



innovationpei
ACCELERATING ECONOMIC DEVELOPMENT

ANNUAL REPORT



Business Development and Innovation
Global Trade Services
Business Attraction and Emerging Sectors

2016 - 2017

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Telephone: 902-368-6300
Toll-free: 1-800-563-3734 (North America)

www.innovationpei.com

Facsimile: 902-368-6301
Address: 94 Euston Street,
PO Box 910, Charlottetown,
Prince Edward Island, C1A 7L9 Canada



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LETTER FROM THE CEO

September 26, 2017

Honourable J. Heath MacDonald
Minister of Economic Development and Tourism
PO Box 2000
Charlottetown, PE C1A 7N8

Dear Minister MacDonald,

Please accept this annual report for the fiscal year ending March 31, 2017, summarizing Innovation PEI's activities and highlighting some of the overall successes of the Prince Edward Island economy during that period.

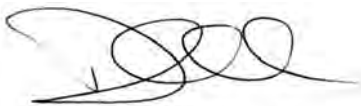
Innovation PEI (IPEI), the lead economic development agency for the Province, fosters strategic partnerships with industry, academia, and other government and non-governmental agencies, to further develop a prosperous and vibrant economy with the goal of sustainable employment opportunities for Islanders.

Highlights from this fiscal year include:

- \$31,629,015 was approved to support 987 projects
- A call for applications to the McCain Fund was issued, making \$2,000,000 available to support economic development projects
- The Island's economy grew by 2.4% in 2016. Provincial GDP for all industries was \$4.79 billion. ⁱ
- In 2016, Prince Edward Island had another year of record international exports - reaching \$1.32 billion - a 1.6% increase over 2015. This was the sixth consecutive increase. ⁱⁱ
- The value of manufacturing shipments from Prince Edward Island increased by 4.8% in 2016, to reach a new all time high of \$1.7 billion. ⁱⁱⁱ
- The United States remains Prince Edward Island's most important trading partner, with export sales reaching a record \$925.5 M in 2016. In five years, PEI has increased sales to the U.S. by 81%. ^{iv}

With direction from your Department, Cabinet and our private sector Board of Directors, Innovation PEI will continue to support the growth, diversification and strengthening of our economy.

Respectfully submitted,



David Keedwell,
Chief Executive Officer





INNOVATION PEI OVERVIEW

Innovation PEI is focused on accelerating economic development in Prince Edward Island by investing in people, innovation and infrastructure. Acting as a key entry point for entrepreneurs and small to medium-sized firms pursuing business development initiatives, Innovation PEI encourages domestic and global investment, business expansion, innovation, and sales through the delivery of financial supports and services. Innovation PEI's primary goal is to strengthen the economy of Prince Edward Island by helping businesses create sustainable employment opportunities.

BUSINESS DEVELOPMENT AND INNOVATION

The Business Development and Innovation Division is responsible for the coordination and delivery of information and to support businesses in start up, expansion, and diversification. The division provides a full range of business counseling and assistance to support the long term viability of Prince Edward Island businesses. The division also manages the innovation programs focused on encouraging innovation and new product development.

BUSINESS ATTRACTION AND EMERGING SECTORS

The Business Attraction and Emerging Sectors Division is responsible for growing the strategic sectors of aerospace and defence, financial and business services, bioscience, advanced marine technology, information and communications technology, advanced manufacturing, and renewable energy. The division is responsible for attracting out of province business investment to Prince Edward Island and fostering growth of existing companies in these sectors.



CORPORATE MANAGEMENT

The Corporate Management Division supports the overall mandate and initiatives of Innovation PEI and its divisions. Innovation PEI works with a board of directors appointed from diverse areas of the private sector and our post-secondary institutes to provide guidance and non-governmental perspective on the direction and activities of the agency.

GLOBAL TRADE SERVICES

Innovation PEI's Global Trade Services Division is mandated to grow revenue created from export sales and to help Prince Edward Island companies become export ready. The division offers training and support for market entry activities, market-specific information, and logistical and on-the-ground support for trade missions.

PRINCE EDWARD ISLAND ECONOMIC HIGHLIGHTS 2016-2017

In Prince Edward Island, the economy continued on a strong footing with provincial GDP growth of 2.4 per cent in 2016 - surpassing the national average of 1.3 per cent. This follows a 1.3 per cent increase in 2015 and 1.4 per cent in 2014. Reaching a record \$4.79 billion in 2016, the Island GDP has averaged \$4.6 billion over the last five years. ^v

TOURISM

A significant increase in tourism activity across PEI in 2016 resulted in the fourth consecutive year of growth in tourism spending on the Island. Combined, fixed roof and camping increased by 10.2% in 2016 to reach an all-time high of 964,671 overnight stays. Fixed roof accommodations increased 9.9 per cent and the number of site nights sold on Island campgrounds increased 10.7 per cent. Traffic to the Island via the Confederation Bridge increased 9.8 per cent, while air traffic increased 11.9 per cent. Due to mechanical issues experienced by Northumberland Ferries, ferry traffic declined 13.7 per cent with the operation of only one ferry. ^{vi}

POPULATION

On July 1, 2016, the population of Prince Edward Island was estimated at 148,649, an increase of 1,913 persons or 1.3 per cent over 2015. The population of Canada increased by 1.2 per cent over the same period. Preliminary data show that 2,008 immigrants chose Prince Edward Island as their new home in 2015/16, while other international migration totaled 649, resulting in a total of 2,657 for net international migration. Net interprovincial migration was -729,

with Ontario, Alberta, and Nova Scotia being the top destinations of Islanders leaving for other provinces. Between July 1, 2015 and June 30, 2016 the total number of Island births was an estimated 1,306. The number of deaths was estimated to be 1,321, resulting in negative natural decrease for the first time on record.

The aging of the Island population is illustrated by the fact that the median age has risen from 24.8 years in 1971 to 43.9 years in 2016. Furthermore, while only 11.0 per cent of the population was 65 years and older in 1971, this proportion had risen to 18.9 per cent in 2016. After reaching a low of 46.7 in 2007 and changing very little from 2007 to 2011, the total dependency ratio has increased from 47.0 to 52.9 in just five years.

According to the 2016 Census of Population count, on May 10, 2016, there were 142,907 persons living on Prince Edward Island. Revised population estimates based on the 2016 Census will be published by Statistics Canada in the fall of 2018. ^{vii}

EMPLOYMENT

The Annual Labour Force Survey, released by Statistics Canada in January 2017, recorded British Columbia leading the country in employment growth at 3.2% for 2016 through the addition of 73,300 jobs. Ontario and Quebec followed with 76,400 (1.1%) and 36,100 (0.9%) jobs. Employment on Prince Edward Island averaged 71,500 in 2016, a decrease of 2.3 per cent. The participation rate for PEI stood at 65.8 per cent in 2016, compared to an average of 67.6 in 2015. ^{viii}

The sectors experiencing the most growth were Professional, Scientific and Technical Services (19.4%), Information, Culture and Recreation (8.3%) and Finance, Insurance and Real Estate (8.0%). Notable losses were realized in the Wholesale and Retail Trade (-6.4%), Public Administration (-8.1%), and Construction (-9.6%).^{ix}

The average hourly wage in 2016, over all industries, was \$21.11, an increase of 1.4 per cent over the previous year. Industries realizing noticeable gains in hourly wages include Utilities, Transportation and Professional Services. Since 2006, PEI's average hourly wage has increased by 35.8 per cent, while the average rate for Canada has increased by 30.5 per cent over the same period.^x

HOUSING STARTS

After an increase in 2015, housing starts dipped slightly in 2016 by 0.4 per cent. Although row housing starts increased by an impressive 118 per cent, declines of 24 and 35 per cent were realized in semi-detached starts and apartment construction respectively.^{xi}

THE VALUE OF NON-RESIDENTIAL INVESTMENT

The value of non-residential investment increased by 14.0 per cent in 2016, the largest percentage increase of all provinces. Nationally, non-residential investment dropped by 1.1 per cent.^{xii}

AGRICULTURE AND FISHERIES

Farm cash receipts for Prince Edward Island reached \$487 million in 2016, a 2 per cent increase over 2015 - largely as a result of a 6.6 per cent increase in potato receipts.^{xiii} Island farmers harvested 88,700 acres of potatoes, with an average yield of 290 hundred weight/acre.^{xiv} Dairy also had a 6.9% increase in farm cash receipts over 2015.^{xv}

Lobster landings were down slightly from the record 2015 season - weighing in at 30.5 million pounds - but due to improved prices, the dollar value of the catch increased by \$43 million, up 29 per cent compared to 2015.^{xvi}



BUSINESS DEVELOPMENT AND INNOVATION

Building on PEI's history of hard work, resilience and innovation, the Business Development and Innovation Division works with private sector business leaders, local businesses and entrepreneurs to grow the economy of PEI. Small and medium enterprises (SMEs) largely drive PEI's economy; in particular, small businesses are key to PEI's economic success. As of June 2016, approximately 5,935 businesses were in operation in PEI - 99.7% of which are registered as small or medium-sized enterprises. This represents 48.7 SMEs per 1000 population, the second highest level in the provinces, with only Alberta at a higher level (50.0). xvii

SMEs employ approximately 79% of the Island's total labour force, or 38,600 people, and generate 32 per cent of our provincial GDP. Rural communities are home to many of PEI's entrepreneurs. Each year, approximately 50% of the projects supported by Innovation PEI – both in terms of numbers and dollars – are outside of Charlottetown and Summerside.

TROUT RIVER INDUSTRIES



Left to right: Harvey Stewart and Darrin Mitchell, co-owners of Trout River Industries

Trout River Industries is now Canada's leading manufacturer of live-bottom trailers for the heavy construction industry. Trout River expanded to a second location in Bloomfield to support its increasing trailer exports into the United States, Europe and the Middle East. The Province will assist with the expansion by providing labour rebates for up to 30 incremental positions and will provide rental assistance for the new space. Trout River recently merged with the Maxim Group from Winnipeg, which gives Trout River increased access to the Western Canadian and U.S. markets through Maxim's dealer networks.

The value of manufacturing shipments from Prince Edward Island increased by 4.8% in 2016, to reach a new all time high of \$1.7 billion.

xviii

"This expansion will see our company manufacture parts for Trout River and its partners at the Bloomfield location while increasing production in Coleman," says founder Harvey Stewart. "We expect the expansion will add approximately 20 jobs with the possibility of more in the near future."

MACDOUGALL STEEL ERECTORS (MSE)



Left to right: Premier Wade MacLauchlan, MSE Co-founders Ron and Gloria MacDougall, Hon. Heath MacDonald, Minister of Economic Development and Tourism; and MSE staff

MacDougall Steel Erectors expanded its operations into the former McCain's Plant in Albany, bringing new jobs and positive economic growth to the community and province.

"Among the Province's primary goals is to grow the economy, expand exports and create the conditions for job growth, especially in rural parts of the province," Premier Wade MacLauchlan said. "The expansion of MacDougall Steel Erectors into the former McCain's facility positions the company to seek out larger and more lucrative contracts, ex-

pand exports, add new jobs, and continue the tremendous success of this region in the manufacturing sector."

The increase in space will allow MSE to grow into different markets such as pipe spooling, heavy industrial plate work and pressure vessel fabrication, and increase its structural steel and miscellaneous metals fabrication. MSE hopes to assist other companies by supplying parts fabrication and steel sales.

MSE was incorporated in 1998 by Ron and Gloria MacDougall. It has grown from two employees to 107, with payroll of \$11.7 million last year. Sales are primarily generated from out-of-province exports, which represented 88%-94% of sales in each of the last four years.

MRS. DUNSTER'S INC.

Originally known for its homemade donuts, Mrs. Dunster's Inc. has continued to grow and expand its product lines since it began in New Brunswick in the 1960's. The family-owned company now has an extensive line of baked goods sold fresh in 600 stores throughout the Maritimes and Maine. In 2015, the company purchased the assets of Snairs Golden Grain Ltd., an established bakery on PEI. The expansion into PEI is a natural fit for Mrs. Dunster's growth strategy, providing an opportunity to expand its production capacity as well as its reach into new markets. The company now produces artisan breads and rolls in its Borden-Carleton bakery, and is acquiring processing equipment and undertaking facility improvements to improve overall efficiency.

The PEI Department of Economic Development and Tourism is contributing to the project with a \$10,000 non-repayable investment for the purchase of equipment through Innovation PEI, and a \$105,706 repayable contribution through the PEI Century Fund that enabled Mrs. Dunster's to assume outstanding financing from the previous owners. In addition, the PEI Department of Workforce and Advanced Learning has added a \$47,024 investment through the Canada-PEI Labour Market Agreement for staff training during the start-up phase at the Borden-Carleton bakery.



Blair Hyslop (right), President of Mrs. Dunster's Inc., gives a tour of the Borden-Carleton facility.

McCAIN FOODS ADJUSTMENT FUND

The McCain Foods Adjustment Fund is a \$2 million fund set up by McCain Foods to help reduce the economic impacts resulting from the closure of the McCain french fry processing facility in Albany, PEI, in October 2014. The creation of quality employment opportunities is the primary criteria of the Fund, with projects that contribute to the economic capacity of the area also considered.



Premier Wade MacLauchlan, Minister of Economic Development and Tourism Heath MacDonald and Minister of Rural and Regional Development Pat Murphy join the successful applicants to the \$2 million McCain Adjustment Fund in Borden-Carleton.

A steering committee with representatives from Innovation PEI, Town of Borden-Carleton, Central Development Corporation, ACOA, and McCain's reviewed funding applications and selected the successful recipients in the 2016-17 fiscal year.

Nine businesses and the Borden-Carleton municipal government were awarded a total of \$2 million in grants from the Fund. The ten recipients forecast up to 328 jobs will be created by these projects, which have a combined value of just over \$31 million. The recipients represent manufacturing, tourism, and food industry initiatives – a reflection of the economic activity happening in the region, and the importance of primary producers and rural communities to the provincial economy.

Atlantic Beef Products - \$142,000 to purchase new equipment for the ground beef line to portion and weigh ground beef to meet the changing needs of its customers.
www.abpi.ca

Town of Borden-Carleton - \$50,000 to develop a spatial master plan as part of the town's strategic tourism planning initiative.
www.borden-carleton.ca

Island Apple Storage Association - \$25,000 to construct and operate a “controlled atmosphere” storage facility in the Borden-Carleton area, with the capacity to hold up to 1000 bins of apples.

MacDougall Steel Erectors - \$1 million to convert the former McCain property to support the diversification of its steel fabrication business.
mseinc.ca

Mrs. Dunster’s (1996) Inc. - \$26,000 to purchase a new stone hearth oven to maintain the quality of its artisan product line while increasing production.
www.mrsdunsters.com

Silliker Glass - \$300,000 to add 12,000 square feet of production space and purchase specialized equipment to expand into Soft Glass product lines.
www.sillikerglass.com

The Handpie Company - \$7,000 to purchase new equipment that will increase production of the handpie product lines.
handpie.ca

Tree Top Haven Inc. - \$25,000 to expand the event hosting capacity of the property, which provides a unique experience in tourism accommodations by housing guests in treepods.
treetophaven.ca

Canadian Cold Storage - \$200,000 (conditional on project approval) to construct and operate a state-of-the-art, 5 million pound capacity, cold storage facility in Borden-Carleton.

Larkin Bros. Poultry - \$225,000 (conditional on project approval) to establish a new poultry processing facility to support increased value-added products and market share.
larkinbros.com



BORDEN-CARLETON
Prince Edward Island
“We Are the Link !”



SMALL BUSINESS WEEK AND EXPORT DAY



Winner of the 2016 Trade Team PEI Exporter of the Year - Sekisui Diagnostics PEI Inc. L-R: Pat Dorsey, ACOA; Eugene Howatt, Brian Stewart, Lee Lipski, Sekisui Diagnostics PEI Inc.; and Lee Brammer, Innovation PEI

Small Business Week encourages entrepreneurs from all areas of the Island to network with each other and take part in learning opportunities, and highlights to the public the impact of outstanding entrepreneurs and small businesses on our communities and economy. Small Business Week 2016 took place in October and included business mixers, workshops, Biz to Biz Expo, and PEI Open Business Day. Events and workshops were held in Bloomfield, Charlottetown, Montague, Souris, and Summerside.

Leading up to Small Business Week, a diverse crowd of entrepreneurs, industry associations, business support organizations, government agencies, and Trade Team PEI partners attended the annual Trade Team PEI Export Day on October 12, 2016.

The 2016 Trade Team PEI Export Day agenda was anchored by the keynote presentation from Craig Alexander, Vice President and Chief Economist for the Conference Board of Canada. Market Spotlight reports commissioned by Trade Team PEI, investigating export opportunities for PEI companies in the identified key markets of Mexico, Ireland, California, and Texas, were presented and released.

An entrepreneur panel discussion was held with representatives from three diverse PEI businesses. Doug Coles, Coles Associates, highlighted the importance of long-term commitment to relationship building to realize international business opportunities. Wayne Linkletter, Top Dog Manufacturing, provided insight into both the challenges and rewards of exporting to thirteen foreign countries. Chris Van Horne, Airbly, spoke about the initial steps his new enterprise has taken to explore and learn how to find sales internationally.

Each year on Export Day, Trade Team PEI recognizes excellence in international business development by presenting an Island firm with the "Exporter of the Year" award. Highlighting the importance of exports to wealth generation and economic growth in our province, the award recognizes and applauds the global market success of an Island-based business in developing and/or diversifying its international market presence. In 2016, Trade Team PEI was pleased to present Sekisui Diagnostics PEI Inc. with this award.

ENTREPRENEURSHIP



Atlantic Technology Centre

176 Great George St.
Charlottetown, PE



Montague Business Development Centre

544 Main St.
Montague, PE



Holman Centre

268 Water St.
Summerside, PE



LaunchPad PEI is a business incubator that supports local startups and new businesses establishing in Prince Edward Island. LaunchPad offers:

- Professional, low cost and secure, private office locations
- Knowledge of regional funding opportunities and support mechanisms
- Networking in the local business community
- Introduction to investment opportunities

LaunchPad PEI operates in four locations across Prince Edward Island: the Atlantic Technology Centre and the University of Prince Edward Island in Charlottetown, the Holman Centre in Summerside, and the Montague Business Development Centre.

Since it started in 2002, LaunchPad has supported the growth and development of the business community with LaunchPad PEI's tenants including RevIQ, Breakwater Management Services, SpryPoint, HR.COM, Navigate Food Safety, and many more.

STARTUP VISA PROGRAM

LaunchPad PEI is a member of the Canadian Acceleration and Business Incubation Association (CABI) and is a designated entity under the Startup VISA program. Through this program, LaunchPad PEI can support international entrepreneurs to relocate to Prince Edward Island, establish their business, and obtain their Permanent Residency.

LaunchPad PEI received applications from entrepreneurs across the globe, and has actively promoted the program in India and China over the past year. Representatives of LaunchPad PEI conducted targeted marketing in these countries, including information and promotional sessions to groups of entrepreneurs interested in establishing in Canada. During the year, LaunchPad welcomed a number of these entrepreneurs to PEI as they explored the business ecosystem and life on the Island first hand.



Minister of Economic Development and Tourism Heath MacDonald (centre) joins the successful applicants to the 2016 Ignition Fund. (L to R) Jeremy Noonan, Compass Aquaculture Solutions; Mike Beamish, Deep Roots Distillery; Gabriel and Deirdre Mercier, Ferme Isle St. Jean Farm & Cheese House; Pieter Ijsselstein, Island Potato Soap Company; Subrata Chowdhury, RPS Biologiques; Rodney Herbert, ATMP Design Ltd.; Minister MacDonald; Michael Good, Sentriq Supplements; Cortney Wagner, Rise & Brine Pickle Co.; Gary Compton, Compass Aquaculture; and Daniel Good, Sentriq Supplements. Missing from the photo are Suzanne Keough, Rawsome Juice Company; and Chris Endhardt and Mylène Besançon, Tunedly.

IGNITION FUND

Innovation PEI remains committed to supporting PEI's active entrepreneurial culture. As our local enterprises pursue opportunities through innovation and new business ventures, they create new products and services, revenue and jobs for Islanders.



Ignition Startup Fund is a competition for entrepreneurs seeking start-up capital for a business venture. Innovation PEI provides seed capital of up to \$25,000 to each successful applicant to turn a venture idea into a tangible, viable business with export potential. This initial investment is expected to leverage additional funds to support the business.

Since its launch in 2014, Ignition has supported 28 new and expanding companies. The 2016 call for applications resulted in 89 applications, with Ignition funding offered to the ten highest ranking submissions. The 2016 Ignition Fund recipients were:

Island Potato Soap Company – Pieter Ijsselstein will continue to grow his new business, which manufactures a hand bar soap using potato juice from local culled potatoes.

Tunedly – Chris Erhardt and Mylène Besançon provide music production services in the cloud and are aiming to be a truly virtual recording studio.
tunedly.com

ATMP Design Ltd. – Rodney Herbert will start a new business to commercialize an innovative design of automatic life vest inflator.

Rise & Brine Pickle Co. – Cortney Wagner will use Prince Edward Island produce and unique ingredients to launch a line of artisanal pickles, preserves and condiments.

@riseandbrine (Facebook)

Ferme Isle St. Jean Farm & Cheese House – Deirdre and Gabriel Mercier will specialize in the production and transformation of sheep's milk into fine cheeses and yogurts.

babiesnsheep.wordpress.com

RPS Biologiques – Dr. Subrata Chowdhury is working towards commercialization of advanced research projects focused on fish health in aquaculture production.

www.rpsbiologiques.com

Deep Roots Distillery – Mike Beamish will develop a new whisky product to appeal to a wide base of consumers.

deeprootsdistillery.com

Rawsome Juice Bar – Suzanne Keough will expand current offerings, providing even more healthy alternatives and appealing to a broader client base.

rawsomejuicepei.com

Sentriq Supplements - Michael Good and Daniel Good are focused on the development and sales of neurocognitive enhancers, specifically to respond to a gap in the market for coffee enhancers.

Compass Aquaculture Solutions – Gary Compton and Jeremy Noonan will provide a Farm Management System to enable clients to benefit from technology through efficiency gains and proactive management of their businesses.

compassaq.com



PARTNERSHIPS

PROPEL ICT

Propel ICT is a technology accelerator that operates a twelve week, boot-camp style program to support early entrepreneurs. Propel operates its cohort-based program in regional centres across Atlantic Canada. Innovation PEI approached Propel ICT in 2015 to bring its Launch program to Prince Edward Island. Propel partnered with both LaunchPad PEI and the Startup Zone to successfully complete two cohorts of the Launch program, and plans to offer its next cohort in the fall of 2017.

YOUTH PARTNERSHIPS

Support for youth entrepreneurship continues through funding and partnerships to initiatives including JA of PEI, Student Biz, SHAD Valley, youth entrepreneurship forums, and the Young Millionaires Program. Over \$93,000 supported these projects, which play an important part for developing a foundation of entrepreneurship in Prince Edward Island youth.

Innovation PEI supported students through GameForce Programming (294), JA of PEI 4,765 (for 2015-16 school year), the Young Millionaires Program (167), and Student Biz (8).



Left to right: Lexi MacInnis, Sophie Carragher, Laura Burge, Ben Reynolds, and Parker Day

MITACS

Mitacs and Innovation Prince Edward Island partnered to deliver the Mitacs-Accelerate program in 2016-17. This partnership allowed Mitacs to offer ten Accelerate internships that met both the Mitacs Accelerate and the Innovation PEI criteria. Mitacs exceeded its commitment under this partnership by providing an additional six internships, enabled by lower than anticipated costs for the required ten internships.

"The Accelerate program is renowned for providing work-integrated learning opportunities, and serving as a platform for collaboration between Mitacs' academic and nonacademic partners. Through its industrial research internships Accelerate serves as a catalyst for innovation, and works to strengthen and diversify PEI's economy. The Government of PEI's partnership with Mitacs represents its commitment to driving growth by nurturing the private sector's capacity to innovate, and to providing talented researchers with the skills necessary to succeed in an increasingly competitive knowledge-based economy. In the 2016-17 fiscal year, Innovation PEI's investment of \$40,000 was leveraged into a \$253,000 project, with \$58,000 from the federal government, \$80,000 in direct industry investment, and \$75,000 of in-kind support." - excerpt from Mitacs Annual Report to Innovation PEI for 2016-17

GLOBAL TRADE SERVICES



Innovation PEI's Global Trade Services Division is mandated to grow revenue created from export sales and to help Prince Edward Island companies become export-ready by empowering and challenging businesses to seek new opportunities for their products and services around the world. The division provides market-specific information, training and support for market entry activities, and logistical and funding support for market and sector specific events. Global Trade Services strives to be the leading source for information, resources, tools, and access to networks that will measurably increase the performance of Island companies engaged in global trade.

GROW EXPORT

In partnership with Trade Team PEI, Innovation PEI has developed a comprehensive Grow Export Program to provide training, tools, and resources. Interested companies participate in a series of specialized workshops and familiarization tours to the Canada-U.S. border. Grow Export is intended to increase the number of successful exporting companies, as well as the volume of exports from Prince Edward Island.



Through two pilot rounds, 25 companies were engaged in preparing an export diagnostic, then guided through six workshops on various export-related topics, and taken to meet customs officials who explained the complete import/export process. This program has proven so successful it is being used as a model for rollout across Atlantic Canada as part of the Atlantic Trade and Investment Growth Strategy.

ATLANTIC GROWTH STRATEGY

On January 27, 2017, federal ministers and Atlantic premiers agreed in principle on a \$20 million federal-provincial, multi-year Atlantic Trade and Investment Growth Strategy. The document was subsequently officially signed by all parties.

The overall objectives of the Atlantic Trade and Investment Growth Strategy are to increase the number and value of Atlantic exporters, the number of Atlantic exporters expanding and diversifying their markets, and

increase foreign direct investment in Atlantic Canada.

The Atlantic Growth Strategy is intended to drive economic growth in the region by implementing targeted, evidence-based actions under five priority areas.

Trade, Investment, and Tourism is one of the priority areas (pillars). The intention of the pillar is to expand business activities between Atlantic Canada and international markets, and strategically market the re-

gion as a whole by displaying the best Atlantic Canada has to offer the world to attract new investments and grow tourism.

Prince Edward Island's contribution to this agreement over five years is \$600,000, highlighting again the advantage our exporters will gain by leveraging investments from across the Atlantic Region.

NEW YORK FANCY FOOD SHOW

Within the specialty food sector, this event is a key activity for Island companies to grow export sales across North America, gain key insights into market trends and network with industry peers. It is the largest specialty food show in North America and provides opportunities to feature product innovation, the latest in food trends and cutting edge industry research.



As a pan-Atlantic activity co-funded through the Atlantic Trade and Investment Growth Strategy, each province is allotted a maximum of six companies to participate. In 2016, PEI companies reported \$2.8 million in on-site sales with a further \$5.3 million expected in 12 months.

BOSTON SEAFOOD SHOW

Officially known as Seafood Expo North America, this show is the preeminent seafood event in North America. Each year Prince Edward Island seafood companies benefit greatly from exhibiting at or attending this trade show.

In March 2017, PEI had six companies exhibiting at the Atlantic Canada booth. Three others exhibited on their own and more than a dozen other PEI companies attended the show.

The event is a pan-Atlantic activity jointly funded by ACOA through the Atlantic Trade and Investment Growth Strategy. For PEI companies, this results in leveraging federal government investment that brings even greater visibility at the show.

Companies report that being at this show is a critical element in their North American export strategies, as they not only increase sales to new clients but also strengthen relations with existing accounts.

Additionally, this event is a key market research tool for our seafood industry to learn the latest consumer, packaging and product innovation trends. Island companies reported immediate sales of \$3.7 million, with a further \$4.4 million forecast within 12 months.

MISSION TO CHINA

Premier Wade MacLauchlan and Minister Heath MacDonald led a delegation of eighteen PEI exporting companies, three educational institutions, and senior government officials to China from March 27-31, 2017.

Highlights for the week included stops in Haikou, the capital of PEI's sister province of Hainan; Hangzhou, the head office city of Alibaba, China's largest e-commerce platform provider; Shanghai, one of China's most vibrant cities; and Beijing, the nation's capital.

The mission program included:

- business and education roundtables,
- B2B programs for the delegates,
- in-market receptions in Shanghai and Beijing with over 100 people attending each reception,
- presentations on PEI's education and tourism offerings,
- high level tourism meetings with Destination Canada,
- travel media and travel operators in China,
- officials meetings to continue the strong relations that we have formed with our Chinese counterparts,
- company tours, notably Alibaba, JD.Com, COWS China and OLE Supermarket.

The Government of PEI and the educational institutions all signed new or renewed agreements with their partners in China, and the business delegates all identified new opportunities to expand their exporting capabilities. Initial forecasts estimate \$16 million in new revenues being generated in the next twelve months.

SOUTHEASTERN UNITED STATES- CANADIAN PROVINCES ALLIANCE (SEUS-CP) – NASHVILLE

The Southeastern United States – Canadian Provinces Alliance (SEUS-CP) is a strategic partnership between states in the southeastern United States and member provinces from Canada. Member states include Alabama, Georgia, Mississippi, North Carolina, South Carolina, and Tennessee. Member provinces include Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, Prince Edward Island, and Québec.

Nashville, Tennessee, was the 2016 host jurisdiction. Over 120 delegates participated in more than 300 one-on-one business meetings while attending the event.

The PEI business delegation included: Vitrak Systems, Music PEI (including Meghan Blanchard, who participated in the Writers in the Round showcase), PEI Grain Elevator Corporation, and Timeless Medical. All attendees assessed it as a positive experience and forecast that business will develop from it.

BUSINESS ATTRACTION AND EMERGING SECTORS

The Business Attraction and Emerging Sectors Division is responsible for growing the strategic sectors of aerospace and defence, bioscience, advanced marine technology, information and communications technology, advanced manufacturing, and renewable energy. This division is the provincial lead for attracting foreign direct investment to Prince Edward Island.

CLEANTECH

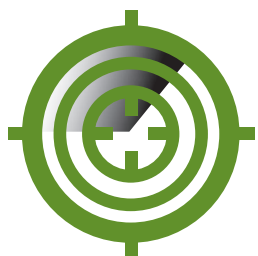
Prince Edward Island is continuing its pioneering tradition by setting its sights on next generation cleantech. Cleantech offers opportunities to improve environmental sustainability, strengthen and diversify research, development and commercialization activities, and expand our renewable energy cluster.

ISLAND WATER TECHNOLOGIES

Island Water Technologies is a wastewater technology company specializing in modular, low energy, chemical-free treatment solutions and real-time, bio-electrode sensor technologies for improved wastewater system monitoring and control.

Supported by Innovation PEI with the Pilot and Discovery Fund in 2014 and the Development and Commercialization Fund in 2016, the company was able to complete proof of concept with commercial demonstration systems in Nova Scotia and Prince Edward Island that led to export sales in 2017.

Island Water Technologies continues to identify new distribution partners in the United States, China and the Caribbean Latin America. Island Water Technologies is ideally positioned for rapid growth and to make a big impact in the wastewater space over the next five years. All products are scientifically validated, proven to be low-cost and aimed at high growth target markets.



ADVANCED MARINE TECHNOLOGY

The advanced marine technology sector is growing as planned on Prince Edward Island. Since its identification as a growth sector in 2015, several new companies have started up on PEI and in 2016 these companies grew their premises and staffing numbers.

Sector companies are using the resources at the University of Prince Edward Island and Holland College to develop their products and to train the staff that they need to compete in the markets they serve around the world. Resident companies have complimented PEI's educational institutions for the quality staff available here and the loyalty of these staff.

Advanced marine technology sector companies work in the oil and gas, shipbuilding and repair, energy, defence, and workboat sub-sectors. The province is targeting innovative companies within these categories to join our growing list of businesses that call PEI home.

ASPIN KEMP AND ASSOCIATES

Aspin Kemp & Associates (AKA) is a systems integrator delivering innovative products, technically advanced services, documentation, and world-class training primarily to the marine and offshore industry.

Headquartered in Montague, Prince Edward Island, AKA is a PEI growth story that operates internationally with offices in Stratford, PEI; Dartmouth, Nova Scotia; Owen Sound, Ontario; Singapore and China; and with representation in Houston, Texas.

AKA's presence in PEI represents its centre for engineering, testing, training, and manufacturing of electrical power and control systems, with facilities in Stratford and Poole's Corner, PEI.

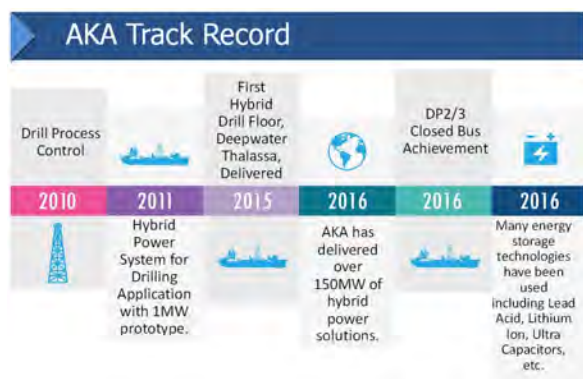
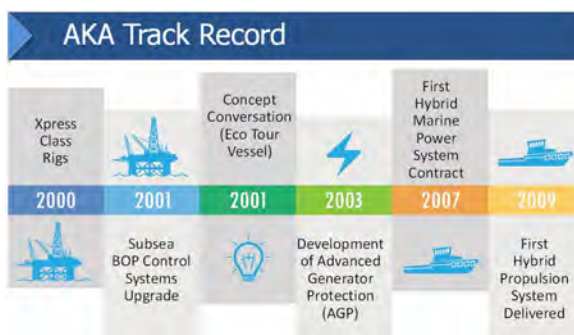
AKA is proud of its innovative and technically advanced products and services. They have a highly skilled, motivated and dedicated team which has repeatedly demonstrated its commitment to satisfying AKA's clients beyond their expectations.

AKA company milestones:

- World's First Hybrid Offshore Drilling System
- World's First Hybrid Tugboat
- World's First power plant to offer DP3 closed bus

operation

- Atlantic Advanced Power Technologies (AAPT) opening
- The Crate Shop opening



AEROSPACE

& DEFENCE

Prince Edward Island's aerospace and defence industry is a vibrant example of the economic success that can be achieved when partners come together with a common vision in mind. The industry is a leading employer of skilled Islanders and a generator of millions of dollars worth of exports every year. Companies operating within PEI largely serve commercial aviation markets in the manufacturing and maintenance, repair and overhaul (MRO) segments.

MILESTONE 25 YEARS OPERATING ON PEI

Vector Aerospace Engine Services - Atlantic, originally known as Atlantic Turbines, was one of the first tenants at Slemon Park in 1991, starting with just four employees.

Today, the facility employs 470 staff and is PEI's largest aerospace company. Vector operates a 140,000 square foot facility in Slemon Park, complemented by fly-in capabilities and convenient hangar space.



Vector, specializing in the maintenance, repair and overhaul of gas turbine engines, has hundreds of customers from around the world.

Vector is proud of its close relationships with higher learning establishments, including the University of Prince Edward Island and Holland College.

Vector takes great pride in hiring PEI talent. More than 90 per cent of the employees are Islanders, with approximately 70 per cent trained locally.



INFORMATION AND COMMUNICATIONS TECHNOLOGY

From applied research and new product development through to supporting the needs of growing businesses, Prince Edward Island's Information and Communications Technology (ICT) sector consists of companies with development and solution specializations in many areas. The sector has particular strength in the areas of independent software vendors, healthcare, financial services, wireless and mobile applications, and video gaming.

BUCHANAN TECHNOLOGIES INC.

Buchanan Technologies Inc. is a managed services provider offering IT services and solutions to mid-tier and enterprise level organizations in the United States, Canada and Europe. Buchanan's services include complete turnkey IT solutions offering management and monitoring of business IT infrastructure and business applications, IT professional recruiting services and overall consulting.



Buchanan Technologies Inc. expanded to Prince Edward Island in June 2014 with just a few employees. By 2017, Buchanan Technologies has grown to over 50 employees in PEI providing support to clients throughout North America.

A recent focus on higher education space resulted in Buchanan becoming a designated preferred vendor in Canada, and has driven a new channel of opportunity to support colleges across North America. In the past six months, Buchanan has signed half a dozen new colleges and has more in solution discussions. Support for this new focus is being delivered from Buchanan's Charlottetown, PEI, location.

GAME FORCE

GameForce is a five day after-school program that introduces Island youth to the fundamentals of 2D and 3D video game development, including storyboards, level design, programming, animations, and sound effects.

The participants are challenged to develop their math skills, artistic creativity, physics skills, and problem solving through the introduction of the mechanics of video game development.

# of Sessions / Participants	
Elementary School After-school Program	8/135
Junior high School After-school Program	8/106
Summer Camps	4/53



BIOSCIENCE

The Prince Edward Island bioscience industry is a key sector for growth on Prince Edward Island. Bioscience companies are involved in research, development, and commercialization of bioactive-based human, animal, and fish health and nutrition products in locations across the province.

DELIVRA

Delivra, the maker of LivRelief and a leading bioscience company on PEI, received provincial support to market their product in the U.S. The company's LivRelief line of all-natural and all-organic pain relief products did very well on Canadian retail shelves, prompting the company to launch the line in the United States.



The Government of Prince Edward Island provides the company with support, including funding for labour and financing to purchase specialized packaging and research equipment.

THE CENTRE FOR AQUACULTURE TECHNOLOGIES

The Centre for Aquaculture Technologies utilizes its experience in aquaculture, coupled with a strong background in the development and application of cellular and molecular technologies and informatics, to provide research-based solutions and contract services for the industry.

The company employs 22 people in its Souris facility and has plans to grow by 16 positions over the next two years.

The Centre for Aquaculture Technologies recently received approval from the Canadian Food Inspection Agency for its aquaculture research facility, allowing it to expand its suite of services to include international markets.

SEKISUI



Heath MacDonald, Minister of Economic Development and Tourism, joins Brian Stewart, Director of Manufacturing for Sekisui Diagnostics on Prince Edward Island (left), and Eugene Howatt, Senior Operations Manager (right)

Sekisui Diagnostics, one of Prince Edward Island's largest bioscience industry employers, has expanded its operations on Prince Edward Island. The \$3.5 million expansion and renovation was financed by the Province and carried out by Sekisui. The costs will be recovered through the company's 12-year lease with the province.

The expansion and renovation will allow the company to produce new products and hire more staff. Since purchasing Genzyme in 2011, Sekisui has added 44 full-time jobs and increased revenue significantly.

BIO | FOOD | TECH

Bio|Food|Tech is a subsidiary company of Innovation PEI and provides professional technical services to food and bioscience processing companies from concept through to market. Sixteen project contracts between Bio|Food|Tech and clients were completed in 2016-17 and 30 additional project contracts were ongoing at the end of the year.



A National Research Council-IRAP Contribution Agreement with Bio|Food|Tech allows companies to do small projects free of charge and without red tape, and provides Canadian SMEs with fast response innovation and technical support, as approval to proceed with work on projects is usually obtained the same day as it is sought. In 2016-17, 52 projects were completed for clients under this agreement and 18 projects were ongoing at the end of the year.

Bio|Food|Tech delivered two artisan workshops in 2016-17 on Distillation and Charcuterie. Artisan workshops included classroom instruction on science and technology, followed by hands-on practice of the art of making artisan foods.

A five-day Distilling workshop exploring the art and science behind craft beverages was hosted with trainers from the Artisan Craft Distilling Institute, WA, who shared their 20-plus years of experience and provided hands-on training for beer, cider, vinegar and spirits. A mini-workshop on Bitters & Shrubs was also offered. Mike McKenzie, owner of Seed to Sausage, shared his award-winning Charcuterie techniques and knowledge at a two-day Artisan Charcuterie workshop. Participants gained practical and technical knowledge and hands-on practice in the pilot plant, making and testing various sausages and fermented meats, while learning how to manage microbial risks to create quality products that meet food safety and provincial regulations.

Bio|Food|Tech provides reliable, stable and accredited food safety analysis services to Prince Edward Island's seafood and agri-food processing industry, enabling processors to export their excellent food products to national and international markets. The Standards Council of Canada (SCC) technical experts visit every two years to examine the lab's technical competence in every test that is on its Scope of Accreditation. SCC audits the quality system to ensure that internationally-recognized procedures are followed precisely, that results are accurate and that complete records are kept. SCC also examines the results from the many Proficiency Programs in which Bio|Food|Tech participates.

Four "HACCP and the Control of Listeria" workshops were conducted during the year which included learning the essentials of preparing a HACCP Plan for their companies.



BIO | FOOD | TECH
CONCEPT TO PILOT TO MARKET

Endnotes:

- i. Statistics Canada CANSIM table 379-0030, per PEI Dept. of Finance
- ii. Trade Data Online, per PEI Dept. of Finance
- iii. Statistics Canada CANSIM tables 304-0014 and 304-0015, per PEI Dept. of Finance
- iv. Trade Data Online, per PEI Dept. of Finance
- v. Statistics Canada CANSIM table 379-0030, per PEI Dept. of Finance
- vi. Tourism PEI, PEI Dept. of Economic Development and Tourism
- vii. PEI Dept. of Finance, Prince Edward Island 43rd Annual Statistical Review 2016, p. 12-13
- viii. Statistics Canada CANSIM Table 282-0002, per PEI Dept. of Workforce and Advanced Learning
- ix. Statistics Canada CANSIM Table 282-0008, per PEI Dept. of Workforce and Advanced Learning
- x. Statistics Canada CANSIM Table 282-0072, per PEI Dept. of Workforce and Advanced Learning
- xi. Statistics Canada CANSIM table 027-008 (CMHC), per PEI Dept. of Finance
- xii. Statistics Canada CANSIM table 026-0016 (CMHC), per PEI Dept. of Finance
- xiii. Statistics Canada CANSIM Table 002-0001, per PEI Dept. of Agriculture and Fisheries
- xiv. Statistics Canada CANSIM Table 001-0014, per PEI Dept. of Agriculture and Fisheries
- xv. Statistics Canada CANSIM Table 002-0001, per PEI Dept. of Agriculture and Fisheries
- xvi. Statistics Division, Gulf Region, Canada Department of Fisheries and Oceans; PEI Dept. of Agriculture and Fisheries
- xvii. Key Small Business Statistics June 2016, Innovation, Science and Economic Development, Small Business Branch (Statistics Canada, CANSIM Tables: 551-0001, 551-0003, 551-0005, 552-0001, 552-0003)
- xviii. Statistics Canada CANSIM tables 304-0014 and 304-0015, per PEI Dept. of Finance

Innovation PEI

Consolidated Financial Statements
March 31, 2017

Management's Report

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

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

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

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

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

On behalf of Innovation PEI

A handwritten signature in dark ink, appearing to read 'D. Keedwell', is written over a horizontal line.

David Keedwell
Chief Executive Officer



June 21, 2017

Independent Auditor's Report

To the Minister of Innovation and Advanced Learning

We have audited the accompanying consolidated financial statements of **Innovation PEI**, which comprise the consolidated statement of financial position as at March 31, 2017, and the consolidated statements of operations, accumulated surplus, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Innovation PEI** as at March 31, 2017, and the results of its operations, changes in its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

ArsenaultBestCameronEllis

Chartered Professional Accountants

Innovation PEI

Consolidated Statement of Financial Position

As at March 31, 2017

	2017 \$	2016 \$
Assets		
Financial assets		
Cash	4,578,787	-
Accounts receivable (note 2)	1,054,713	1,041,641
Advances to related companies (note 5)	11,291,587	11,474,231
Due from Province of Prince Edward Island	13,933,838	24,070,811
	<u>30,858,925</u>	<u>36,586,683</u>
Liabilities		
Bank advances	-	1,682,429
Accounts payable and accrued liabilities (note 5)	25,718,661	29,875,743
	<u>25,718,661</u>	<u>31,558,172</u>
Net financial assets	<u>5,140,264</u>	<u>5,028,511</u>
Trust funds (note 3)	2,000,000	2,000,000
Less: funds on deposit	(2,000,000)	(2,000,000)
	<u>-</u>	<u>-</u>
Non-financial assets		
Property holdings (Schedule)	1,096,554	1,176,054
Prepaid expenses and deposits (note 5)	33,155	65,408
	<u>1,129,709</u>	<u>1,241,462</u>
Accumulated surplus	<u>6,269,973</u>	<u>6,269,973</u>

Approved by the Board of Directors

Director

(2)

Director

Innovation PEI

Consolidated Statement of Accumulated Surplus For the year ended March 31, 2017

	2017 \$	2016 \$
Accumulated operating surplus - Beginning of year	5,903,934	5,904,303
Annual deficit	-	(369)
Accumulated operating surplus - End of year	5,903,934	5,903,934
Contributed surplus (note 5)	366,039	366,039
Accumulated surplus - End of year	6,269,973	6,269,973

Innovation PEI

Consolidated Statement of Operations For the year ended March 31, 2017

	Budget (Unaudited) \$	2017 \$	2016 \$
Revenue			
Grant - Province of Prince Edward Island (note 5)	32,203,100	36,070,500	33,294,400
Federal Government funding	30,000	20,951	-
Project revenue	1,629,700	1,512,996	1,616,549
Miscellaneous	9,000	15,056	20,943
	<u>33,871,800</u>	<u>37,619,503</u>	<u>34,931,892</u>
Expenses			
Salaries	4,711,600	4,196,634	4,333,137
Operating	1,543,700	1,504,643	1,571,379
Development programs	27,416,500	31,659,015	28,806,074
Project costs	50,000	89,786	77,933
Amortization - property holdings	150,000	169,425	143,738
	<u>33,871,800</u>	<u>37,619,503</u>	<u>34,932,261</u>
Annual deficit	<u>-</u>	<u>-</u>	<u>(369)</u>

Innovation PEI

Consolidated Statement of Changes in Net Financial Assets For the year ended March 31, 2017

	2017 \$	2016 \$
Annual deficit	-	(369)
Acquisition of property holdings	(89,925)	(15,068)
Amortization of property holdings	169,425	143,738
Change due to property holdings	79,500	128,670
Change in prepaid expenses	32,253	(37,230)
Increase in net financial assets	111,753	91,071
Net financial assets - Beginning of year	5,028,511	4,937,440
Net financial assets - End of year	5,140,264	5,028,511

Innovation PEI

Consolidated Statement of Cash Flows

For the year ended March 31, 2017

	2017 \$	2016 \$
Cash provided by (used in)		
Operating activities		
Annual deficit	-	(369)
Items not affecting cash		
Amortization - property holdings	169,425	143,738
	169,425	143,369
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable	(13,072)	54,588
Decrease (increase) in prepaid expenses and deposits	32,253	(37,230)
Increase (decrease) in accounts payable and accrued liabilities	(4,157,082)	4,432,034
	(3,968,476)	4,592,761
Financing activities		
Decrease in advances to related companies	182,644	164,034
Decrease (increase) in due from Province of Prince Edward Island	10,136,973	(6,356,799)
	10,319,617	(6,192,765)
Investing activity		
Additions to and purchase of property holdings	(89,925)	(15,068)
Increase (decrease) in cash	6,261,216	(1,615,072)
Bank advances - Beginning of year	(1,682,429)	(67,357)
Cash (bank advances) - End of year	4,578,787	(1,682,429)

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2017

Innovation PEI (the "Corporation") is a Crown corporation established under the Innovation PEI Act. Its financial results are included in the public accounts of the Province of Prince Edward Island.

1 Summary of significant accounting policies

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

(a) General

These consolidated financial statements include the accounts of the wholly-owned subsidiary, F.T.C. Enterprises Limited (operating as Bio/Food/Tech).

(b) Financial instruments

The Corporation's financial instruments consists of cash, accounts receivable, advances to related companies, due from Province of Prince Edward Island and accounts payable and accrued liabilities.

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

(c) Cash

Cash is comprised of cash on hand, cash in banks and savings accounts.

(d) Accounts receivable

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

(e) Due from the Province of Prince Edward Island

The amount due from the Province of Prince Edward Island is the funding to be received for operating grants and other approved reimbursements.

(f) Programs assistance payable

Program assistance is expensed as development program expenditures and included in accrued liabilities when approved by the Corporation and accepted by the client except for Federal-Provincial cost shared programs and provincially-funded assistance requiring future performance criteria, which are expensed based on eligible claims.

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2017

P.E.I. labour rebate, enriched investment tax credits, specialized labour rebate and share purchase tax credit commitments that extend beyond two years are expensed in each year that performance criteria are met by the applicant.

(g) Property holdings and amortization

i) Property holdings

Property holdings are stated at cost and amortized using the straight-line method at the following annual rates:

Buildings	5%, 20%
Equipment	10%, 20%

A full year's amortization is recorded in the year of acquisition.

(h) Post retirement benefits

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

(i) Employee pension plan

Most of the Corporation's staff are members of the Province of Prince Edward Island pension plan. Pension obligations are liabilities of the Province and not the Corporation and no liability for these costs has been accrued by the Corporation at March 31, 2017. The employer contributions to the pension for the year totaled \$274,984 (2016 - \$263,352).

(j) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated at the average monthly exchange rate.

Exchange differences are recognized into income in the period in which they arise.

(k) Revenue recognition and deferred revenue

Grants from the Province of Prince Edward Island are recorded in the period authorized by the Province.

Revenue for product royalties is recorded when received.

Innovation PEI's subsidiary follows the percentage-of-completion method of accounting for revenue and expenditures on project contracts. The percentage-of-completion method records the organization's revenue based on the expenditures incurred and work completed on each contract in progress as at the statement of financial position date. Unearned revenue is recorded as deferred revenue.

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2017

(l) Government assistance

The company receives assistance from other government entities. The company recognizes this assistance as revenue in the period when the transfer is authorized and all eligibility criteria and/or stipulations, if any, are met. The company received \$20,591 (2016 - nil) in assistance from Atlantic Canada Opportunities Agency. The company also received \$308,000 (2016 - \$389,000) in technical support and workshop funding from National Research Council aimed at improved productivity and competitiveness. This amount is included in project recoveries.

(m) Government transfers

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

(n) Management estimates

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

- The amount recorded for amortization of property holdings on the statement of operations is subject to management's assessment of the estimated useful life of the company's property holdings;
- The recognized amounts of liabilities depend on management's assessment of future costs and the probability these events will occur; and
- The revenue recognized from long term projects under the percentage of completion method is based on an assessment of each project based on costs incurred with regard to estimated overall costs of the project.

2 Accounts receivable

The accounts receivable have been reduced by an allowance for possible losses of \$124,455 (2016 - \$104,343).

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2017

3 Trust funds

On May 31, 2015, Innovation PEI entered into an agreement with McCain Foods (Canada), a division of McCain Foods Limited, on behalf of the government of Prince Edward Island to manage the "Adjustment Fund" that has been established to assist the Albany/Borden-Carleton area with mitigating lost employment and economic impacts resulting from the closure of the McCain processing facility in Albany/Borden-Carleton.

As a result, Innovation PEI has received \$2,000,000 which will be disbursed to approved projects in accordance with the provisions of the agreement. Any unused portion of this fund that has not been committed to an approved project by May 13, 2018 will be returned by Innovation PEI to McCain Foods within three months after the expiration of the Term.

4 Commitments

- (a) F.T.C. Enterprises Limited has entered into a twenty-five year lease expiring November 2038 with the University of Prince Edward Island for the land upon which the Corporation constructed its facilities. The lease cost is \$1 per year and is renewable for a further term of twenty-five years for the same annual consideration.
- (b) Innovation PEI has committed to disbursing as development program expenses \$31,330,100 (2016 - \$42,370,135) for P.E.I. labour rebate program assistance, \$5,257,627 (2016 - \$8,810,202) for enriched investment tax credits, \$73,527 (2016 - \$117,024) for specialized labour rebate and \$21,000 (2016 - \$183,026) for share purchase tax credit over the next four years as companies meet the required requirements.

In accordance with accounting policy, note 1f), program assistance for the labour rebate, enriched investment tax credit, specialized labour rebate program and specialized labour rebate expenses that extend beyond two years are expensed based on eligible claims.

5 Related party transactions

Related companies

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

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2017

Statement of Financial Position

Advances to related companies

	2017	2016
	\$	\$
Advances to (from) related companies		
Finance PEI	11,027,627	11,056,889
Island Investment Development Inc.	87,095	343,473
P.E.I. Biocommons Inc.	80	80
Atlantic Technology Centre Inc.	36,841	73,889
100417 P.E.I. Inc.	(100)	(100)
Tourism PEI	140,044	-
	<u>11,291,587</u>	<u>11,474,231</u>

Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities is \$357,078 (2016 - \$62,557) payable to the Province of Prince Edward Island and nil (2016 - \$34,888) payable to the Provincial Crown corporations.

F.T.C. Enterprises Limited's property and liability insurance coverage is provided by Finance PEI, a related party. As at March 31, 2017, \$13,077 (2016 - \$13,390) has been recognized as prepaid insurance and is included in accounts payable and accrued liabilities.

Contributed surplus

F.T.C. Enterprises Limited received a cumulative total of \$366,039 in funds from the Province of Prince Edward Island through Innovation PEI that have been accounted for as contributed surplus. This contribution has not been eliminated on consolidation.

Statement of Operations

Revenue

Included in revenue are grants from the Province of Prince Edward Island of \$36,070,500 (2016 - \$33,294,400).

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

6 Contingent liabilities

A counterclaim has been commenced against the Corporation in response to an action for a deficiency remaining after realization on collateral held by the P.E.I. Lending Agency, a former Crown corporation. The claimant has not provided any details as to the nature and extent of damages or loss for which they seek compensation. There is no liability recorded in these financial statements as it is management's opinion that no liability is likely to arise as a result of this counterclaim. The counterclaim is ongoing.

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2017

7 Financial risk management objectives and policies

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

(a) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty of a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the company's accounts receivable, advances to related companies and due from the Province of Prince Edward Island.

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

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

	\$
Accounts receivable	1,054,713
Advances to related companies	11,291,587
Due from Province of Prince Edward Island	13,933,838
	<u>26,280,138</u>

(b) Liquidity risk

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

The Corporation's financial liabilities of \$25,718,661 (2016 - \$31,558,172) are expected to be repaid within one year.

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2017

(c) Operational risk

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

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

(d) Capital management

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

Innovation PEI

Consolidated Schedule of Property Holdings

As at and for the year ended March 31, 2017

Schedule

	Cost				Accumulated amortization			2017	
	Beginning \$	Additions \$	Disposals/ Transfers \$	Ending \$	Beginning \$	Amortization \$	Disposals \$		Ending \$
General Equipment Buildings	7,548,375	89,925	-	7,638,300	6,391,927	168,131	-	6,560,058	1,078,242
	4,457,475	-	-	4,457,475	4,437,869	1,294	-	4,439,163	18,312
	12,005,850	89,925	-	12,095,775	10,829,796	169,425	-	10,999,221	1,096,554

	Cost				Accumulated amortization				2016
	Beginning \$	Additions \$	Disposals/ Transfers \$	Ending \$	Beginning \$	Amortization \$	Disposals \$	Ending \$	
General Equipment Buildings	7,538,937	9,438	-	7,548,375	6,249,483	142,444	-	6,391,927	1,156,448
	4,451,845	5,630	-	4,457,475	4,436,575	1,294	-	4,437,869	19,606
	11,990,782	15,068	-	12,005,850	10,686,058	143,738	-	10,829,796	1,176,054



94 EUSTON STREET
CHARLOTTETOWN, PE CIA 7L9
CANADA

TELEPHONE: 902-368-6300
TOLL-FREE: 1-800-563-3734 (NORTH AMERICA)
FACSIMILE: 902-368-6301

WWW.INNOVATIONPEI.COM

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