



Chris Palmer was elected to the Prince Edward Island Legislature in a by-election held on October 17, 2016, as the representative for District 21, Summerside-Wilmot. He was sworn in as Minister of Economic Development and Tourism on January 10, 2018.

105 Rochford Street Charlottetown, PE C1A 7N8 North 5th Floor (902) 368-4230 clpalmer@gov.pe.ca

Message from the Minister

September 19, 2018

The Honourable Antoinette Perry

Lieutenant Governor of Prince Edward Island

May It Please Your Honour:

Pursuant to the Annual Reporting Framework of the Financial Administration Act governing Crown Corporations, I am pleased to present to you, the Annual Report of Finance PEI for the fiscal year ending March 31, 2018.

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

Sincerely yours,

Hon. Chris Palmer

Minister of Economic Development and Tourism

Message from the Chairperson

September 19, 2018

The Honourable Chris Palmer

Minister of Economic Development and Tourism Province of Prince Edward Island

Dear Minister:

I take pleasure in presenting you with the Annual Report for the fiscal year ending March 31, 2018.

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

Sincerely yours,

Gordon MacInnis

Chairperson, Board of Directors - Finance PEI

Message from the CEO

September 19, 2018

The Honourable Chris Palmer

Minister of Economic Development and Tourism Province of Prince Edward Island

Dear Minister:

I present to you the Annual Report for the fiscal year ending March 31, 2018.

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

Sincerely yours,

Jamie Aiken

Chief Executive Officer - Finance PEI

Table of Contents

Message from the Minister2	
Message from the Chairperson3	
Message from the CEO4	
Table of Contents5	
Executive Summary6	
Résumé7	
Overview8	
Year in Review Financing Portfolio9	
Year in Review Strategic Initiatives and Properties14	
Appendix A Board of Directors15	
Appendix B Organizational Chart16	
Appendix C Audited Financial Statements17	

Executive Summary

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

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

FPEI consists of three divisions including:

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

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

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

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

During 2017/18, FPEI supported 961 business operators across PEI with a loan portfolio of approximately \$209 million.

FPEI also administers specific programs including: the Farmland Financing Program, the Cattle Loan Program, the Fishers Low Interest Loan Program, the Micro-Loan Program, the Entrepreneur Loan Program, the Century 2000 Fund, and the Winter Production Financing Program which is now part of the Micro-Loan Program.

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

Résumé

Finances Î. - P. - É. est une société de la Couronne qui relève du ministère du Développement économique et du Tourisme. Créée afin de regrouper les services gouvernementaux de financement et d'infrastructure stratégique pour la province de l'Île-du-Prince-Édouard, la société est chargée d'administrer des programmes de financement d'entreprises pour le gouvernement provincial.

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

La société est répartie en trois divisions :

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

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

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

Finances Î.-P.-É. oeuvre surtout dans les secteurs prioritaires suivants: petite entreprise, fabrication et transformation, technologies de l'information, agriculture, pêches et aquaculture, et tourisme. La société cherche surtout à appuyer les entreprises qui s'intéressent à l'exportation vers les marchés nationaux et internationaux, au remplacement des importations et à la transformation à valeur ajoutée. Les petites et moyennes entreprises sont des moteurs clés qui stimulent l'économie de l'Île-du-Prince-Édouard, et l'accès au capital financier est essentiel pour que les entreprises puissent prendre de l'expansion et atteindre leur plein potentiel.

En 2017-2018, Finances Î.-P.-É. a appuyé quelque 961 exploitants commerciaux de l'Île. Son portfolio de prêt valait environ 209 millions de dollars.

La société administre également plusieurs programmes, dont le Programme de financement des terres agricoles, le Programme de prêts pour les éleveurs de bovins, le Programme de prêts à intérêt réduit pour les pêcheurs, le Programme de microprêts, le Programme de prêts à l'entrepreneuriat, le Fonds Century 2000 et le Programme de financement pour la production hivernale, qui fait maintenant partie du Programme de microprêts.

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

Overview

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

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

Legislative Responsibility

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

Objectives

FPEI operates under the following mandated objectives:

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

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

Mission Statement of Finance PEI

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

Commercial and Resource Lending Division

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

Developmental Lending Division

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

Strategic Initiatives and Properties Division

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

Year in Review | Financing Portfolio

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

FPEI assisted 961 businesses in 2017/18 to grow and prosper. Many sectors experienced significant economic growth. Some of the PEI economic indicators noted international exports were at \$1.32 billion in 2016, manufacturing shipments experienced 4.7% growth and farm cash receipts grew by 2.1%.

The Seafood industry in PEI, fisheries and aquaculture, represents 3% of our GDP and contributes significantly to our economy. We are more reliant on the fishery than any other province in Canada. FPEI supports 607 fishers with a portfolio valued at \$89.9M Some of the key highlights of the fisheries include:

- PEI Seafood Industry has an economic value of approx \$483 M
- Lobster landings in 2017 were valued at \$226
 M which is \$33 M more than 2016
- International exports increased 4.6 per cent in 2017. This compares to growth for all of Canada at 5.6 per cent.
- In Canada, on an annual basis PEI accounts for 80% of mussel production, 26% of oyster production, 15% of lobster production and 3% of crab production that are exported around the world and are critical to a variety of market agreements (Canadian European Trade Agreement, Canada-Korea Trade Agreements, Trans Pacific Strategic Economic Partnership).

We are proud to support a diverse range of businesses across PEI. Companies that we support help communities prosper, with approximately 62% of our loans classified as rural PEI assistance.

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



Agriculture

The agriculture portfolio supported 116 farmers representing a variety of farming operations including dairy, beef, poultry, cultivated blueberries, cranberries and potatoes. As of March 31, 2018, outstanding loans in the agriculture portfolio were approximately \$32 million. The agriculture portfolio was relatively unchanged from 2016, however the client base increased by 3.5%. Loans are available for the purchase of farm lands and buildings, livestock, farm equipment, storage facilities, construction and repairs to barns and land improvements.

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

In April 2015 FPEI launched the Cattle Feeder Program for eligible farmers to stimulate economic growth and expansion of the beef industry. This new program will support the breeding and raising of animals destined for the Atlantic Beef Plant. In 2017-18, seven farmers participated in the program with loans outstanding of \$393,000.

The Agriculture sector had another strong year with farm cash receipts totaling \$362.9 M, which was a slight decrease of 0.1 per cent compared to the same period in 2016.



Fisheries and Aquaculture

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

The majority of the 607 clients in 2017-18 represent the three major fisheries in Prince Edward Island: lobster, mussels, and oysters.

The total loan portfolio for fisheries and aquaculture was approximately \$89.9 million in 2017/18, representing an increase of 4.3% over last year. In addition to the growth in the portfolio, the client base decreased by 26 clients. FPEI is diligent and works closely with clients to develop effective plans that ensure repayment is achieved.



Manufacturing and Processing

FPEI provides both term financing for fixed asset acquisitions and operating capital to

finance the accounts receivable and inventory for manufacturing and processing clients. In 2017/18 this portfolio had 71 clients with a loan portfolio of approximately \$29.4 million. This portfolio is quite diverse including businesses involved in furniture, fixture and equipment manufacturing, food and wood processing, fruit processing, as well as metal and machine fabricating.

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

Manufacturing shipments have increased by 8.4 per cent in 2017, which set an all time high at \$1.8 billion. This is the 8th consecutive year, since 2010 that manufacturing shipments has seen an increase in PEI



Small Business

The small business program is designed to meet the special needs of local business owners for purposes such as business purchase and/ or acquisition, expansion, debt consolidation, and new construction. The program does not provide working capital to businesses in this sector.

This loan portfolio has 103 clients with approximately \$19.9 million in loans outstanding, a slight decrease from the prior year, attributable mostly to the normal amortization of the loans, although there was a 3% increase in the number of clients served in this portfolio.



Tourism

FPEI provides capital financing to clients in this sector for the acquisition, renovation and expansion of tourism related businesses. The existing portfolio is made up primarily of loans for fixed roof accommodations (motels/cottage operations) and campgrounds. This loan portfolio supports 31 businesses, with approximately \$32.8 million in loans which is a 5.8% increase from the prior year.

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

Tourism has remained positive on the island this year. Total overnight stays in PEI increased by 6.5 per cent in 2017, where we exceeded 1 million stays for the first time.



Fund Management & Lending

IIDI also administers the PEI Century 2000 Fund Inc. (PEICF), which was created to support the growth and needs of the private sector and stimulate economic development. Through this fund, IIDI invests federal immigrant funds through strategic low interest financing to PEI businesses where there will be significant economic benefit to the Province.

General lending conditions associated with PEICF loans are as followed:

- Loans are available for a term of five years;
- Loans bear interest at an annual rate of 4%. The annual rate is comprised of PEICF's cost of borrowing from the Federal Immigration Fund, the cost to administer the loan portfolio and the risk associated with the lending activities;
- Renewal financing is available for existing loans for one additional five-year term, using either a floating rate of prime plus a minimum of 1.25% pending on eligibility or a fixed rate equal to the posted five-year rate at a chartered bank;
- PEICF seeks similar security packages as would be ordinarily sought by a traditional chartered bank.

PEICF's lending activities are aligned with provincial priorities and Innovation PEI's Strategic Sectors. On occasion PEICF may also finance certain projects that may fall outside of PEI's Strategic Sectors, which have significant economic benefits to the provincial economy. Some examples of PEICF's strategic lending activities include participation on

certain major projects undertaken in Albany, Bloomfield, Montague and Slemon Park and across other communities across the province that will significantly contribute to the future economic prosperity of these communities and the province.

At fiscal year-end financing approved for several projects remained undisbursed and therefore is not reflected in the value of loans outstanding. In many instances PEICF works in partnership with traditional lending institutions, Federal Government agencies and other local economic development agencies to complete financing packages for projects.

During 2017/18, IIDI supported 75 PEI businesses across PEI with a loan portfolio of approximately \$154 Million.



Loan Write-Offs

Government lending provides important support to island businesses as we expand, develop new products, and grow our economy. At the same time, good government means ensuring Islanders are kept informed of these investments and any change in status. As part of our ongoing commitment to enhance transparency, FPEI is publishing loan write-offs within annual reports. At the end of 2017/18 the loan portfolio was \$201,685,349 with \$795,067 loans written off during the year. This represents less than 0.4% of the portfolio.

Entrepreneur Loan

The Entrepreneur Loan Program that was launched in 2013 is an initiative of the Province of Prince Edward Island designed to help increase the availability of financing for the purpose of helping new businesses get started and established firms make improvements and expand. More specifically, the Program is designed to assist small businesses throughout the Province by providing entrepreneurs with up to \$100,000 in financing for business ventures with solid business plans and markets. The program supported 25 entrepreneurs in 2017/18 with a portfolio totaling \$675,000.

Micro-Loan Program

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

The program supported 21 entrepreneurs with loans totalling \$200,000.

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

Down Payment Assistance Program

Subsequent to year end, under the Province's "Housing Action Plan" issued in July 2018, Finance PEI was tasked with developing and implementing a pilot program to assist Prince Edward Islander's with modest incomes, who pre-qualify for an insured mortgage, to purchase their first home. Eligible participants can apply to receive an interest-free repayable loan of up to 5% of the purchase price of a home.

The program was still in development at the time of publishing of this report.

Year in Review | Strategic Initiatives and Properties



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

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

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

Appendix A | Board of Directors

Gordon MacInnis | Chairperson

Tourism

David Keedwell

Deputy Minister | Department of Economic Development and Tourism

Dan Campbell

Secretary | Treasury Board

Jamie Aiken

CEO | Finance PEI (non-voting member)

Don Godfrey

Agriculture

John Sullivan

Fisheries

Laird King

Agriculture

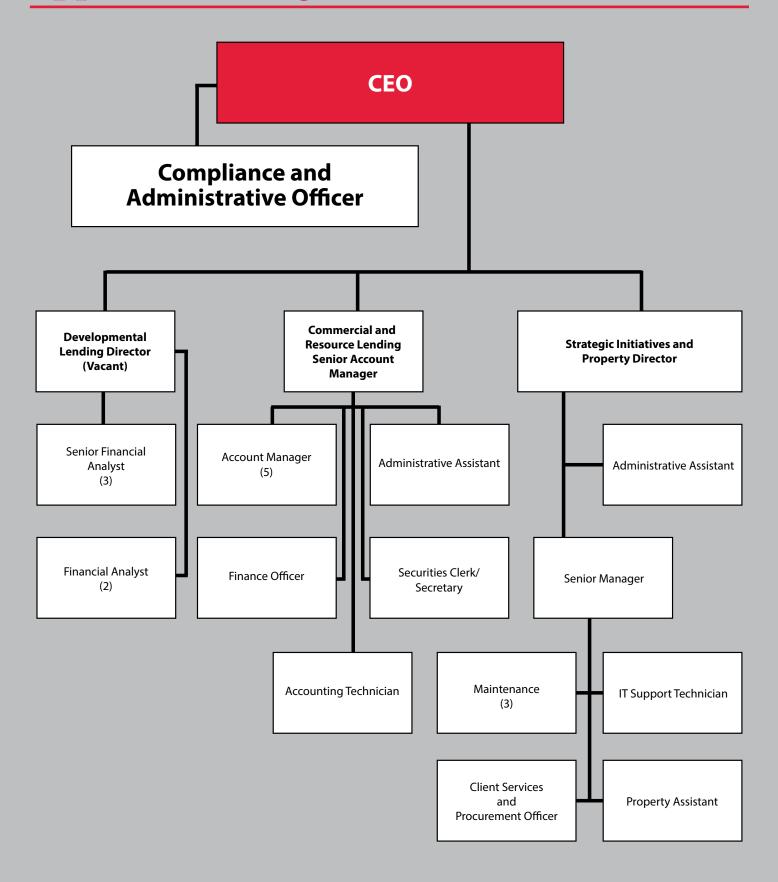
Cora Lee Dunbar

General and Small Business

Muncey Harris

Agriculture

Appendix B | Organizational Chart



Appendix C | Audited Financial Statements

Consolidated Financial Statements March 31, 2018

Management's Report

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

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

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

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

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

On behalf of Finance PEJ

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



Member of The AC Group of Independent Accounting Firms

Chartered Professional Accountants & Business Advisors
Prince Edward Place
18 Queen Street, Suite 100
PO Box 455
Charlottetown, Prince Edward Island
Canada C1A 7L1
Telephone (902) 368-3100
Fax (902) 566-5074
www.acgca.ca

June 12, 2018

Independent Auditor's Report

To the Board of Directors of Finance PEI

We have audited the accompanying consolidated financial statements of **Finance PEI**, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statements of operations, accumulated surplus, changes in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of **Finance PEI** as at March 31, 2018, and the consolidated results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

arsenault Best Cameron Ellis

Chartered Professional Accountants

Consolidated Statement of Financial Position As at March 31, 2018

	2018 \$	2017 \$
Assets		
Financial assets		
Cash	1,346,939	1,038,614
Accounts receivable (notes 2 and 11)	674,354	932,265
Loans receivable (notes 3 and 11)	170,262,680	166,362,914
Advances to related companies (note 11)	163,150	39,292
Due from the Province of Prince Edward Island (note 11)	11,163,650	11,163,650
Investment in private companies (note 4)	120,001	120,001
	183,730,774	179,656,736
Liabilities		
Accounts payable and accrued liabilities (note 11)	1,586,738	1,584,298
Deferred revenue	1,262,893	1,266,236
Advances from related companies (note 11)	14,578,417	13,909,214
Short-term notes payable (note 5)	19,695,142	20,558,618
Long-term debt (note 6)	148,767,362	146,669,074
	185,890,552	183,987,440
Net debt	(2,159,778)	(4,330,704)
Contingent liabilities (note 9)		
Non-financial assets		
Prepaid expenses	111,348	109,350
Net investment in lease (note 7)	646,053	670,896
Foreclosed properties (note 8)	312,727	600,260
Property holdings (notes 6 and 11) (Schedule 2)	30,486,228	29,203,215
	31,556,356	30,583,721
Accumulated surplus	29,396,578	26,253,017

Approved by the Board of Directors

Director

Director

ArsenaultBestCameronEllis

Consolidated Statement of Accumulated Surplus For the year ended March 31, 2018

	2018 \$	2017 \$
Accumulated surplus - Beginning of year	26,253,017	24,217,074
Operating surplus	3,143,561	2,035,943
Accumulated surplus - End of year	29,396,578	26,253,017

Consolidated Statement of Operations For the year ended March 31, 2018

	Budget (Unaudited) \$	Actual 2018	Actual 2017 \$
Revenue			
Interest from borrowers	9,320,000	9,133,100	8,767,874
Interest from deposits	30,000	32,166	36,146
Property operations (note 11)	4,135,000	4,298,621	4,605,126
Post-receivership income	#C	1,390	1,648
Management fees (note 11)	500,000	500,000	500,000
Gain on disposal of property holdings	= 1000 = 1000 = 1000		58,261
Miscellaneous	125,000	126,697	112,305
	14,110,000	14,091,974	14,081,360
Expenses (notes 6 and 11) (Schedule 1)			
Administration (note 1)	608,700	665,095	644,966
Lending operations	5,165,300	5,030,579	5,230,349
Property operations (note 1)	4,832,200	5,262,960	4,990,454
Provision for (recovery of) possible losses	1,700,000	(10,221)	1,179,648
	12,306,200	10,948,413	12,045,417
Operating surplus	1,803,800	3,143,561	2,035,943

Consolidated Statement of Changes in Net Debt For the year ended March 31, 2018

	2018 \$	2017 \$
Annual surplus	3,143,561	2,035,943
Acquisition of property holdings Amortization of property holdings Loss (gain) on disposal of property holdings Proceeds on disposal of property holdings Transfer to foreclosed properties Transfer of provision to foreclosed properties Payments received on foreclosed properties Disposal of foreclosed properties	(4,027,989) 1,360,794 31,380 1,352,802 (2,064,881) 2,039,243 313,171	(2,684,748) 1,400,634 (58,261) 107,837 (2,851,841) 1,995,792 268,613 130,994
	(995,480)	(1,690,980)
Increase in prepaid expenses	(1,998)	(741)
Change in net investment in lease	24,843	23,944
	(972,635)	(1,667,777)
Decrease in net debt	2,170,926	368,166
Net debt - Beginning of year	(4,330,704)	(4,698,870)
Net debt - End of year	(2,159,778)	(4,330,704)

Consolidated Statement of Cash Flows

For the year ended March 31, 2018

	2018 \$	2017 \$
Cash provided by (used in)	3	3
Operating activities Operating surplus Items not affecting cash	3,143,561	2,035,943
Amortization	1,360,794	1,400,634
Change in net investment in lease	24,843	23,944
Provision for (recovery of) possible losses	(10,221)	1,179,648
Gain on disposal of property holdings	31,380	(58,261)
	4,550,357	4,581,908
Net change in non-cash working capital items	257.011	(272 508)
Decrease (increase) in accounts receivable	257,911	(372,508)
Increase in prepaid expenses	(1,998)	(741) 183,789
Increase in accounts payable and accrued liabilities Decrease in deferred revenue	2,440 (3,343)	(275)
	4,805,367	4,392,173
Financing activities		
Increase in advances from related companies	669,203	492,223
Decrease (increase) in advances to related companies	(123,858)	31,855
Increase in short-term notes payable		5,112,242
Repayment of short-term notes payable	(863,476)	(90,870)
Increase in long-term debt	16,200,000	16,700,000
Repayment on long-term debt	(14,101,712)	(26,756,749)
	1,780,157	(4,511,299)
Investing activities		
Decrease (increase) in loans receivable	(3,889,545)	1,393,685
Decrease in investment in private companies	(4.000.000)	130,000
Additions to and purchases of property holdings	(4,027,989)	(2,684,748)
Reductions and proceeds on disposal of property holdings	1,352,802	107,837
Additions to foreclosed properties	(2,064,881)	(2,851,841)
Disposal of foreclosed properties	313,171	130,994 268,613
Payments received on foreclosed properties Decrease in foreclosed properties	2,039,243	1,995,792
Decrease in lord-load properties	(6,277,199)	(1,509,668)
Change in each		(1,628,794)
Change in cash	308,325	
Cash - Beginning of year	1,038,614	2,667,408
Cash - End of year	1,346,939	1,038,614

Notes to Consolidated Financial Statements March 31, 2018

1 Summary of significant accounting policies

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

a) General

These consolidated financial statements include the accounts of the wholly-owned subsidiaries, Atlantic Technology Centre Inc., P.E.I. Infrastructure Inc. and 100417 P.E.I. Inc., all having March 31, 2018 year ends.

b) Financial instruments

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

c) Cash

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

d) Accounts receivable

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

e) Loans receivable

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

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

f) Due from Province of Prince Edward Island

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

Notes to Consolidated Financial Statements March 31, 2018

g) Investments in private companies

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

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

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

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

h) Property holdings, foreclosed properties and amortization

i) Property holdings

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

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

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

Included in property operations expense is amortization of \$1,292,996 (2017 - \$1,333,178). Included in administration expenses is amortization of \$67,798 (2017 - \$67,456).

ii) Foreclosed properties

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

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

Notes to Consolidated Financial Statements March 31, 2018

iii) Fair value

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

i) Net investment in lease

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

j) Allowance for possible losses

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

The allowance consists of specific and general provisions.

Specific provisions include the accumulated allowances for losses on particular assets required to reduce the book values to estimated realizable amounts. Specific provisions for loans receivable, accounts receivable, investments in private companies and foreclosed properties total \$25,625,322 (2017 - \$25,770,413).

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

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

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

A general provision of \$13,239,608 (2017 - \$13,666,577) includes accumulated allowances for losses which are prudential in nature and are not specifically identified. The general provision is based on past performance of similar assets, the level of the specific provision, management's judgment, the economic climate and the maturity and financial strength of the investee.

k) Employee pension plan

The Corporation's staff are members of the Province of Prince Edward Island pension plan. The pension plan obligation is a liability of the Province and not Finance PEI and no liability for these costs has been accrued by the Corporation at March 31, 2018.

Notes to Consolidated Financial Statements

March 31, 2018

I) Post retirement benefits

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

m) Deferred revenue

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

n) Revenue recognition

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

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

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

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

o) Government transfers

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

p) Management estimates

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

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



Notes to Consolidated Financial Statements March 31, 2018

2 Accounts receivable

The accounts receivable have been reduced by an allowance for possible losses of \$700,518 (2017 - \$608,232).

3 Loans receivable

				2018	2017
	Total \$	Allowance for possible losses General \$	Allowance for possible losses Specific \$	Net \$	Net \$
Working capital loans					
Agriculture	3,406,650	1,400,000	1,401,097	605,553	411,109
Tourism	2,194,290	166,071		2,028,219	1,855,956
Manufacturing and processing	2,386,340	360,851	67,379	1,958,110	1,518,866
Fisheries	1,252,750	-		1,252,750	1,011,417
Small business	2,418,430	666,649	93,000	1,658,781	1,642,069
	11,658,460	2,593,571	1,561,476	7,503,413	6,439,417
Long-term loans					
Agriculture	24,687,300	2,409,381	4,350,733	17,927,186	17,378,597
Tourism	30,345,591	589,890	8,550,000	21,205,701	20,602,487
Manufacturing and processing	27,226,038	2,324,461	335,698	24,565,879	25,708,896
Fisheries and aquaculture	87,113,052	4,025,000	1,677,469	81,410,583	77,833,757
Small business	20,365,236	1,297,305	1,707,685	17,360,246	17,853,987
Eco energy	128,836	·w		128,836	276,695
	189,866,053	10,646,037	16,621,585	162,598,431	159,654,419
Accrued interest	160,836		•	160,836	269,078
	201,685,349	13,239,608	18,183,061	170,262,680	166,362,914

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

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

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

Notes to Consolidated Financial Statements March 31, 2018

	Continuity of allowance for possible losses		
	, , , , , , , , , , , , , , , , , , ,	2018	2017
		\$	\$
	Allowance for possible losses - Beginning of year	34,278,736	37,103,290
	Less: Loans written off	(795,067)	(1,946,448)
	Add: Provision recorded during year	2,191,583	5,011,259
	Less: Transferred to foreclosed properties	(2,129,795)	(2,006,050)
	Less: Recoveries during year	(2,122,788)	(3,883,315)
	Allowance for possible losses - End of year	31,422,669	34,278,736
4	Investment in private companies		
		2018	2017
		\$	\$
	Investment in private companies		
	Small Business and Venture Capital Equity Program investments	438,910	438,910
	Less: Allowance for possible losses	(438,910)	(438,910)
		•	**
	Investment in preferred shares of private companies	332,812	422,812
	Less: Allowance for possible losses	(212,811)	(302,811)
		120,001	120,001
		120,001	120,001
	Continuity of allowance for possible losses		
	y Feeting of	2018	2017
		\$	\$
	Allowance for possible losses - Beginning of year	741,721	841,721
	Less: Recovery during the year	(90,000)	(100,000)
	Allowance for possible losses - End of year	651,721	741,721
	rumannan turi a tertember alemen - 💻 alekteriolisa kandi sistema alekteria salekteri - Salekteriolisa 🔻 (1-16. 1763)	the same of the sa	

Notes to Consolidated Financial Statements March 31, 2018

5 Short-term notes payable

	2018 \$	2017 \$
Demand note payable to Island Investment Development Inc. Demand notes payable to Province of Prince Edward Island	6,998,502 12,696,640	6,998,502 13,560,116
	19,695,142	20,558,618

The demand notes payable to Island Investment Development Inc. includes a \$15,000,000 available operating line of credit with an outstanding balance at March 31, 2018 of \$6,998,502 (2017 - \$6,998,502).

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

Interest paid by Finance PEI is included in the expenditure category to which it relates. Included is interest for 2018 in the amount of \$214,528 (2017 - \$155,740).

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

6

Notes to Consolidated Financial Statements March 31, 2018

5	Long-term debt		
		2018	2017
		\$	\$
	4.00% note payable to Island Investment Development Inc., no		
	specific repayment terms	556,846	556,846
	4.00% note payable to Island Investment Development Inc., no		
	specific repayment terms	1,430,499	1,430,499
	4.00% note payable to Island Investment Development Inc., due April 2018, repayable \$8,165 monthly including		
	principal and interest	1,089,478	1,143,376
	6.01% note payable, due December 2024, repayable \$88,025	1,000,170	.,. ,.,. ,
	monthly including principal and interest	5,862,874	6,548,886
	5.54% note payable, due December 2024, repayable \$7,969	5,002,077	0,5 10,000
	monthly including principal and interest	538,614	602,824
	3.46% note payable to Province of Prince Edward Island, due	330,014	002,024
	March 31, 2031, repayable in \$32,366 quarterly		
	payments including principal and interest	1,350,806	1,431,774
	3.23% note payable to Province of Prince Edward Island, due	1,330,800	1,421,774
	그는 그는 그는 그를 가는 그래,		
	June 1, 2032, repayable in \$342,453 annual payments	4 020 000	
	including principal and interest	4,020,986	-
	2.31% note payable to Province of Prince Edward Island, due		
	August 22, 2032, repayable in \$260,127 quarterly	4 426 000	
	payments including principal and interest	4,435,002	_
	Notes payable to Province of Prince Edward Island with interest		
	rates from 1.65% to 3.45%, maturing at various dates		
	between 2018 and 2023	129,482,257	129,913,202
	6.62% Bank of Nova Scotia mortgage, repaid during the year		5,041,667
		148,767,362	146,669,074
		110,707,502	. 10,002,011

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

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

All other notes payable are unsecured.

Notes to Consolidated Financial Statements March 31, 2018

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

Year ending March 31, 2019	31,756,586
2020	39,566,753
2021	23,010,063
2022	25,788,168
2023	22,159,617

Interest paid by Finance PEI and its subsidiaries in the amount of \$3,570,992 (2017 - \$3,923,730) is included in the expenditure category to which it relates.

7 Net investment in lease

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

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

		2018 \$	2017 \$
	Total of lease payments to be received to December 2035 Less: Portion representing interest at 3.75%	900,030 (253,977)	950,030 (279,134)
	Net present value of net investment in lease	646,053	670,896
8	Foreclosed properties	2018 \$	2017 \$
	Foreclosed projects - land, buildings and equipment held for resale Less: Allowance for possible losses	6,312,309 (5,999,582) 312,727	4,560,599 (3,960,339) 600,260

Notes to Consolidated Financial Statements March 31, 2018

Continuity of allowance for possible losses		
	2018 \$	2017 \$
Allowance for possible losses - Beginning of year	3,960,339	1,964,547
Add: Provision recorded during the year Add: Transferred from loans receivable Less: Recovery during the year	21,476 2,129,795 (112,028)	89,000 2,006,050 (99,258)
Allowance for possible losses - End of year	5,999,582	3,960,339

9 Contingent liabilities

- a) A counterclaim has been commenced against the Corporation in response to an action for a deficiency remaining after realization on collateral held by the P.E.I. Lending Agency. The claimant has not provided any details as to the nature and extent of damages or loss for which they seek compensation. There is no liability recorded in these financial statements as it is management's opinion that no liability is likely to arise as a result of this counterclaim. The counterclaim has been ongoing since 1996.
- b) The Corporation is contingently liable under loan guarantees at March 31 as follows:

	2018	2017
	\$	\$
Loan guarantees		8,250

The Corporation is also contingently liable under entrepreneur loan program guarantees of \$11,335.

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

There is no provision for possible losses included in the financial statements for the guarantees.

10 Commitments

Loans approved but not disbursed at March 31, 2018 total \$6,803,849 (2017 - \$6,336,106).

Notes to Consolidated Financial Statements March 31, 2018

11 Related party account balances and transactions

Related parties

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

Statement of Financial Position

	2018 \$	2017 \$
Advances to related companies:		
Biocommons Development Inc.	39,292	39,292
Island Investment Development Inc.	123,858	
	163,150	39,292
Advances from related companies:		
Innovation PEI	11,146,934	11,064,367
Island Investment Development Inc.	-	210,909
Prince Edward Island Century 2000 Fund Inc.	3,431,483	2,633,938
	14,578,417	13,909,214

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

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

The state of the s	2018 \$	2017 \$
Accounts receivable: Due from Province of Prince Edward Island	147,039	147,468
Accounts payable and accrued liabilities: Due to Province of Prince Edward Island Due to related companies	154,437 747,707	131,769 665,240
	902,144	797,009

Notes to Consolidated Financial Statements March 31, 2018

Property holdings

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

Statement of operations

Included in property operations revenue is \$552,004 (2017 - \$577,414) from related parties.

During the year, management fees of \$500,000 (2017 - \$500,000) were received from Island Investment Development Inc., a provincial Crown corporation.

Included in expenditures is \$3,021,653 (2017 - \$3,093,825) in interest paid to Province of Prince Edward Island and \$196,872 (2017 - \$178,912) in interest paid to Island Investment Development Inc., a provincial Crown corporation.

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

Other

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

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

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

12 Financial risk management objectives and policies

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

Notes to Consolidated Financial Statements March 31, 2018

(a) Credit risk

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

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

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

	2018	2017
	\$	\$
Accounts receivable	674,354	932,265
Loans receivable	170,262,680	166,362,914
Advances to related companies	163,150	39,292
Due from the Province of Prince Edward Island	11,163,650	11,163,650
Investment in subsidiaries and private company	120,001	120,001
Loan guarantees		8,250
	182,383,835	178,626,372

(i) Loans receivable

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

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

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

	0 - 60 days	60 - 120 days	+120 days	Total	
	\$	\$	\$	\$	
As at:					
March 31, 2018	138,918	211,838	6,182,091	6,532,847	
March 31, 2017	226,805	90,108	4,419,261	4,736,174	

(b) Liquidity risk

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

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

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

	Under 1 year \$	Between 1 - 5 years \$	Over 5 years \$	2017 Total \$
Accounts payable and accrued liabilities Advances from related	1,584,298		in the second	1,584,298
companies	13,909,214	÷-	-	13,909,214
Short-term notes payable	20,558,618	o €		20,558,618
Long-term debt	38,830,550	101,952,637	5,885,887	146,669,074
_	74,882,680	101,952,637	5,885,887	182,721,204

(c) Market risk

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

i) Interest rate risk

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

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

	Net interest income change \$	Interest expense change \$
Impact of		
1% increase in interest rates 1% decrease in interest rates	64,446 (64,446)	281,511 (281,511)

Notes to Consolidated Financial Statements March 31, 2018

(d) Operational risk

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

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

(e) Capital management

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

				-			2018
	Salaries Benefits S	Operating Goods & Services	Property Operations \$	Lending Operations \$	Interest Expense S	Amortization \$	Total \$
Expenses	250.262	24/ 01/			110	Z7 700	665.005
Administration	250,262 1,227,585	346,916	-	179,968	119 3,623,026	67,798	665,095 5,030,579
Lending operations Property operations	563,797	127,519	3,098,156	179,900	180,492	1,292,996	5,262,960
Provision for possible losses		127,319	3,098,130	(10,221)	100,492	1,272,770	(10,221)
	2,041,644	474,435	3,098,156	169,747	3,803,637	1,360,794	10,948,413
							2017
	Salaries Benefits \$	Operating Goods & Services	Property Operations \$	Lending Operations S	Interest Expense S	Amortization \$	Total S
Expenses	3	3	3	3	J)	3	3
Administration	245,203	332,240			67	67,456	644,966
Lending operations	1,401,106	-		147,779	3,681,464	•	5,230,349
Property operations	682,822	159,966	2,416,550		397,938	1,333,178	4,990,454
Provision for possible losses				1,179,648			1,179,648
	2,329,131	492,206	2,416,550	1,327,427	4,079,469	1,400,634	12,045,417

Finance PEI

Schedule of Property Holdings As at and for the year ended March 31, 2018

Schedule 2

				Cost	Accumulated amortization			2018	
	Beginning \$	Additions \$	Disposals S	Disposals/ Ending \$	Beginning \$	Amortization \$	Disposals/ adjustments \$	Ending \$	Net book value \$
General									
Land	981,500	*		981,500				-	981,500
Land improvements	44,765	-	-	44,765	44,765		1.0	44,765	
Building	3,229,973	45,706	-	3,275,679	1,138,743	125,505	-	1,264,248	2,011,431
	4,256,238	45,706	_	4,301,944	1,183,508	125,505		1,309,013	2,992,931
Property holdings held for resale									
Land	1,584,302	¥i	-	1,584,302		-		-	1,584,302
Buildings	1,200,000	-	-	1,200,000	192,000	48,000		240,000	960,000
	2,784,302			2,784,302	192,000	48,000		240,000	2,544,302
Industrial Sites									
Land	4,069,575	34,867	-	4,104,442		=	-	7,€0	4,104,442
Land improvements	2,789,802	8	-	2,789,802	2,739,101	6,154		2,745,255	44,547
Leasehold improvements	1,001,339	-	-	1,001,339	297,307	70,094		367,401	633,938
Building	26,384,487	3,912,069	-	30,296,556	9,071,609	1,090,072	-	10,161,681	20,134,875
Equipment	7,161,165	35,347	•	7,196,512	7,144,350	20,969	•	7,165,319	31,193
	41,406,368	3,982,283		45,388,651	19,252,367	1,187,289		20,439,656	24,948,995
Test cell	4,937,000		(4,937,000)		3,552,818	-	(3,552,818)		-
	53,383,908	4,027,989	(4,937,000)	52,474,897	24,180,693	1,360,794	(3,552,818)	21,988,669	30,486,228

Finance PEI

Schedule of Property Holdings
As at and for the year ended March 31, 2017

Schedule 2

	Cost				Accumulated amortization				2017
	Beginning \$	Additions \$	Disposals \$	Ending S	Beginning S	Amortization S	Disposals S	Ending \$	Net book value \$
General									
Land	981,500	2 ●	-	981,500	-		_		981,500
Land improvements	44,765		-	44,765	44,765	-		44,765	-
Building	3,229,973	*		3,229,973	1,016,463	122,280		1,138,743	2,091,230
	4,256,238		•1	4,256,238	1,061,228	122,280		1,183,508	3,072,730
Property holdings held for resale									
Land	1,584,302	-	-	1,584,302	-	3.00	-		1,584,302
Buildings	1,200,000		*	1,200,000	144,000	48,000	-	192,000	1,008,000
	2,784,302		•	2,784,302	144,000	48,000	-	192,000	2,592,302
Industrial Sites									
Land	4,058,815	60,336	(49,576)	4,069,575	-	:=	-	-	4,069,575
Land improvements	2,789,802	-	-	2,789,802	2,732,812	6,289	-	2,739,101	50,701
Leasehold improvements	1,001,339	-	-	1,001,339	227,213	70,094	-	297,307	704,032
Building	23,780,705	2,603,782	-	26,384,487	8,168,302	903,307	-	9,071,609	17,312,878
Equipment	7,140,535	20,630		7,161,165	7,140,536	3,814		7,144,350	16,815
	38,771,196	2,684,748	(49,576)	41,406,368	18,268,863	983,504	-	19,252,367	22,154,001
Test cell	4,937,000	:*:		4,937,000	3,305,968	246,850	-	3,552,818	1,384,182
	50,748,736	2,684,748	(49,576)	53,383,908	22,780,059	1,400,634		24,180,693	29,203,215