PRINCE EDWARD ISLAND ENERGY CORPORATION

ANNUAL REPORT 2017-18

Prince Edward Island Energy Corporation
35th Annual Report
For the Year Ended
March 31, 2018

Our Legislated Objectives

Pursuant to section 6 of the *Energy Corporation Act*, the legislated objectives of the Prince Edward Island Energy Corporation are:

….. "*to develop and promote the development of energy systems and the generation, production, transmission and distribution of energy in all its forms on an economic and efficient basis, to provide financial assistance for the development, installation and use of energy systems, and to coordinate all government programs in the establishment and application of energy systems in the province*."

Our Core Activities

Consistent with our legislated objectives, the Corporation:

- Owns and operates wind farm operations at East Point (30 megawatts), Hermanville/Clearspring (30 megawatts) and North Cape (13.56 megawatts);
- Owns electrical transmission facilities in Prince County that connect its North Cape operations and other renewable energy generators to the Maritime Electric grid;
- Finances energy projects and energy systems, particularly those initiatives that involve renewable development in PEI (e.g., Wind Energy Institute of Canada);
- Develops and implements the elements of the Provincial Energy Strategy;
- Increases electrical energy reliability and capacity through the completion of the Cable Interconnection Upgrade Project between PEI and the mainland; and
- Provides guidance to Government for the formulation of provincial policy, programs, legislation and agreements that pertain to energy matters.

Table of Contents

Message from the Minister

The Honourable Antoinette Perry
Lieutenant Governor of Prince Edward Island
PO Box 2000
Charlottetown, PE C1A 7N8

Dear Lieutenant Governor:

A significant achievement for the PEI Energy Corporation in 2017/18 was the completion and energization of the Cable Interconnection Upgrade Project. With the new upgrade, the electrical capacity between PEI and NB has increased from 200 MW to 560 MW through the installation of two 180-MW submarine cables.

Prince Edward Island continues as a world leader in developing wind power to meet its growing electricity requirements. This year, the four wind farms owned by the Corporation generated more than 232,000 MWh of renewable electricity for the use of Islanders.

The Corporation has begun implementing the recommendations from the Provincial Energy Strategy developed in 2016/17. The Corporation's next major project will be development of a new 30-MW wind farm as recommended in the Strategy. To this end, three meteorological towers have been established on the Island with the aim of identifying the next wind farm location.

In accordance with subsection 10.(1) of the *Energy Corporation Act*, it is my pleasure to submit to the Legislative Assembly the 35th Annual Report of the Prince Edward Island Energy Corporation which covers activities and finances for the 2017-18 fiscal year.

Respectfully submitted,

Paula J Biggar

Paula Biggar
Minister of Transportation, Infrastructure and Energy
Minister Responsible for the Prince Edward Island Energy Corporation

Message from the Chief Executive Officer

The Honourable Paula Biggar
Minister of Transportation, Infrastructure and Energy
PO Box 2000
Charlottetown, PE   C1A 7N8

Dear Honourable Minister:

This year, the Prince Edward Island Energy Corporation's combined wind farm facilities at East Point, North Cape and Hermanville/Clearspring continued to produce clean energy for Islanders. In the 2017-18 fiscal year, production exceeded 232,000 MWh. Including private and municipal wind farms, approximately 23% of Prince Edward Island's electrical energy for 2017-18 was attributed to wind power.

In 2017-18, the Corporation completed the second largest construction project in Prince Edward Island's history in the Cable Interconnection Upgrade Project. With their energization in July 2017, the two new 180-MW submarine cables have increased electrical capacity between PEI and NB from 200 MW to 560 MW. The Corporation also began implementing recommendations from the 2016/17 Provincial Energy Strategy. A key achievement is the siting of metrological towers in three Island locations with the aim of identifying the next wind farm location.

In addition, the Corporation maintained its ongoing responsibility to finance the debt incurred to refurbish Point Lepreau and exit from the Dalhousie Thermal Generating Station Participation Agreement. Through its provision of low cost financing, the Corporation continued to reduce costs for Island ratepayers.

On behalf of the Board of Directors of the Prince Edward Island Energy Corporation, it is my pleasure to provide you with the Annual Report which, in my opinion, accurately describes the activities and finances of the Corporation during the 2017-18 fiscal year.

Yours sincerely,

Kim Horrelt
Chief Executive Officer

Executive Summary

The Prince Edward Island Energy Corporation is a provincial Crown corporation whose form and function is dictated by the *Energy Corporation Act*. Reporting to the Minister responsible for energy matters, the Prince Edward Island Energy Corporation is governed by a Board of Directors that consists of between five and seven members. The day-to-day operations of the Corporation rest with the Chief Executive Officer who is also an ex officio board member.

Through ownership of wind farms at North Cape (10.56 MW), East Point (30 MW), Hermanville/Clearspring (30 MW) and the V-90 prototype (3 MW), the Corporation supplied approximately 232,000 MWh of renewable electricity to Islanders in the 2017-18 fiscal year.

The Corporation reported revenue of $20.9 million this past fiscal year which was a 4% increase from the previous year. Hermanville/Clearspring showed the largest wind farm increase at 5% while East Point's revenue decreased by 10%. Total expenses increased to $13.6 million, an 8% increase over the previous year, which can be primarily attributed to amortization of the cable interconnection.

The Corporation also continued to administer debt financing related to the refurbishment of Point Lepreau and the decommissioning of the Dalhousie Thermal Generating facility. As a Government entity, the Corporation has been able to access borrowing rates lower than those available to private industry and then pass the associated savings onto Island ratepayers.

During this reporting period, the Corporation completed the Cable Interconnection Upgrade Project. Two new 180-MW submarine cables have increased the electrical capacity between PEI and NB from 200 MW to 560 MW. The Corporation also began to implement recommendations from the 2016/17 Provincial Energy Strategy in March 2017 by erecting three meteorological towers with the aim of identifying the location of the next wind farm. The North Cape V47 fleet continued to perform well and a new ten and twelve-year operations and management agreement was signed that will see the turbines maintained to 25 years, facilitating continued operation of the wind farm beyond original expectations. Operational issues at the wind farms in 2017 were primarily blade damage due to lightning and edgewise vibration.

Board of Directors

The affairs of the Prince Edward Island Energy Corporation are under the direction of a Board of Directors that consists of between five and seven members. Directors are appointed, at pleasure, for a three-year term.

As of March 31, 2018, the board members are as follows:

NAME	POSITION HELD
Deputy Minister of Transportation, Infrastructure & Energy (Darren Chaisson)	Chairperson
Deputy Minister of Finance (Neil Stewart)	Director
Deputy Minister of Economic Development & Tourism (David Keedwell)	Director
Clerk of the Executive Council (Paul Ledwell)	Director
Secretary to Treasury Board (Dan Campbell)	Director
Director of Intergovernmental Affairs (Rochelle Gallant)	Director
Minister of Transportation, Infrastructure & Energy (Paula Biggar)	Director

Staff of the Prince Edward Island Energy Corporation

Kim Horrelt, P.Eng. oversaw the day-to-day operations of the Prince Edward Island Energy Corporation in her duties as the Chief Executive Officer. Kim supervised the Wind Farms, the finalization of the Cable Project and other Energy Corporation projects as required.

The Corporation's Senior Engineer was Mark Victor, P. Eng. Mark's primary responsibility during the reporting period was oversight of the completion the Cable Interconnection Upgrade Project. Mark accepted a new position at Maritime Electric in the summer of 2017.

The Energy Corporation's Wind Farms were managed by Heather MacLeod, P.Eng. in her role as Manager of Energy Assets. She was also a strong contributor to implementing components of the Energy Strategy including new wind farm planning.

Crystal Burrows, CPA, CA, performed the role of Chief Financial Officer for the Energy Corporation. Crystal splits her financial management time between the Energy Corporation and the Pensions & Benefits Office of the Provincial Government.

The Corporation's Administrative Assistant is Dawn Larter. She also provides clerical support to the Energy and Minerals Division of the Department of Transportation, Infrastructure and Energy.

Blair Arsenault, P.Eng., CD, fulfilled his role as the Energy Operations Technician. He provided oversight on the day to day operations of the wind farms and associated assets.

Annual Objectives

The Prince Edward Island Energy Corporation had set the following objectives for the 2017-18 fiscal year:

- Operate and maintain its wind facilities at a high level of availability;
- Begin implementation of the 2016/17 Provincial Energy Strategy;
- Complete the Cable Interconnection Upgrade Project to secure more electrical intertie capacity between Prince Edward Island and New Brunswick; and
- Provide advice to Government on various energy issues.

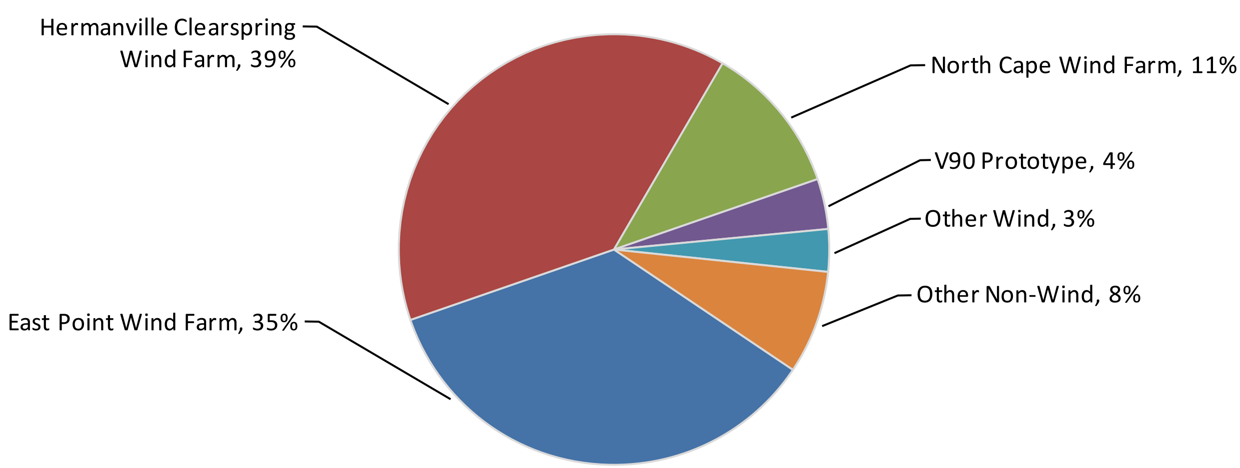
Operational Review for 2017-18

Revenue

The total revenue earned by the Prince Edward Island Energy Corporation during fiscal year 2017-18 was $20.9 million. The main component of this revenue accrued from the operation of its wind farms and related infrastructure. This included electricity sales to Maritime Electric Company Limited (MECL), marketing and transmission fees from private wind facilities, and land and building rentals. Other sources of revenue during this reporting period included interest and environmental attribute sales, the net proceeds of which were paid to the Department of Communities, Land and Environment, as well as ratepayer recoveries on the PEI-NB Cable Interconnection. The following graph illustrates the sources of revenue during 2017-18.

Overall, revenue increased 4% over the prior year. Hermanville/Clearspring Wind Farm had the largest year over year increase at 5%, which can be attributed to better turbine availability and more favorable wind conditions. East Point Wind Farm experienced the largest revenue decrease at 10%, primarily due to lower turbine availability as a result of tower flange bolt and turbine blade issues.

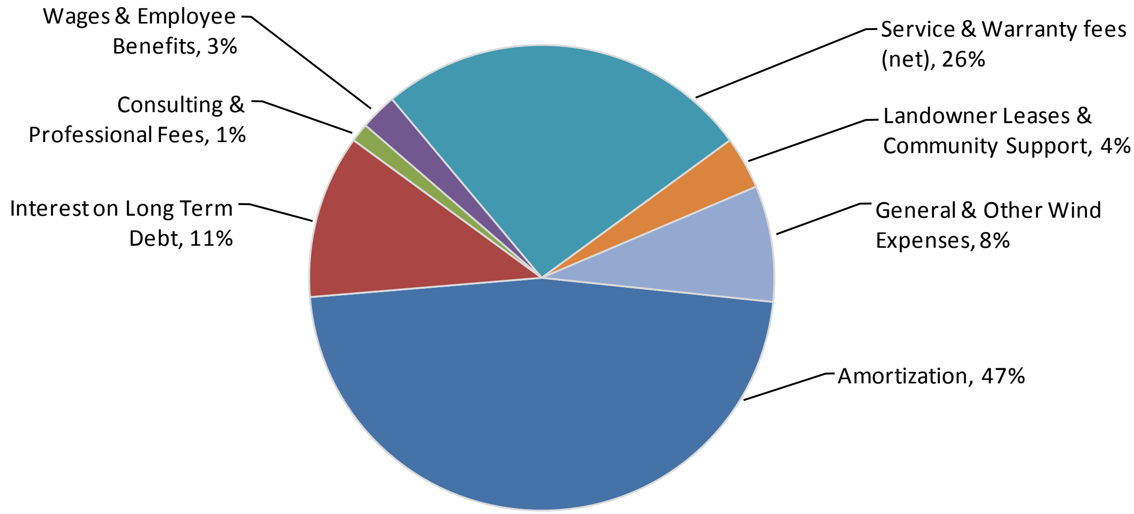
2017-18 Revenue by Source



Expenses

Expenses for the Corporation totaled $13.6 million in 2017-18. This represented a $1 million increase over the previous year, primarily due to the commencement of amortization on the PEI-NB Cable Interconnection. The following graph presents the Corporation's expenses by category for 2017-18.

2017-18 Expense by Category



North Cape Wind Farm

The North Cape Wind Farm was Atlantic Canada's first commercial deployment of wind power. Commissioned in two phases, Phase I in November 2001 and Phase II in November 2003, the project consisted of sixteen (16) Vestas V-47 turbines. With a generating capacity of 660 kilowatts per turbine, the combined generation capacity of this wind facility is 10.56 megawatts. The fleet of Vestas V-47 turbines continues to operate with a high level of reliability and is providing ratepayers with some of the grid's cheapest power.

During the reporting period, the North Cape Wind Farm generated revenues of $2.4 million, which was up 1% compared to the previous year. The wind farm incurred expenditures of $1.7 million which resulted in surplus of $0.7 million. Included in the expenses was approximately $19,000 that was provided to landowners in the vicinity of the wind farm.

The V-47 turbines continued to perform well and a new 10 and 12-year Operations and Maintenance agreement was signed with Vestas in FY 2017/18, ensuring support from the turbine manufacturer to year 25 of the development. Another significant maintenance activity was the refurbishment of the leading edge of the blades on Phase I turbines. The substation was also modified to allow Maritime Electric to install metering tanks to better quantify the demand charges for the wind farm.

North Cape Performance		
Fiscal Year	**Electricity Production (megawatt-hours)**	**Capacity Factor (%)**
2008/09	30,989	33.5%
2009/10	32,300	34.9%
2010/11	32,684	35.3%
2011/12	31,365	33.8%
2012/13	30,362	32.8%
2013/14	32,619	35.3%
2014/15	30,983	33.5%
2015/16	32,789	35.3%
2016/17	30,521	33.0%
2017/18	**30,953**	**33.5%**
Average	31,557	34.1%

North Cape Financial					
	REVENUE		**EXPENSES**		**PROFIT/ SURPLUS**
Fiscal Year	**Annual $**	**Cents/ kWh**	**Annual $**	**Cents/ kWh**	**Annual $**
2008/09	$3,893,786	12.6	$2,405,652	7.8	$1,488,134
2009/10	$3,245,544	10.0	$2,501,550	7.7	$743,994
2010/11	$2,967,829	9.1	$2,024,390	6.2	$943,439
2011/12	$2,477,458	7.9	$1,985,124	6.3	$492,334
2012/13	$2,416,913	8.0	$1,840,290	6.1	$576,623
2013/14	$2,435,174	7.5	$1,738,513	5.3	$696,661
2014/15	$2,399,879	7.7	$1,931,019	6.2	$468,860
2015/16	$2,480,954	7.6	$1,731,429	5.3	$749,525
2016/17	$2,336,480	7.7	$1,521,668	5.0	$814,812
2017/18	**$2,367,124**	**7.6**	**$1,678,650**	**5.4**	**$688,474**
Average	$2,702,114	8.6	$1,935,829	6.1	$766,286

East Point Wind Farm

Located in Elmira, along Highway 16A, the East Point Wind Farm consists of ten Vestas V-90 turbines (30 MW), a transformer pad, an overhead collection system and 2.5 kilometers of service roads. All electricity generated from the turbines is sold to MECL under a long-term power purchase agreement. As prescribed in the *Renewable Energy Act Minimum Price Regulations,* the price was originally set at 7.75 cents per kilowatt-hour. After April 1, 2008, and for each year thereafter, a portion of the price, 2.0 cents/kilowatt-hour, is adjusted based on increases in the Consumer Price Index (CPI).

During the most recent eight years of operation the facility has performed as expected, with high availability and production near or above 90 million kilowatt-hours per year. Significant events in 2017-18 included tower flange bolt replacements, a significant blade repair as well as one complete blade replacement.

East Point Performance			
Fiscal Year	**Availability* (%)**	**Electricity Production (megawatt-hours)**	**Capacity Factor**
2008/09	81.0	78,738	30.0%
2009/10	89.4	86,779	33.0%
2010/11	97.1	94,811	36.1%
2011/12	97.2	98,162	37.3%
2012/13	94.9	91,176	34.7%
2013/14	96.6	86,427	32.9%
2014/15	94.4	87,060	33.1%
2015/16	97.8	96,043	36.4%
2016/17	96.4	90,972	34.6%
2017/18	**TBD**	**90,957**	**34.6%**
Average	94.0	90,113	34.3%

*As per the Operation and Service Agreement with Vestas, the machine availability is guaranteed to be 95%. Liquidated damages are assessed for availability below 95%.

All the turbines at the East Point Wind Farm are located on private lands. Under a three-tier compensation system, 2.5% of the gross revenue from the wind farm is allocated to landowners who have turbines on their property as well as those who have property in proximity to a turbine. Approximately $173,000 was paid to landowners during 2017-18.

The wind farm generated $0.6 million less surplus in the 2017-18 compared to the previous year. This is primarily due to a lower availability due to tower flange issues as well as blade issues. The following chart illustrates the annual revenues and expenditures of the East Point Wind Farm for the last ten fiscal years.

East Point Financial					
	Revenue		***Expenses***		***Profit/Surplus***
Fiscal Year	**Annual $**	**Cents/ kWh**	**Annual $**	**Cents/ kWh**	**Annual $**
2008/09	$8,212,907	10.4	$7,454,882	9.5	$758,025
2009/10	$8,097,498	9.3	$5,687,116	6.6	$2,410,382
2010/11	$8,361,280	8.8	$6,459,536	6.8	$1,901,744
2011/12	$8,738,992	8.9	$6,361,183	6.5	$2,377,809
2012/13	$8,239,977	9.0	$5,757,199	6.3	$2,482,778
2013/14	$7,736,910	9.0	$5,648,017	6.5	$2,088,893
2014/15	$7,823,478	9.0	$4,821,451	5.5	$3,002,027
2015/16	$8,750,605	9.1	$3,488,453	3.6	$5,262,152
2016/17	$8,214,694	9.0	$3,665,606	4.0	$4,549,088
2017/18	**$7,380,113**	**8.1**	**$3,385,481**	**3.7**	**$3,994,632**
Average	$8,155,645	9.1	$5,272,892	5.9	$2,882,753

V-90 Prototype Turbine

The Corporation took ownership of the 3-MW Vestas V-90 wind turbine at Norway in 2013 from Aeolus Wind PEI Ltd., a subsidiary of Vestas-Canadian Wind Technologies. The Prototype was originally installed in 2003 and served as a demonstration prototype for Aeolus Wind PEI Ltd. The Vestas V-90 may be seen at a number of wind projects in PEI and Atlantic Canada, with the Corporation deploying this technology at its East Point Wind Farm. The V-90 continued to perform well in 2017-18, performing slightly better than the previous year, as shown in the charts below.

V-90 Prototype Performance			
Fiscal Year	**Availability**	**Electricity Production (megawatt-hours)**	**Capacity Factor (%)**
2014/15	95.0%	10,060	38.3%
2015/16	97.2%	10,335	39.2%
2016/17	97.5%	9,814	37.3%
2017/18	**97.2%**	**9,890**	**37.6%**
Average	96.73%	10,025	38.1%

V-90 Prototype					
	Revenue		***Expenses***		***Profit/Surplus***
Fiscal Year	**Annual $**	**Cents/ kWh**	**Annual $**	**Cents/ kWh**	**Annual $**
2014/15	$752,863	7.5	$453,733	4.5	$299,130
2015/16	$802,603	7.8	$438,187	4.2	$364,416
2016/17	$770,660	7.9	$435,771	4.4	$334,889
2017/18	**$793,984**	**8.0**	**$435,816**	**4.4**	**$358,168**
Average	$780,028	7.8	$440,877	4.4	$339,151

Hermanville/Clearspring Wind Farm

The Hermanville/Clearspring Wind Farm was operational for its third full year after being commissioned in January of 2014. This wind farm marks the first commercial installation of Acciona's AC 3.0-116 turbine (3.0 MW with a 116 meter rotor diameter) in the North American market.

In addition to emission-free electricity at a competitive price for rate payers, the operational phase of the wind farm is providing highly technical jobs for wind technicians to maintain the ten turbines at a high level of availability. The Corporation and Acciona signed a fifteen-year service and warranty agreement that guarantees a machine availability of 97% through to 2028-29.

Three of the turbines at the Hermanville/Clearspring Wind Farm are located on private lands with the remaining being situated on Crown land. Compensation is provided to these land owners as well as neighboring properties in proximity to the turbines. The compensation provided is relative to how close the turbine is to the respective property. The communities of Hermanville and Clearspring also receive compensation through the Northside Windmill Enhancement Fund where community projects are partially funded after an application process. In total, $303,000 was distributed in 2017-18 to landowners and the community.

Hermanville's performance and production was significantly above the previous year, but still had availability issues, the primary being a lightning strike that resulted in a turbine being off line for more than three months.

Hermanville/Clearspring Performance			
Fiscal Year	**Availability (%)**	**Electricity Production (megawatt-hours)**	**Capacity Factor**
2014/15	97.2	110,153	41.9%
2015/16	96.6	110,223	41.8%
2016/17	93.6	91,423	34.8%
2017/18	**TBD**	**100,421**	**38.2%**
Average	96.5	103,055	39.2%

Hermanville/Clearspring Financial					
	Revenue		***Expenditures***		***Profit/Surplus***
Fiscal Year	**Annual $**	**Cents/ kWh**	**Annual $**	**Cents/ kWh**	**Annual $**
2014/15	$8,775,104	8.0	$5,708,867	5.2	$3,066,237
2015/16	$8,760,174	7.9	$5,697,449	5.2	$3,062,725
2016/17	$7,727,229	8.5	$5,703,074	6.2	$2,024,155
2017/18	**$8,107,256**	**8.1**	**$5,643,631**	**5.6**	**$2,463,625**
Average	$8,342,441	8.1	$5,688,255	5.6	$2,654,186

Other Energy Initiatives

Cable Interconnection Upgrade Project

During 2017-18, the Corporation achieved substantial completion of the Cable Interconnection Upgrade Project, thereby increasing the total capacity of the electricity cables between PEI and New Brunswick from 200 MW to 560 MW. The new cables were energized on July 1, 2017, and a ceremony was held on August 29, 2017, to commemorate the completion of PEI's largest infrastructure project since the construction of the Confederation Bridge. Ceremony attendees included officials from the Provincial Governments of PEI and New Brunswick, the Government of Canada, First Nations, and Maritime Electric, the Corporation's construction agent.

Final project wrap-up will be completed during 2018-19. Once completed, it is expected the total project costs will be approximately $137 million, well below the initial budget of $142.5 million. As of March 31, 2018, approximately $48 million of funding was received from the Federal Government for the project with an additional $16 estimated to be received in 2018-19.

Legislative Updates

The *Electric Power Act* and *Energy Corporation Act* were amended in Fall 2017 to classify the Corporation as a public utility only for the purpose of preparing and filing energy efficiency and demand-side management plans with the Island Regulatory and Appeals Commission on behalf of efficiencyPEI. This will enable efficiencyPEI, a section of the Department of Transportation, Infrastructure & Energy, to become the sole agency responsible for the delivery of energy efficiency programs and services to all Islanders, as recommended in the 2016/17 PEI Provincial Energy Strategy.

Appendix A – Audited Financial Statements

Prince Edward Island Energy Corporation

Consolidated Financial Statements

Year ended March 31, 2018

(Canadian Dollars)

Independent Auditor's Report

To the Board of Directors:

We have audited the accompanying consolidated financial statements of Prince Edward Island Energy Corporation which comprise the consolidated statement of financial position as at March 31, 2018, the consolidated statements of comprehensive income, surplus, 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 Accounting Standards for Publicly Accountable Enterprises, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian Accounting Standards for Publicly Accountable Enterprises.

Fitzpatrick & Company

Chartered Professional Accountants

Charlottetown, PE
June 12, 2018

Prince Edward Island Energy Corporation

Consolidated Statement of Financial Position
As at

	March 31 2018	March 31 2017
Assets		
Current assets:		
Unrestricted cash (note 4)	32,312,971	37,571,599
Trade receivables, net (note 5)	18,960,342	16,563,551
Current portion of financial assets (note 6)	4,493,328	4,079,922
Prepaid expenses	467,729	1,134,229
	56,234,370	59,349,301
Noncurrent assets:		
Restricted cash (note 4)	759,726	391,981
Other financial assets (note 6)	106,689,280	106,125,401
Property, plant and equipment (note 7)	133,565,761	133,932,253
Total Assets	$ 297,249,137	$ 299,798,936
Liabilities and Surplus		
Current liabilities:		
Trade payables and accrued liabilities (note 8)	1,718,544	15,325,516
Current indebtedness (note 11)	19,207,644	8,076,267
Deferred ratepayer recoveries (note 9)	639,079	-
	21,565,267	23,401,783
Noncurrent liabilities:		
Deferred service warranty (note 10)	2,116,276	1,606,377
Long-term indebtedness (note 11)	219,292,763	227,889,865
Surplus	54,274,831	46,900,911
Total Liabilities and Surplus	$ 297,249,137	$ 299,798,936

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

These financial statements were approved by the Corporation's Board of Directors on June 14, 2018.

_______________, Director _______________, Director

Prince Edward Island Energy Corporation

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

	2018	2017
Total Wind Revenue	19,320,879	19,769,012
Other Revenue		
Ratepayer recoveries (note 9)	1,179,707	-
Grants (note 13)	115,000	115,000
Gain on disposal of assets	-	56,782
Finance revenue, net	334,242	211,690
Total Revenue	20,949,828	20,152,484
Wind Expenses		
Consultants	36,783	85,998
Depreciation (note 7)	5,201,267	5,378,159
Electricity	217,278	44,875
Insurance	329,689	313,366
Finance costs, net	1,549,021	1,638,413
Land owner fees and community support	495,434	510,003
Repairs and maintenance	265,651	302,709
Service and warranty fees	3,508,709	3,507,611
Service and warranty recovery (note 10)	(242,000)	(239,714)
Other wind expenses	485,650	533,470
Total Wind Expenses	11,847,482	12,074,890
General and Administrative Expenses		
Consulting and professional services	138,717	79,918
Wages and employee benefits	346,326	390,796
Grants	-	5,000
Other general expenses	63,676	66,275
Total General and Administrative Expenses	548,719	541,989
Other Expenses		
Depreciation, PEI-NB Cable Interconnection	1,179,707	-
Total Expenses	13,575,908	12,616,879
Total Comprehensive Income	$ 7,373,920	$ 7,535,605

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

Prince Edward Island Energy Corporation
Consolidated Statement of Surplus
For the years ended March 31,

	2018	2017
Surplus, beginning of year	46,900,911	39,365,306
Total comprehensive income	7,373,920	7,535,605
Surplus, end of year	$ 54,274,831	$ 46,900,911

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

Prince Edward Island Energy Corporation

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

	2018	2017
Cash flows from operating activities:		
Cash receipts from customers and other	26,849,426	24,576,660
Cash paid to suppliers and employees	(10,093,001)	(12,014,870)
Financing income	4,921,823	3,533,351
Financing costs	(6,263,520)	(5,165,455)
	15,414,728	10,929,686
Cash flows from investing activities:		
Increase in other financial assets	(11,089,543)	(11,450,662)
Decrease in other financial assets	4,856,082	4,301,610
Increase in property, plant and equipment	(35,016,943)	(65,674,583)
Receipt of government grants	18,410,518	29,421,188
	(22,839,886)	(43,402,447)
Cash flows from financing activities:		
Proceeds from debt	10,609,270	31,339,399
Repayment of debt	(8,074,995)	(39,269,109)
	2,534,275	(7,929,710)
Net decrease in cash	(4,890,883)	(40,402,471)
Cash, beginning of year	37,963,580	78,366,051
Cash, end of year (note 4)	$ 33,072,697	$ 37,963,580

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

1. Corporate Information and Basis of Presentation

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 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 financial statements are disclosed in Note 3.

2. Significant Accounting Policies

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. All intercompany balances and transactions are eliminated upon consolidation.

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, is 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.

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 either financial assets at fair value through profit and loss or amortized cost, 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.

2. Significant Accounting Policies (continued)

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 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.

Property, Plant and Equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and impairment losses. Cost includes the cost of restoring part of the relevant plant and equipment when the recognition criteria are met. 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
Roads	40 years

Replacements of major components covered under third party service warranty agreements are recorded in property, plant and equipment at fair market value based on the cost the Corporation would have incurred had a service warranty agreement not been in place and are amortized in line with the Corporation's policy above.

Office furniture, equipment and computer equipment are fully expensed in the year of acquisition.

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

2. Significant Accounting Policies (continued)

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 Property, Plant and Equipment

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”.

Deferred Service Warranty

Deferred service warranty represents replacements of major components covered under a third party service warranty, for which no costs are incurred by the Corporation over and above the annual premiums. Replacements of such components, for which no costs are incurred, are recorded as deferred warranty liability based on the difference between the fair value of the new asset and the net book value of the replaced asset and amortized to income on the same basis as the related depreciation expense charged against the assets reported in property, plant and equipment. Any loss on disposal incurred due to a replacement of a component under the service warranty agreement is shown net against service and warranty recovery.

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 *Borrowing Costs*.

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.

Revenue Recognition

Revenues are recorded in the period in which the transaction or events that give rise to the revenues occur. Service revenue is recorded in the period where the amount of revenue can be measured reliably, the receipt of economic benefit is probable and the benefit to the end user is realized. Amounts that have been received in advance of services being rendered are recorded as deferred revenue until the Corporation discharges the obligations that led to the collection of funds. Interest revenue is calculated and recognized as specified within the lending agreements.

2. Significant Accounting Policies (continued)

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. When the grant does not directly relate to either an expense or an asset, it is recognized as income.

Service and Warranty Recovery

Service and warranty recovery represents the amortization of deferred service warranty and is recognized to income on the same basis as the related depreciation expense charged for assets replaced under service warranty for which no cost is incurred by the Corporation.

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.

Standards and Interpretations - Early Adoption

IFRS 9 *Financial Instruments,* 2017 Edition as issued by the IASB in July 2014, to replace IAS 39, IFRIC 9 and earlier versions of IFRS 9 is mandatory for all entities with annual periods beginning on or after January 1, 2018 with early adoption permitted. The objective of this IFRS is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. Upon transition to IFRS, the Corporation had early adopted IFRS 9 and as a result all financial instruments are measured and classified in accordance with this standard.

Standards and Interpretations - not yet Adopted

A number of new standards, amendments and interpretations to existing standards are effective for annual periods beginning after April 1, 2017, and have not been adopted in preparing these consolidated financial statements. Most of the new standards and interpretations are not relevant and are not expected to have a material impact on the Corporation's financial statements, with the exception of the following:

IFRS 15 *Revenue from contracts with customers,* 2017 Edition as issued by IASB in May 2014, to replace IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31 is mandatory for all entities beginning on or after January 1, 2018. The objective of this IFRS is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. Revenue is expected to be impacted by this implementation.

IFRS 16 *Leases,* 2017 Edition as issued by IASB in January 2016, to replace IAS 17, IFRIC 4, SIC-15 and SIC-27 is mandatory for all entities beginning on or after January 1, 2019. The objective of this IFRS is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. Land owner fees and community support is expected to be impacted by this implementation.

3. Critical Accounting Estimates and Judgments

The preparation of 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.

PEI Energy Accord

In November 2011, the Province of Prince Edward Island entered into the Prince Edward Island Energy Accord which requires 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 are the costs associated with the refurbishment of 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 are based on kilowatt hour sales and repayment of debt is a fixed monthly payment. 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. Due to the variable monthly payments based on kilowatt hour sales and variable interest payments, the current portion recognized and estimated maturities disclosed may be different from the actual amounts recognized.

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.

Asset Retirement Obligation

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. Such costs are not expected to be material and thus have not been recorded in the Corporation's financial statements. A change in circumstances or events could result in the recognition of such a cost which could be material to the Corporation's financial statements.

3. Critical Accounting Estimates and Judgments (continued)

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 financial statements.

4. Cash

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

	2018	2017
Unrestricted cash	32,312,971	37,571,599
Restricted cash	759,726	391,981
	33,072,697	37,963,580

5. Trade Receivables

	2018	2017
Trade Receivables	18,960,342	16,394,651
HST	-	168,900
	18,960,342	16,563,551

Trade receivables are non-interest bearing and are generally on 30-day payment terms. Past due amounts included in trade receivables are nil (2017 - $41,504). No loss allowance was recognized for the year ended March 31, 2018 as historical experience and factors specific to the debtor indicated that the receivable was recoverable.

6. Other Financial Assets

	2018	2017
Customers of a local utility provider (Point Lepreau financing), 3.41%, receivable in monthly installments of $346,861 including principal and interest, due March 2038.	59,465,993	61,620,637
Customers of a local utility provider (Point Lepreau financing), 2.45%, receivable in monthly interest only payments up to April 2021, then monthly payments of principal and interest of $252,666, due April 2030.	25,266,564	25,766,564
Customers of a local utility provider (Dalhousie financing), 1.87%, receivable in monthly payments of principal and interest of $97,363, due April 2021.	3,497,886	4,589,737
Customers of a local utility provider (NB Interconnection Transmission prorated share of PEI-NB Cable Interconnection financing), 2.51%, receivable in monthly installments of $39,838 including principal and interest, due February 2046.	11,681,551	6,370,942
Wind Energy Institute of Canada, 4.02%, receivable in quarterly installments of $214,860 including principal and interest, due June 2035, secured by first charge on materials, buildings and equipment and site specific general security.	10,763,009	11,076,757
West Cape Wind Energy, Inc., non-interest bearing, receivable in equal annual principal installments of $400,000, amortized to 2018, secured by a guarantee of its parent, ENGIE North America Inc.	399,198	780,686
Accrued interest receivable	108,407	-
	111,182,608	110,205,323
Less: current portion	(4,493,328)	(4,079,922)
	106,689,280	106,125,401

The financing costs for Point Lepreau and Dalhousie along with the receivable from Wind Energy Institute of Canada were initially recorded in the financial statements at fair value with subsequent measurement at amortized cost.

The March 31, 2018 payment on the Wind Energy Institute of Canada loan receivable has been deferred with the permission of the Corporation. A review of historical and reasonable and supportable forward-looking information indicates that credit risk has not increased significantly. As well, interest will be charged, in accordance with the loan agreement, on both the past due principal and interest at the rate applicable to the loan. As a result, no expected credit losses have been recognized for the year ended March 31, 2018.

The West Cape Wind Energy, Inc. loan receivable was initially recorded at fair value less a discount representing the concessionary term of the loan. The discount is the difference between the face value of the loan and its present value. To determine present value, the Corporation used the Province's 10-year borrowing rate as at December 31, 2008. The loan discount is amortized to revenue using the effective interest rate method. The face value of the loan is $400,000 (2017 - $800,000) and the accumulated concessionary discount is $802 (2017 - $19,314).

7. Property, Plant and Equipment, Net

	Wind Turbines and Towers	Transmission and Distribution	Land and Buildings	Roads	Assets under Development	Total
Gross Amount						
At March 31, 2016	102,190,255	18,915,552	1,034,333	2,118,999	12,296,415	136,555,554
Acquisitions	550,025	-	-	-	42,384,168	42,934,193
Disposals	(887,380)	-	-	-	-	(887,380)
At March 31, 2017	101,852,900	18,915,552	1,034,333	2,118,999	54,680,583	178,602,367
Acquisitions	1,086,400	59,352,977	180,405	110,933	275,908	61,006,623
Disposals	(642,570)	-	-	-	(54,680,583)	(55,323,153)
At March 31, 2018	102,296,730	78,268,529	1,214,738	2,229,932	275,908	184,285,837
Accumulated Depreciation						
At March 31, 2016	36,732,509	2,857,568	187,469	250,081	-	40,027,627
Depreciation	4,600,353	443,489	31,249	53,068	-	5,128,159
Impairment	-	250,000	-	-	-	250,000
Disposals	(735,672)	-	-	-	-	(735,672)
At March 31, 2017	40,597,190	3,551,057	218,718	303,149	-	44,670,114
Depreciation	4,422,798	1,621,699	31,329	55,148	-	6,130,974
Impairment	-	250,000	-	-	-	250,000
Disposals	(331,012)	-	-	-	-	(331,012)
At March 31, 2018	44,688,976	5,422,756	250,047	358,297	-	50,720,076
Carrying Amount						
At March 31, 2017	61,255,710	15,364,495	815,615	1,815,850	54,680,583	133,932,253
At March 31, 2018	57,607,754	72,845,773	964,691	1,871,635	275,908	133,565,761

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 (2017 - $250,000) was recognized in depreciation in the Consolidated Statement of Comprehensive Income to write down the asset to its recoverable amount. At March 31, 2018, the recoverable amount, based on fair value less costs of disposal, was $4,437,500 (2017 - $4,687,500). 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.

Borrowing costs capitalized during the year totaled $422,445 (2017 - $1,588,636).

8. Trade Payables and Accrued Liabilities

	2018	2017
Trade Payables	1,212,464	1,665,428
HST	416,603	-
Accrued Liabilities	89,477	13,660,088
	1,718,544	15,325,516

Trade payables are non-interest bearing and normally settled within 30 days. Included in trade payables is $217,282 (2017 - $233,787) due to various Provincial Government controlled departments and agencies.

9. Deferred Ratepayer Recoveries

	2018	2017
Amounts received	3,579,019	-
Debt collections allocated to repayment of NB Interconnection Transmission	(395,839)	-
Debt collections allocated to interest revenue	(1,364,394)	
Debt collection revenue recognized	(1,179,707)	
Balance, end of year	639,079	-

These amounts relate to the collection and recognition in comprehensive income of ratepayer recoveries on the PEI-NB Cable Interconnection. All end of year balances are current.

10. Deferred Service and Warranty, Net

	Wind Turbines and Towers
Gross Amount	
At March 31, 2016	4,436,327
Additions	398,317
Disposals	-
At March 31, 2017	4,834,644
Additions	751,899
Disposals	-
At March 31, 2018	5,586,543
Accumulated Amortization	
At March 31, 2016	2,988,553
Amortization	239,714
Disposals	-
At March 31, 2017	3,228,267
Amortization	242,000
Disposals	-
At March 31, 2018	3,470,267
Carrying Amount	
At March 31, 2017	1,606,377
At March 31, 2018	2,116,276

Additions pertain to increases in asset values due to replacement under service and warranty. Disposals pertain to removal of service warranty upon subsequent replacement.

11. Long-term indebtedness

	2018	2017
Toronto Dominion, 2.51%, payable in monthly payments of principal and interest of $264,353, due February 2046.	77,516,021	78,724,542
Toronto Dominion, 3.41%, payable in monthly payments of principal and interest of $346,861, due March 2038.	60,308,902	62,378,732
Toronto Dominion, 2.99%, payable in monthly payments of principal and interest of $332,458, due July 2033.	49,019,741	51,503,148
Toronto Dominion, 2.45%, payable in monthly interest only payments until April 2021, then monthly payments of principal and interest of $260,928, due April 2030.	25,266,564	25,766,564
Province of PEI, 3.86%, payable in monthly payments of principal and interest of $70,560, due June 2035.	10,652,359	11,078,931
Toronto Dominion Bankers Acceptance, 1.59% plus 0.28% stamping fee, due April 2018.	10,609,270	-
Toronto Dominion, 1.87%, payable in monthly payments of principal and interest of $97,363, due April 2021.	3,497,886	4,589,737
Toronto Dominion, 2.40%, payable in monthly payments of principal and interest of $28,145, due May 2023.	1,628,388	1,923,202
Bonds Payable, 5% compounded with dates ranging from December 31, 2006 to April 30, 2008 maturing five years from the date of issuance, guaranteed by the Province of Prince Edward Island.	1,000	1,000
Accrued bond interest payable	276	276
	238,500,407	235,966,132
Less: current portion	(19,207,644)	(8,076,267)
	219,292,763	227,889,865

The aggregate maturities of long-term indebtedness including accrued interest subsequent to March 31, 2018 are as follows: 2019 - $19,207,644; 2020 - $8,025,966; 2021 - $8,261,805; 2022 - $9,678,212; 2023 - $10,072,387; thereafter - $183,254,393.

The current portion of long-term indebtedness includes $800,000 (2017 - $500,000) relating to a payment made subsequent to year end that was based on conditions existing at the end of the reporting period. Per the terms of the loan, this payment was at the discretion of the Corporation.

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.

11. Long-term indebtedness (continued)

All of the Toronto Dominion long-term indebtedness is exchanged monthly. However, the related maturities are presented in accordance with the fixed schedule specified in each loan's repayment terms. In addition, four of the Toronto Dominion loans have optional early termination and cash settlement provisions of which three are available to be exercised every five years starting on the fifth anniversary of the loan issue date and one is available to be exercised on March 27, 2033.

12. Financial Instruments

	Fair Value through Earnings	Amortized Cost	Total
March 31, 2017			
Cash, including restricted cash	37,963,580	-	37,963,580
Trade receivables, net	16,563,551	-	16,563,551
Other financial assets, including current	-	110,205,323	110,205,323
Trade payables and accrued liabilities	(15,325,516)	-	(15,325,516)
Long-term indebtedness, including current	-	(235,966,132)	(235,966,132)
	39,201,615	(125,760,809)	(86,559,194)
March 31, 2018			
Cash, including restricted cash	33,072,697	-	33,072,697
Trade receivables, net	18,960,342	-	18,960,342
Other financial assets, including current	-	111,182,607	111,182,607
Trade payables and accrued liabilities	(2,378,444)	-	(2,378,444)
Long-term indebtedness, including current	-	(238,500,407)	(238,500,407)
	49,654,595	(127,317,800)	(77,663,205)

Net gains or losses by category by period were as follows:

	2018	2017
Financial assets at fair value	296,882	157,680
Financial assets measured at amortized cost	457,512	490,290
Financial liabilities measured at amortized cost	(1,969,173)	(2,074,692)

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. 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 $109,947,984 (2017 – $106,480,793). The estimated fair value of long-term indebtedness is $226,873,929 (2017 - $216,480,002). Since the Corporation does not intend to settle other financial assets or long-term debt prior to maturity, the fair value estimates do not represent an actual asset or liability and, therefore, have not been recorded in the statements.

13. Government Grants

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

	2018	2017
Government grants deducted from related expense	-	165,055
Government grants deducted from carrying amount of related asset	21,300,405	42,209,323
Government grants recognized as income	115,000	115,000
	21,415,405	42,489,378

Government grants have been received for the development of a Provincial Energy Strategy, construction related to the PEI-NB Cable Interconnection Project which will upgrade 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.

There are no unfilled conditions or contingencies attached to the other grants.

14. 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.

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 company 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. Long-term indebtedness consists of medium to long-term fixed rate debt which does not fluctuate with changes in interest rates.

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, 2018, the Corporation did not hold any foreign exchange contacts.

14. Risk Management (continued)

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).

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, $3,168,249 (2017 - $2,775,620) is due from the utility, the Corporation's largest customer, and $15,678,025 (2017 – $12,788,136) is due from the Federal Government in respect of 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 except as disclosed in Note 6. 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.

At March 31, 2018, the Corporation had access to $10,586,095 (2017 - $50,000,000) in undrawn borrowing facilities.

15. 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 surplus. 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.

16. 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, 2018. 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: 2019 - $3,467,056; 2020 - $3,467,056; 2021 - $3,467,056; 2022 - $3,467,056; 2023 - $2,083,777; thereafter - $12,038,338.

A new service and warranty agreement at the North Cape location became effective February 12, 2018. In addition to the fixed costs discussed above, the Corporation is required to pay an additional $4.03, subject to inflationary increases, per megawatt hour produced by each wind turbine.

Power Purchase Agreements:

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.

Development:

At March 31, 2018, the Corporation had outstanding contractual construction commitments amounting to approximately $1,600,000 (2017 – $41,100,000) related to PEI-NB Cable Interconnection Project which has upgraded the interconnection between the electrical systems of Prince Edward Island and mainland Canada. Outstanding funding for the project, as of March 31, 2018, from Infrastructure Canada is estimated at $800,000 (2017 - $39,600,000).

17. Related Party Transactions

These financial statements include the results of financing and normal operating transactions with various Provincial Government controlled departments, agencies and Crown Corporations, with which the Corporation may be considered related. These transactions have been measured at fair value as determined by management.

The following table provides information regarding the sale of renewable energy credits by the Corporation on behalf of the Provincial Government:

	2018	2017
Gross sales	448,839	440,887
Selling expenses	(146,154)	(96,540)
Net proceeds paid or payable to the Provincial Government	302,685	344,347
Other renewable energy certificate expenses reimbursed by the Provincial Government	60,618	52,819

Key Management Compensation

Key management includes the CEO. Salary and short-term benefits paid to the CEO totaled $148,957 (2017 – $144,735).