

# **PRINCE EDWARD ISLAND ENERGY CORPORATION**

## **ANNUAL REPORT 2020-21**



**Prince Edward Island Energy Corporation  
38<sup>th</sup> Annual Report  
For the Year Ended  
March 31, 2021**

## 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 (MWs)), Hermanville/Clearspring (30 MWs) and North Cape (13.56 MWs);
- 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 ownership of the 360-MW Cable Interconnection Upgrade 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

<b>Message from the Minister .....</b>	<b>4</b>
<b>Message from the Chief Executive Officer .....</b>	<b>5</b>
<b>Executive Summary .....</b>	<b>6</b>
<b>Board of Directors .....</b>	<b>7</b>
<b>Staff of the Prince Edward Island Energy Corporation .....</b>	<b>8</b>
<b>Annual Objectives .....</b>	<b>9</b>
<b>Operational Review for 2020-21 .....</b>	<b>10</b>
<i>Revenue .....</i>	<i>10</i>
<i>Expenses .....</i>	<i>11</i>
<i>North Cape Wind Farm .....</i>	<i>12</i>
<i>East Point Wind Farm.....</i>	<i>14</i>
<i>V-90 Prototype Turbine .....</i>	<i>16</i>
<i>Hermanville/Clearspring Wind Farm .....</i>	<i>18</i>
<b>Other Energy Initiatives .....</b>	<b>20</b>
<i>Pathway to Net Zero (2040) .....</i>	<i>20</i>
<i>Sustainable Communities .....</i>	<i>20</i>
<i>30-MW Wind Farm Development .....</i>	<i>20</i>
<i>West PEI Transmission Line .....</i>	<i>20</i>
<i>Slemon Park Microgrid.....</i>	<i>20</i>
<b>Appendix A – Audited Financial Statements.....</b>	<b>21</b>

## Message from the Minister

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

Dear Lieutenant Governor:

Prince Edward Island continues to utilize its natural resources by harnessing wind power to meet our growing electricity requirements. In a challenging year due to COVID-19, the wind farms continued to operate at a very high degree of availability producing more than 232,000 MWh of renewable electricity for the use of Islanders.

The province is committed to PEI's Path Towards Net Zero (2040). The Federal and PEI Governments announced \$44 Million in funding for a 106-kilometre transmission line that will connect future energy projects in the western portion of PEI.

The Corporation continued to move energy projects forward as part of the Path to Net Zero. Significant achievements included the tendering process for the Slemon Park Microgrid Project that includes 10 MW AC of solar, approximately 1 MWh of energy storage and four behind the meter energy storage projects. The Corporation also continued planning activities on the development of a 30-MW wind farm. The environmental permit was issued for construction of the wind farm. The process of obtaining a development permit is still underway.

In accordance with subsection 10(1) of the Energy Corporation Act, it is my pleasure to submit to the Legislative Assembly the 38th Annual Report of the Prince Edward Island Energy Corporation, which covers activities and finances for the 2020-21 fiscal year.

Respectfully submitted,



Steven Myers  
Minister of Environment, Energy & Climate Action  
Minister Responsible for the Prince Edward Island Energy Corporation

## Message from the Chief Executive Officer

The Honourable Steven Myers  
Minister of Environment, Energy & Climate Action  
PO Box 2000  
Charlottetown, PE C1A 7N8

Dear Honourable Minister:

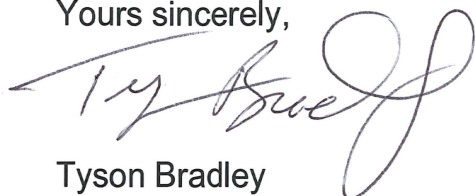
The Prince Edward Island Energy Corporation is committed to PEI's Path to Net Zero (2040). Including private and municipal wind farms, wind power provided approximately 22% of Prince Edward Island's electrical energy in 2020-21.

The Corporation is developing the Slemon Park Microgrid Project including 10 MW AC of solar with the scope to produce approximately 17 GWh of green electricity for Islanders. The Corporation, partnering with the local utility, will integrate over 1MWh of grid energy storage and four behind-the-meter storage components to benefit local industry. Utility-scale wind development is still a priority for PEI. The planned 30-MW wind farm was granted environmental approval in October 2020 by the Department of Environment, Water and Climate Change. The Corporation continues to seek a development permit, through a land planning appeal process at the Island Regulatory and Appeals Commission and a decision is anticipated in 2021. Preliminary planning and technical studies for the transmission line required for a 40-MW wind farm have begun.

Islanders continue to benefit from the PEI-NB Cable Interconnection through the Corporation's ownership and low-cost financing. The interconnection has greatly improved the reliability of the PEI grid which now has a 2020-21 peak load of 286 MW. 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.

On behalf of the Board of Directors of the Prince Edward Island Energy Corporation, it is my pleasure to provide you with this Annual Report which accurately describes the activities and finances of the Corporation during the 2020-21 fiscal year.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Tyson Bradley', with a large, stylized flourish at the end.

Tyson Bradley  
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 GWh of renewable electricity to Islanders in the 2020-21 fiscal year.

The Corporation reported revenue of \$26.2 million this past fiscal year, which was a 3% increase from the previous year. All wind farm revenues increased compared to the year prior with the exception of North Cape, which remained stable. The V-90 Prototype realized the largest gain at an increase of 9%, attributable to higher availability and more wind energy production. Total expenses were \$17.3 million, a 3% increase over fiscal year 2019-20.

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 on to Island ratepayers.

Through its ownership of the PEI-NB Cable Interconnection, the Corporation has further employed its ability to secure low-cost financing in the best interests of Island ratepayers. In addition to monetary savings, the PEI-NB Cable Interconnection continues to benefit ratepayers through enhanced electricity system reliability and capacity.

The Corporation continued to implement recommendations from the 2016/17 Provincial Energy Strategy. With regards to the development of the next 30-MW Wind Farm, a site near the Corporation's existing wind farm in East Point was identified as the preferred location due to its excellent wind resources and existing transmission infrastructure. The Corporation has been delayed, however, and continues to seek the necessary project approvals at the municipal level.

The Slemon Park Microgrid Project will be the Corporation's first major solar project with 10 MW of AC output. The decline in solar capital costs and improved efficiency of solar panels has resulted in the ability for the Island to adopt solar at a scale that benefits all Islanders. Grid-sized storage and four behind-the-meter energy storage systems are also planned to optimize the system and benefit local industry. Storage will allow the local utility to shift the peak and align the solar energy with peak



demand periods. Tenders have been issued for the major components of the project and on-site work will begin in the next fiscal year.

Operationally, at Eastern Kings Wind Farm, the resolution of the 2018 blade failure on Turbine 8 was finalized. The site was cleaned up and blade waste material was successfully utilized at the Charlottetown Energy from Waste site.

At North Cape, now in its 19<sup>th</sup> year of operation, technicians were busy with four gearboxes and a pad-mount transformer requiring replacement.

Hermanville showed signs of improvement with modifications that greatly reduce blade stud failure reducing turbine downtime and increasing technician morale. Additional work is still required to bring this site to its full operational potential.

## 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, 2021, the board members were as follows:

NAME	POSITION HELD
Deputy Minister of Environment, Energy & Climate Action (Brad Colwill)	Chairperson
Minister of Environment, Energy & Climate Action (Steven Myers)	Director
Deputy Minister of Finance (Dan Campbell)	Director
Deputy Minister of Economic Growth, Tourism & Culture (Erin McGrath-Gaudet)	Director
Clerk of Executive Council (Paul Ledwell)	Director
Secretary to Treasury Board (Cindy Harris)	Director
Deputy Minister of Transportation and Infrastructure (Darren Chaisson)	Director

## Staff of the Prince Edward Island Energy Corporation

Kim Horrealt, P.Eng., led the day-to-day operations and strategic direction of the Prince Edward Island Energy Corporation in her duties as the Chief Executive Officer. Kim also oversaw significant growth in efficiency PEI as their suite of programs and staff continue to expand with the goal of reducing PEI's energy footprint.

Heather MacLeod, FEC, P.Eng., managed the wind generation assets in her role as Director, Energy Policy and Assets. She spearheaded the major Corporation projects including the resolution of the Eastern Kings T8 blade damage, Slemon Park Microgrid and the proposed 30-MW wind farm.

Crystal Burrows, CPA, CA, returned from a sojourn to UPEI and resumed as the Chief Financial Officer for the Energy Corporation. The Corporation thanks Matthew Praught, CPA, CA, for his work and wishes him luck in his new position with the Treasury Board Secretariat.

Spencer Long, P.Eng., was responsible for the Slemon Park Microgrid Project and the 30-MW wind farm in his role as Engineering Project Manager.

Blair Arsenault, P.Eng., organized the daily operations of the windfarms in his role as the Energy Operations Engineer. The failed pad mount transformer and the energy from blade waste projects were his highlights.

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

Catherine Kennedy joined the Energy Corporation in 2020-21 as a Climate Sense Intern. She is reviewing the Corporation's assets and future projects from a climate change mitigation and adaptation point of view.



## Annual Objectives

The Prince Edward Island Energy Corporation had set the following objectives for the 2020-21 fiscal year:

- ✧ Operate and maintain its wind facilities at a high level of availability;
- ✧ Plan and execute the proposed 30-MW wind farm;
- ✧ Develop the Slemon Park Microgrid Project;
- ✧ Support the construction of a 106-kilometre transmission line to Western PEI; and
- ✧ Provide advice to Government on various energy issues, with Government's goal of achieving Net Zero by 2040 being a priority.



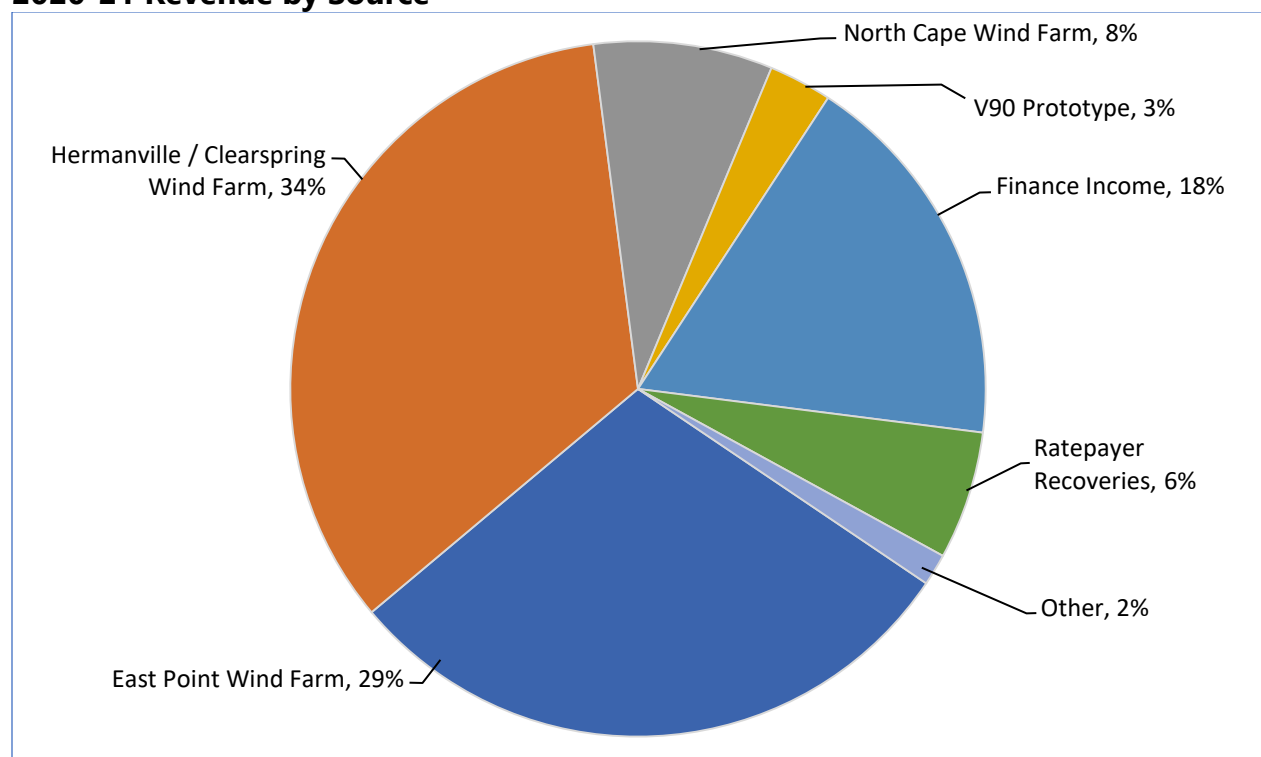
## Operational Review for 2020-21

### Revenue

The total revenue earned by the Prince Edward Island Energy Corporation during fiscal year 2020-21 was \$26.2 million. The main component of this revenue accrued from the operation of its wind farms and related infrastructure. These revenues 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 as well as ratepayer recoveries on the PEI-NB Cable Interconnection. The following graph illustrates the sources of revenue during 2020-21.

Overall, revenue increased by 3% from the prior year. Hermanville had the largest increase at \$442,000, or 5%, due to increased wind energy production and availability liquidated damages.

### 2020-21 Revenue by Source

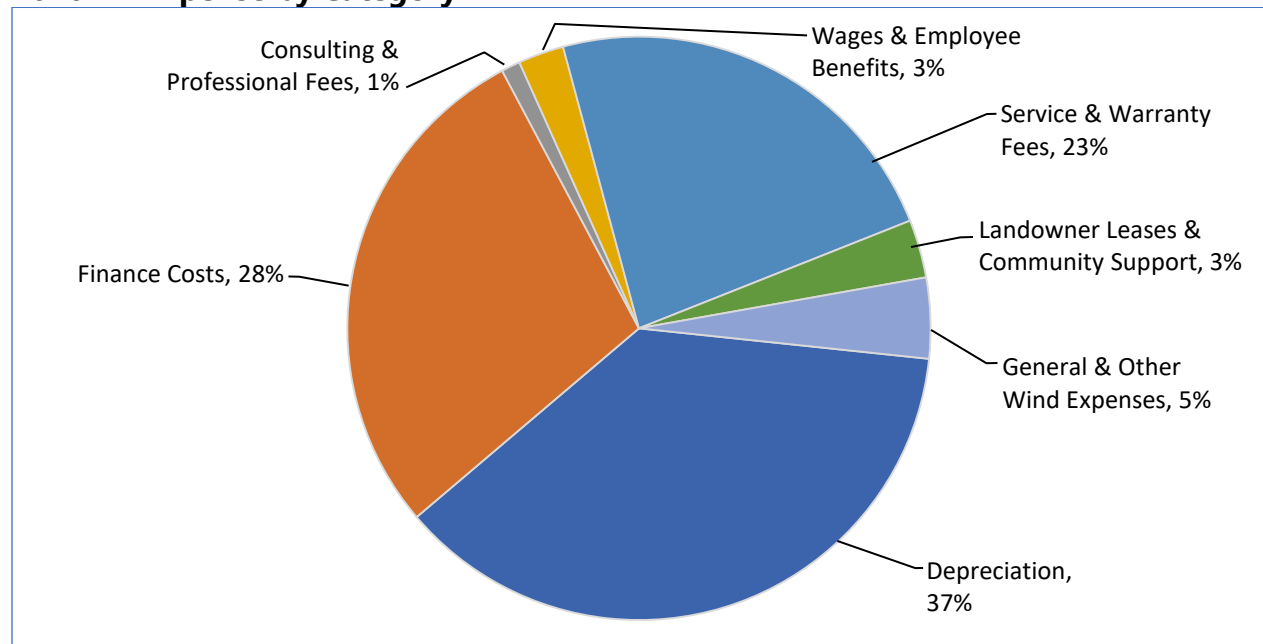


## Expenses

Expenses for the Corporation totaled \$17.3 million in 2020-21. This represented a 3% increase compared to the previous year. In 2019-20, the Corporation saw a one-time gain on disposal of assets related to the Turbine 8 blade failure, which reduced that

year's expenses. The following graph presents the Corporation's expenses by category for 2020-21.

### 2020-21 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 most inexpensive power.

During the reporting period, the North Cape Wind Farm generated revenues of

\$2.2 million, which represented no change from the previous year. The wind farm incurred expenditures of \$1.6 million, which resulted in profit of \$600,000. 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 very well, producing over 30 GWh of energy. The V-47s are starting to show signs of age with four gearboxes exchanged, yaw ring and pitch ram issues as the key maintenance activities. With warranty and maintenance in place to year 27, risk is mitigated.

North Cape Performance		
Fiscal Year	Electricity Production (megawatt-hours)	Capacity Factor (%)
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%
2018/19	32,398	35.0%
2019/20	31,039	33.5%
<b>2020/21</b>	<b>30,584</b>	<b>33.1%</b>
Average	31,361	33.9%

North Cape Financial					
	REVENUE		EXPENSES		PROFIT/ SURPLUS
Fiscal Year	Annual \$	Cents/ kWh	Annual \$	Cents/ kWh	Annual \$
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
2018/19	\$2,432,779	7.5	\$1,417,686	4.4	\$1,015,093
2019/20	\$2,185,982	7.0	\$1,482,497	4.8	\$703,485
<b>2020/21</b>	<b>\$2,181,412</b>	<b>7.1</b>	<b>\$1,578,017</b>	<b>5.2</b>	<b>\$603,395</b>
Average	\$2,371,416	7.6	\$1,690,489	5.4	\$680,927



## 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, has been adjusted based on increases in the Consumer Price Index (CPI).

The East Point Wind Farm continued its trend of high availability and production at 94.7% and 92.7 GWh, respectively. Key operations activities included the resolution of the 2018 T8 Blade failure and the corresponding cleanup of the wind farm. The waste blade material was repurposed as heat when it was incinerated at the Energy From Waste Plant.

East Point Performance			
Fiscal Year	Availability* (%)	Electricity Production (megawatt-hours)	Capacity Factor
2011/12	97.2%	98,162	37.30%
2012/13	94.9%	91,176	34.70%
2013/14	96.6%	86,427	32.90%
2014/15	94.4%	87,060	33.10%
2015/16	97.8%	96,043	36.40%
2016/17	96.3%	90,972	34.60%
2017/18	95.3%	90,957	34.60%
2018/19	94.4%	91,737	34.90%
2019/20	96.0%	91,998	34.90%
<b>2020/21</b>	<b>94.7%</b>	<b>92,788</b>	<b>35.30%</b>
Average	95.8%	91,732	34.90%

\*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% and availability incentives are provided above it.

All the turbines at the East Point Wind Farm are located on private lands. Under a three-tier compensation system, a portion 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 \$179,000 was paid to landowners during 2020-21; as well, municipal taxes were paid to the Rural Municipality of Eastern Kings.

The wind farm profit was up \$275,000 or 7% in 2020-21 compared to the previous year. This can be attributed to more wind energy production and liquidated damages from lower turbine availability. The following chart illustrates the annual revenues and expenditures of the East Point Wind Farm for the last ten fiscal years.

<b>East Point Financial</b>					
	<i><b>Revenue</b></i>		<i><b>Expenses</b></i>		<i><b>Profit/Surplus</b></i>
<b>Fiscal Year</b>	<b>Annual \$</b>	<b>Cents/kWh</b>	<b>Annual \$</b>	<b>Cents/kWh</b>	<b>Annual \$</b>
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
2018/19	\$7,649,298	8.3	\$3,507,191	3.8	\$4,142,107
2019/20	\$7,502,198	8.2	\$3,509,819	3.8	\$3,992,379
<b>2020/21</b>	<b>\$7,714,719</b>	<b>8.3</b>	<b>\$3,447,120</b>	<b>3.7</b>	<b>\$4,267,599</b>
Average	\$7,975,098	8.7	\$4,359,152	4.8	\$3,615,946





## 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.

In the past year, the V-90 performed very well and had its highest year of availability on record at 98.2%. Key balance of plant activities included road work, substation fencing and gravel improvements.

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%
2018/19	95.9%	9,543	36.3%
2019/20	96.2%	9,628	36.5%
<b>2020/21</b>	<b>98.2%</b>	<b>10,252</b>	<b>39.0%</b>
Average	96.7%	9,932	37.8%

V-90 Prototype					
	<i>Revenue</i>		<i>Expenses</i>		<i>Profit/Surplus</i>
<b>Fiscal Year</b>	<b>Annual \$</b>	<b>Cents/ kWh</b>	<b>Annual \$</b>	<b>Cents/ kWh</b>	<b>Annual \$</b>
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
2018/19	\$770,958	8.1	\$468,110	4.9	\$302,848
2019/20	\$707,080	7.3	\$424,405	4.4	\$282,675
<b>2020/21</b>	<b>\$769,197</b>	<b>7.5</b>	<b>\$432,113</b>	<b>4.2</b>	<b>\$337,084</b>
Average	\$766,764	7.7	\$441,162	4.4	\$325,602



## Hermanville/Clearspring Wind Farm

The Hermanville/Clearspring Wind Farm was operational for its sixth full year after being commissioned in January, 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 ratepayers, the operational phase of the wind farm is providing highly technical jobs for a minimum of four 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 private 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, whereby community projects are partially funded after an application process. In total, approximately \$337,000 was distributed in 2020-21 to landowners and the community. Funding recipients included the Souris & Area Branch of PEI Wildlife Federation (\$58,000), Souris Striders Ski Club (\$23,000) and Triple S Holdings Inc (\$15,000).

Considering turbine availability was low, the turbines performed well, producing close to 99 GWh. Key maintenance activities included increasing the blade stud tension and changing broken blade studs from fine to coarse thread. This has greatly reduced failures and increased morale for the technicians battling the issue.



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	92.3%	91,423	34.8%
2017/18	95.7%	100,421	38.2%
2018/19	93.1%	100,767	38.3%
2019/20	92.4%	97,837	37.1%
<b>2020/21</b>	<b>89.4%</b>	<b>98,783</b>	<b>37.6%</b>
Average	93.8%	101,372	38.5%

\*As per the Operation and Service Agreement with Acciona/Nordex, the machine availability is guaranteed to be 97%. Liquidated damages are assessed for availability below 97% and availability incentives are paid out over 98%.

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
2018/19	\$8,702,848	8.6	\$5,438,142	5.4	\$3,264,706
2019/20	\$8,477,588	8.7	\$5,245,353	5.4	\$3,232,235
<b>2020/21</b>	<b>\$8,919,453</b>	<b>9.0</b>	<b>\$5,216,403</b>	<b>5.3</b>	<b>\$3,703,050</b>
Average	\$8,495,665	8.4	\$5,521,846	5.5	\$2,973,819

## Other Energy Initiatives

### *Pathway to Net Zero (2040)*

The province has set a goal to become the first in Canada to produce no more greenhouse gas emissions (GHGs) than our land, ocean, and technologies can absorb. The plan will reduce our reliance on imported fossil fuels, foster innovation and grow our economy. The PEI Energy Corporation will play a key role as the province embarks on its path to Net Zero.

### *Sustainable Communities*

The Sustainable Communities Initiative encourages interested communities to explore opportunities for energy generation models that suit their unique needs. This could consist of micro-scale electricity generation, centralized heating and cooling, cogeneration, community energy efficiency, or energy from waste. The key goals of the PEI Energy Corporation are well aligned to assist with these opportunities.

### *30-MW Wind Farm Development*

During 2020-2021, the Corporation continued with the development of a new 30-megawatt wind farm. A site near the Corporation's existing wind farm in East Point was identified as the preferred location due to its excellent wind resources and existing transmission infrastructure. Environmental Approvals were granted for the project on September 2<sup>nd</sup>, 2020 by the Department of Environment, Water and

Climate Change. The Corporation continues to seek issuance of development Permits, through a land planning appeal process at the Island Regulatory and Appeals Commission. The Corporation expects a decision on the project to be made in 2021 and will proceed accordingly.

### *West PEI Transmission Line*

Technical and feasibility studies for the 106-kilometre transmission line to Western PEI are being spearheaded by the PEI Energy Corporation and the local utility. The \$44 million investment by PEI and the Federal government is a significant investment in the energy future of Western PEI, including the 40-MW Wind Farm proposed in the Provincial Energy Strategy.

### *Slemon Park Microgrid*

Slemon Park, a former Canadian Forces Air Base, provides an ideal location for a microgrid. A 10-MW AC solar photovoltaic array, over 1 MWh of grid storage and four behind-the-meter energy storage batteries will complement the array and help the utility and industries balance their peak electrical demand. Environmental Impact Assessments have been screened out through the Provincial regulator. Tenders for key project components were issued in 2020-21; onsite work will begin in the coming fiscal year.

## **Appendix A – Audited Financial Statements**

# **Prince Edward Island Energy Corporation**

## **Consolidated Financial Statements**

Year ended March 31, 2021

(Canadian Dollars)



# Contents

	<b>Page</b>
Independent Auditor's Report	1 - 2
Consolidated Statement of Financial Position	3
Consolidated Statement of Profit	4
Consolidated Statement of Comprehensive Income	5
Consolidated Statement of Changes in Equity	6
Consolidated Statement of Cash Flows	7
Notes to the Consolidated Financial Statements	8 - 28

# Independent Auditor's Report

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

## Opinion

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

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

## Basis for opinion

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

## Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

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

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

Charlottetown, Canada

June 23, 2021

The logo for Grant Thornton LLP, featuring the company name in a stylized, cursive script.

Chartered Professional Accountants

# Prince Edward Island Energy Corporation

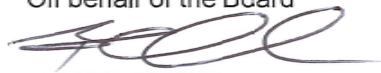
## Consolidated Statement of Financial Position

As at

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

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

On behalf of the Board



, Director



, Director

# Prince Edward Island Energy Corporation

## Consolidated Statement of Profit

For the years ended March 31,

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

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

# Prince Edward Island Energy Corporation

## Consolidated Statement of Comprehensive Income

For the years ended March 31,

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

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

# Prince Edward Island Energy Corporation

## Consolidated Statement of Changes in Equity

For the years ended March 31,

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

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



# Prince Edward Island Energy Corporation

## Consolidated Statement of Cash Flows

For the years ended March 31,

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

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

# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

---

### 1. Corporate Information and Nature of Operations

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

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

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

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

---

### 2. Significant Accounting Policies

#### Statement of Compliance

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

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

#### Basis of Consolidation

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

#### Revenue from Contracts with Customers

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

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

#### *Sale of wind energy:*

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

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

# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

---

### 2. Significant Accounting Policies (continued)

#### *Ratepayer recoveries:*

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

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

#### *Sale of Renewable Energy Certificates (RECs):*

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

#### **Other Wind Revenue**

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

#### *Liquidated damages:*

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

#### *Rent revenue:*

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

#### **Leases**

##### *The Corporation as lessee*

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

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

# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

---

### 2. Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

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

# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

---

### 2. Significant Accounting Policies (continued)

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

#### *(b) The Corporation as lessor*

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

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

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

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

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

### **Cash**

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

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

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

### **Financial Instruments**

#### *Trade Receivables:*

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

#### *Financial Assets:*

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

# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

---

### 2. Significant Accounting Policies (continued)

#### *Financial Assets: (continued)*

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

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

#### *Impairment of Financial Assets:*

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

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

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

#### *Debt Instruments:*

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

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

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

#### *Derivative Financial Instruments and Hedge Accounting:*

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

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

# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

---

### 2. Significant Accounting Policies (continued)

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

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

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

#### *Cash flow hedges*

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

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

#### **Fair values**

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

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

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

Level 3: unobservable inputs for the asset or liability.

# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

### 2. Significant Accounting Policies (continued)

#### Property, Plant and Equipment

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

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

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

#### Assets under Development

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

#### Impairment of Long-Lived Assets

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

#### Government Grants

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

#### Provisions

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



# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

---

### 2. Significant Accounting Policies (continued)

#### Provisions (continued)

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

#### *Decommissioning provisions*

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

#### Pension Liabilities

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

---

### 3. Critical Accounting Estimates, Judgments and Errors

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

#### Revenue from Contracts with Customers

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

#### *Determining the timing of satisfaction of access to electricity grid infrastructure*

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

#### *Principal versus agent considerations*

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

# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

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

#### Decommissioning Provisions

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

#### Asset Lives

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

#### COVID-19

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

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

### 4. Cash

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

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

### 5. Trade Receivables

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

# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

### 5. Trade Receivables (continued)

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

### 6. Investments

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

### 7. Other Financial Assets

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

# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

---

### 7. Other Financial Assets (continued)

#### *PEI Energy Accord – Point Lepreau and Dalhousie Financing*

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

#### *PEI-NB Cable Interconnection Project*

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

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

---

# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

### 8. Property, Plant and Equipment, Net

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

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

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

# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

### 9. Leases

#### *Right-of-use assets*

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

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

#### *Lease liabilities*

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

	<b>2021</b>	<b>2020</b>
Current	\$ 11,930	\$ -
Non-current	426,717	-
	\$ 438,647	\$ -

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

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

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

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

# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

### 9. Leases (continued)

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

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

#### *Lease payments not recognized as a liability*

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

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

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

### 10. Trade Payables and Accrued Liabilities

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

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

### 11. Contract Liabilities

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

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

# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

### 12. Long-term indebtedness

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

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

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

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

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

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



# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

### 13. Financial Instruments

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

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

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

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

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

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

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

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

# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

### 13. Financial Instruments (continued)

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

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

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

### 14. Government Grants

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

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

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

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

### 15. Risk Management

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

<b>Market Risk</b>	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).
<b>Credit Risk</b>	Risk of loss due to the failure of the borrower or counterparty to fulfill its contractual obligations.
<b>Liquidity Risk</b>	Risk that the Corporation cannot meet a demand for cash or fund an obligation when it is due.

# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

### 15. Risk Management (continued)

#### Market Risk

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

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

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

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

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

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

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

#### Credit Risk

The Corporation's credit risk is limited to cash, trade receivables and other financial assets. The Corporation's maximum exposure to credit risk in relation to each class of recognized financial assets is limited to the carrying amount of those assets as indicated in the statement of financial position. The maximum credit exposure does not take into account the value of any collateral or other security held in the event the counterparty fails to perform its obligations under the financial instrument in question. The Corporation considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Corporation in full, without recourse by the Corporation to actions such as realizing security (if any is held).

# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

### 15. Risk Management (continued)

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

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

#### Liquidity Risk

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

### 16. Capital Management

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

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

### 17. Commitments and Financial Guarantees

#### Commitments

##### *Turbine service and warranty agreements:*

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

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

# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

---

### 17. Commitments and Financial Guarantees (continued)

#### *Power Purchase Agreements (PPAs):*

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

#### *Land lease payments:*

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

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

#### *Development:*

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

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

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

---

# Prince Edward Island Energy Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2021

---

### 18. Related Party Transactions

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

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

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

#### *Key Management Compensation*

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

---

### 19. Prior Period Comparative Figures

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