was $249,988 (2019 - $258,601). Assessments are net of the amount received from self-insured employers and accordingly claim costs do not include self-insured claims. Monies paid to the WCB for the reimbursement of these claims are reflected in the Statement of Cash Flow as cash received from self-insured employers for assessments, and monies paid out relating to these claims are recorded as cash paid out to claimants or third parties on their behalf. The total self-insured claims costs incurred for 2020 are as follows:

	2020	2019
Short-term disability	**$ 153,461**	$ 171,231
Long-term disability	**357,803**	367,582
Health care	**243,854**	213,459
	$ 755,118	$ 752,272

Workers Compensation Board of Prince Edward Island
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13. Funding strategy and capital management

The capital management objectives reflect the mandate that a fully funded compensation system is essential for securing financial obligations associated with the payment of current and future worker benefits and the administration of an effective workers compensation system.

The Board's funded position is defined by the relationship of totals assets to total liabilities. At December 31, 2020, the funded ratio was 155.4% (2019 – 147.8%).

The process for managing the Board's funded position is determined based on its approved funding policy (POL-136) and will target a funding status in the range of 100% - 125% and includes specific adjustments to be applied to the assessment rate setting process should the funding status fall outside this range. This permitted excess of assets over liabilities reduces the impact of year to year fluctuations; therefore, providing assessment rate stabilization and enhanced security that awarded benefits will be met.

14. Legislative obligations and other related party transactions

Included in these financial statements are transactions with various Prince Edward Island crown corporations, departments, agencies and Boards related to the Board by virtue of common influence by the Government of Prince Edward Island. Routine operating transactions in the ordinary course of business with related parties are settled at prevailing market prices under normal trade terms.

The Board is required by the *Workers Compensation Act* (the Act) to provide an annual grant to the Workers' Advisor Program. The Workers' Advisor Program operates autonomously from the Board and assists workers or dependants of workers in respect of claims for compensation. During the year, the Board paid $154,385 (2019 - $104,261) of the Program's expenses.

The Board is required by the Act to provide an annual grant to the Employers' Advisor Program. The Employers' Advisor Program operates autonomously from the Board and assists employers in respect of classifications, assessments and claims for compensation. During the year, the Board paid $115,084 (2019 - $113,052) of the Program's expenses.

The Board is required by the Act to pay the operating costs of the Appeals Tribunal. During the year, the Board paid $108,494 (2019 - $129,710) to cover the operating costs of the Tribunal.

The table below presents total compensation of the key management group, which includes the Board of Directors and senior executive staff.

	2020	2019
Short-term employee benefits	**$ 666,386**	$ 635,750
Post employment benefits	**118,080**	112,879
	$ 784,466	$ 748,629

Workers Compensation Board of Prince Edward Island
Notes to the Financial Statements
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15. Comparative figures

Certain comparative figures have been reclassified to conform to current year financial statement presentation.

Workers Compensation Board of Prince Edward Island
Schedule of Administration Expenses

Year ended December 31	Notes	2020	2019
Building operating costs		$ 153,589	$ 168,847
Communications, printing and supplies		101,550	156,528
Computer maintenance		282,927	242,084
Depreciation		577,021	497,150
Dues and fees		72,830	69,052
Insurance		45,459	17,708
Interest and bank charges		226,769	265,627
Miscellaneous		35,436	41,681
Postage		64,637	90,336
Professional development		58,523	98,423
Professional fees		424,631	667,516
Salaries			
Board members		46,448	45,420
Staff members		5,881,071	5,715,828
Benefits		1,028,615	990,484
Retirement benefits		164,348	229,763
Telephone		141,051	99,423
Travel		76,994	192,483
		9,381,899	9,588,353
Less allocation to benefits liabilities	11	(1,608,000)	(1,614,000)
		$ 7,773,899	$ 7,974,353