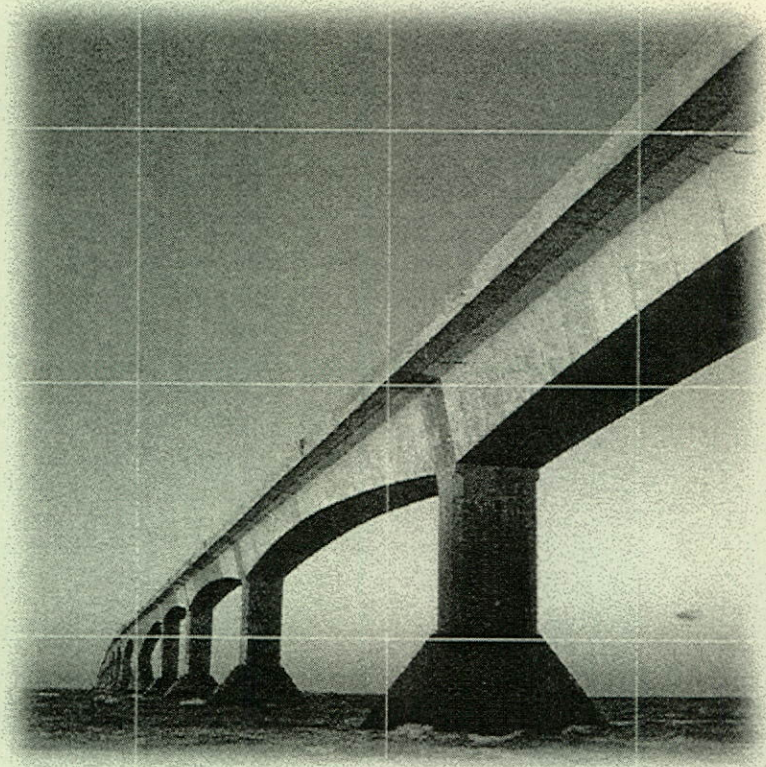




ENTERPRISE PEI



1996/97 ANNUAL
REPORT



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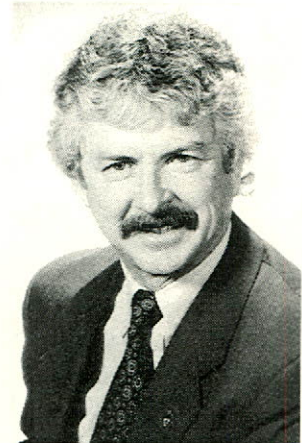
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Message of the Chief Executive Officer

September 30, 1997

Honourable J. Weston MacAleer
Minister of Economic Development & Tourism
Province of Prince Edward Island



Dear Minister:

It gives me great pleasure to submit the Annual Report of Enterprise P.E.I. for the fiscal year ended March 31, 1997.

As Chief Executive Officer, it is my responsibility to work with my staff to ensure that we meet the objectives that we have established for Enterprise P.E.I. We also work very closely with our federal partners to ensure that together we meet the needs of our clients. In a time of scarce resources, we are committed to working with our partners to ensure that we complement rather than duplicate our efforts.

This year has been a challenging one with many exciting changes on the horizon with the opening of the Confederation Bridge and Gateway Village.

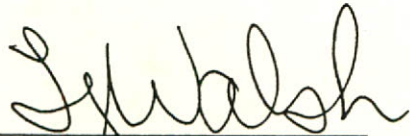
The corporation continues to work successfully with new and existing businesses creating jobs and wealth for Prince Edward Island. The priority sectors over the past year have included small business, value-added food processing, information and communications technology, aerospace, biotechnology and pharmaceuticals, and diversified manufacturing.

We enjoyed another good year in tourism with visitations and expenditures increasing from the previous year. Tourism continues to grow in its importance to the Island economy. This trend is expected to continue following the opening of the Confederation Bridge. Our staff has worked hard to develop new tourism products and to market the province in our primary target markets. Our VICs

have continued to be popular locations for tourists seeking information once they arrive in the province. Golf continues to increase in importance as a major tourism product.

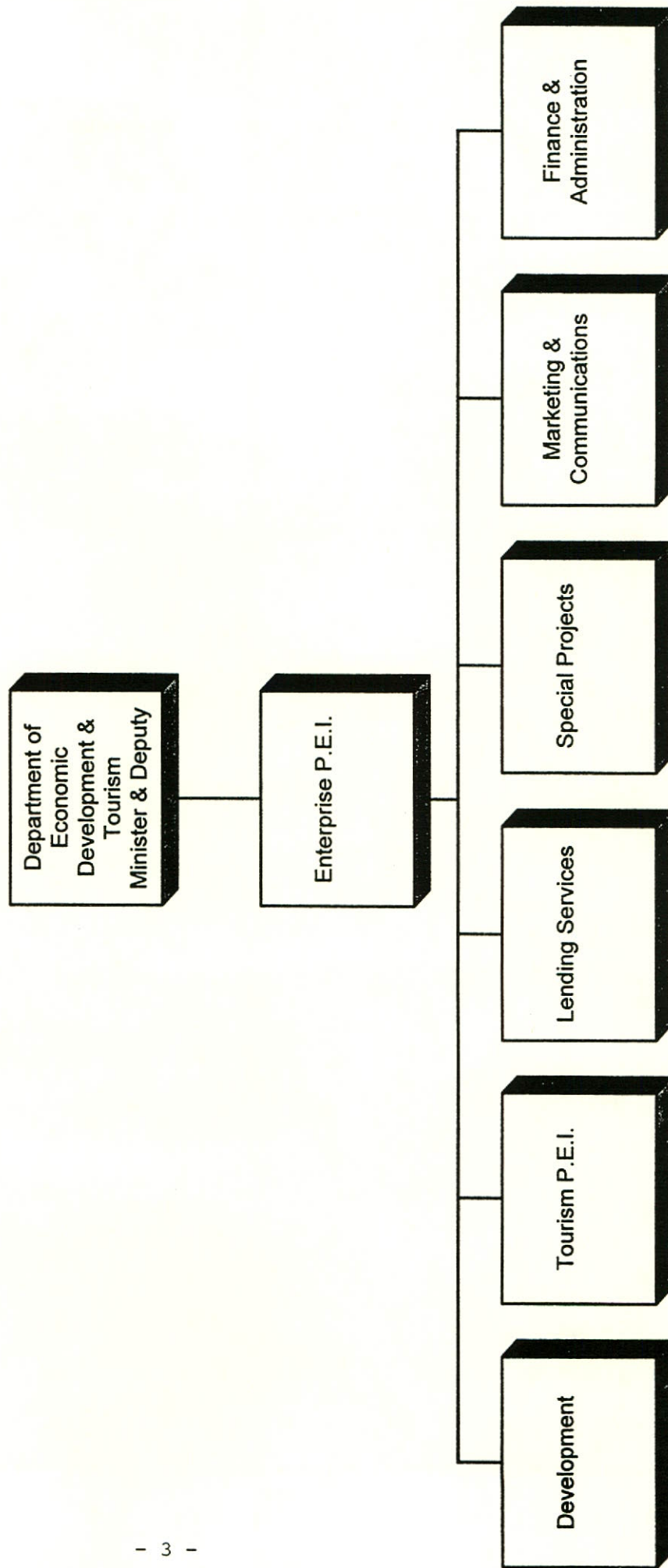
These are both exciting and challenging times. My staff and I are looking forward to the challenges of the next fiscal year. We will continue to endeavour to meet the needs of Islanders and businesses that approach Enterprise P.E.I.

Respectfully submitted,



Leo J. Walsh
Chief Executive Officer

Enterprise P.E.I. Organizational Chart



Enterprise P.E.I. Staffing

	1996/97
Corporation Management	1
Development	37
Tourism P.E.I.	10
Lending Services	14
Special Projects	1
Marketing & Communications	7
Finance & Administration	<u>12</u>
Total	<u>82</u>

Year In Review

The mandate of Enterprise P.E.I. is to spearhead new economic development and tourism strategies for the province. Its role is central and critical to government's overall objective of advancing sound development initiatives. The division solicits and supports investment, creating jobs and wealth for Prince Edward Island; proactively supports small business; encourages entrepreneurship and investment risk sharing; develops technology strategies; conducts market research; and actively promotes P.E.I. as a competitive place to live, work, do business and vacation.

A cost-comparison study released by the KPMG Consulting Group in November 1996 rated Charlottetown as the top city in North America to do business. The past year has seen continued economic growth and further evidence of the competitiveness of the P.E.I. economy, resulting in new job creation.

Support to the small business community continued to be a high priority with particular emphasis on assistance to companies seeking to expand their participation in export markets. Other priority sectors for Enterprise P.E.I. included value-added food processing, tourism, information and communications technology, aerospace, biotechnology and pharmaceuticals, and diversified manufacturing. Significant achievements were experienced in a number of areas including, but not limited to, the announcement of Canada's first province-wide broadband communications network, the expansion of Diversified Metal Engineering, the announcement of the new *Emily of New Moon*™ television series, and the establishment of P.E.I. Capital Inc. Enterprise P.E.I. was also successful in recruiting its first projects in the biotechnology and pharmaceuticals industry – AF Protein Canada and the new Canadian Red Cross Plasma Centre. Additional information on specific results are contained within the body of this report.

Close collaboration, both within Enterprise P.E.I. and with numerous external partners in the public and private sectors, are at the heart of all achievements. This year that success continued in the form of federal/provincial partnerships at the Canada/P.E.I. Business Service Centre, a one-stop entry point for new entrepreneurs looking to access government programs; and the P.E.I. Trade Development Centre, providing support to P.E.I. companies in the form of training, market intelligence and export market development.

With the cooperation of the federal government, Holland College and UPEI, the Knowledge Economy Partnership was formed. This partnership is designed to proactively reply to the radically different characteristics of the knowledge economy, and position P.E.I. to leverage opportunities represented by this new era.

Tourism P.E.I. continued to implement the *Five-Year Strategic Action Plan for P.E.I.'s Tourism Industry* by strengthening partnerships with private sector operators and further developing the shoulder season. The Tourism Marketing Authority introduced a new marketing strategy, featuring Island girl Martha MacIsaac, that incorporated the relax theme with a strong activity message.

The Lending Services Strategic Plan continues to influence favourable achievements in reducing the default rate and risk exposure of its portfolio. Lending Services has been successful in meeting the targets outlined in the strategy for the 1996/97 fiscal year.

The new Gateway Centre in Borden-Carleton will open on May 31, 1997, in conjunction with the three-day celebration to commission the Confederation Bridge. The centre was developed to create a premium quality retail/tourism destination at a principal entry point to P.E.I. and to communicate a positive first impression.

Finally, the accomplishments outlined within were achieved in a climate where financial resources were reduced. This report demonstrates how hard work and determination with limited financial resources can produce results.

L'année en bref

Le mandat d'Entreprise Î.-P.-É. est de faciliter le développement économique et l'élaboration de nouvelles stratégies touristiques pour la province. En plus de lui être essentiel, son rôle est au coeur de l'objectif d'ensemble du gouvernement, qui est de lancer de saines initiatives de développement. La Division sollicite et appuie l'investissement, ce qui contribue à créer de l'emploi et des richesses pour l'Île-du-Prince-Édouard. La Division appuie la petite et la moyenne entreprise de manière dynamique, incite à l'entrepreneuriat et à la communauté de risque dans les investissements, élabore des stratégies ayant trait à la technologie, mène des études de marché et fait la promotion active de l'Î.-P.-É. en tant qu'endroit idéal pour y vivre, y travailler, y faire des affaires et en tant que destination-vacances idéale.

Une étude de comparaison de coût publiée par KPMG Consulting Group au mois de novembre 1996 plaçait Charlottetown au premier rang des grandes villes nord-américaines où faire des affaires. Durant l'année qui s'est écoulée, nous avons assisté à une croissance économique continue et avons vu d'autres preuves de la concurrence de l'économie insulaire, ce qui a eu pour effet de contribuer à la création de nouveaux emplois.

L'appui à la PME est demeuré prioritaire, et on a mis l'accent sur l'appui aux entreprises désireuses de prendre de l'expansion sur les marchés d'exportation. Parmi les autres secteurs prioritaires, mentionnons la transformation des aliments à valeur ajoutée, le tourisme, les technologies de l'information et des communications, l'aérospatiale, la biotechnologie et le domaine pharmaceutique, ainsi que la fabrication variée. On a accompli beaucoup dans certains domaines, notamment, l'annonce du premier réseau provincial de transmission à large bande au Canada, l'expansion de la Diversified Metal Engineering, l'annonce de la nouvelle série télévisée *Emily of New Moon*[™] et l'établissement de la P.E.I. Capital Inc. Entreprise Î.-P.-É. a également recruté avec succès ses premiers projets biotechnologiques et pharmaceutiques avec AF Protein Canada et le nouveau centre de plasma sanguin de la Croix-Rouge canadienne. On peut trouver de plus amples renseignements sur d'autres résultats particuliers en consultant le rapport dans son entier.

Au coeur des réalisations d'Entreprise Î.-P.-É. se trouve la collaboration interne et la collaboration externe avec des partenaires des secteurs privé et public. Le succès de cette année s'est traduit par des partenariats fédéraux/provinciaux au Centre de services aux entreprises Canada/Île-du-Prince-Édouard, un point d'entrée unique pour les nouveaux entrepreneurs à la recherche de programmes gouvernementaux, et au Centre de promotion du commerce de l'Île-du-Prince-Édouard qui fournit un appui aux entreprises insulaires se traduisant par de la formation, de l'information commerciale

et le développement des marchés d'exportation.

Grâce à la collaboration du gouvernement fédéral, du collègue Holland et de l'Université de l'Île-du-Prince-Édouard, le Partenariat dans l'économie du savoir a été créé. Ce partenariat a vu le jour afin de fournir une réponse proactive aux caractéristiques de l'économie du savoir - qui sont radicalement différentes des secteurs de l'économie traditionnels - et permettre à l'Î.-P.-É. de miser sur les opportunités apportées par cette ère nouvelle.

Tourisme Î.-P.-É. a continué la mise en oeuvre de son plan quinquennal d'action stratégique pour l'industrie du tourisme de l'Î.-P.-É en renforçant des partenariats avec des exploitants du secteur privé et en développant un peu plus l'inter-saison. La Commission de commercialisation du tourisme a présenté une nouvelle stratégie de marketing qui met en vedette une jeune Insulaire, Martha MacIsaac, et dans laquelle on incorpore un thème décontracté accompagné d'un message centré sur l'activité.

Le plan stratégique de la division des prêts continue d'influencer favorablement les résultats en contribuant à réduire le taux d'impayés et le taux de risque de son portefeuille. La Division a réussi à atteindre les objectifs mis de l'avant dans sa stratégie pour l'exercice financier de 1996-1997.

L'ouverture du nouveau Centre Gateway situé à Borden-Carleton est prévue pour le 31 mai 1997 dans le cadre de festivités de trois jours inaugurant le pont de la Confédération. Le centre a été conçu dans le but de servir de destination de vente au détail et de tourisme de premier plan dans ce qui constitue un point d'entrée principal à l'Î.-P.-É. ainsi que dans le but de contribuer à créer chez les visiteurs une première impression positive sur l'Î.-P.-É.

Enfin, les réussites mentionnées dans le présent survol ont été accomplies dans un climat de restrictions financières. Ce rapport est la preuve que le travail et la détermination en dépit de ressources financières limitées peut produire de grands résultats.

Development *Divisional Report*

Overview

The Development Division of Enterprise P.E.I. is the lead division within the Ministry of Economic Development and Tourism for the promotion and delivery of economic development programs to private sector investment in the province. The division's activities are split between working with new and existing Island businesses to grow and expand and with off-Island businesses to attract investment and other economic activity to the province.

There was a high level of activity in the 1996/97 fiscal year with financial assistance directed to 281 companies – a large increase over 1995/96. These projects produced strong job creation results in addition to projects from the previous fiscal years which came on stream in 1996/97. There were projects in all the key economic sectors identified as priorities by the government including food processing, information technology, small business, diversified manufacturing, aerospace and biotechnology/pharmaceutical.

Government commitment to the small business sector will see changes to the programs and delivery structures and will be introduced during the 1997/98 fiscal year.

The summary highlights for each of the priority sectors follows.

Small Business and Diversified Manufacturing

Support to the small business community continued to be a high priority. The division completed 197 projects in support of the small business sector. Companies assisted were from all parts of the province and were involved in virtually every industrial sector. Cost shared assistance was provided for new business start-ups, capital expansion projects and a host of marketing assistance projects ranging from travel to trade shows to assistance in the development of new products and services. Particular emphasis was placed on assistance to companies seeking to expand their participation in export markets. In addition, assistance to 92 new business start-ups was provided under the New Entrepreneur Loan Program which is continued evidence of the strong popularity of this program.

Enterprise P.E.I., in cooperation with ACOA, Agriculture and Agri-Food Canada, and Industry Canada continues to support the P.E.I. Trade Development Centre in Charlottetown. The centre provides support in the form of training, market intelligence and export market development for P.E.I. companies. This form of intergovernmental cooperation was the first of its kind in Canada.

Enterprise P.E.I. also cooperates with ACOA in staffing the Canada Business Service Centre, a one-stop entry point for new entrepreneurs looking to access government programs.

The section made its first significant investment in the television production industry contributing approximately 15 percent of the funding to shoot the new *Emily of New Moon*™ TV series on P.E.I. This investment will create 65 jobs in P.E.I. and will have the indirect benefit of keeping P.E.I.'s visual beauty in front of a national audience and thereby assist the tourism industry.

The availability of venture capital in the province was significantly increased in the fiscal year. The private sector P.E.I. Capital Inc. commenced operations and Enterprise P.E.I. invested in the company. The government also launched its own venture capital program, making eight investments totalling over \$600,000.

Aerospace

The five year funding agreement between Slemon Park Corporation and the Province of P.E.I. expired on March 31, 1997. The corporation is now self-sustained and the prospects for its long-term success are very positive. This is due in large part to the positive performance of the existing aerospace companies in the park all of whom are planning plant expansions. Weibel Aerospace have been in discussions with the Boeing Company and it is expected that Boeing will award a supply contract for one of its aircraft programs in the near future. The fact that P.E.I. based companies will be doing business with large multi-national companies reflects the long-term prospects for the Aerospace industry on P.E.I. Employment in this industry has grown to 250 people, with the vast majority of these jobs being filled by Islanders graduating from the Holland College Aviation Maintenance Institute. Future developmental efforts will be directed at expanding the number of firms at Slemon Park and broadening the activity base to include more manufacturing activities in addition to the current strength in repair and overhaul.

Food Processing

The 1996/97 fiscal year saw many P.E.I. food processors participate in initiatives which focused on plant modernization and expansion in value-added food processing projects. In the food processing sector, 42 projects were completed to establish, expand or modernize facilities compared to 29 projects a year earlier. In addition, Enterprise P.E.I. invested \$464,900 towards the marketing efforts of the food processing industry compared to a total of \$292,000 in 1995/96. Many of the larger investments were made to ensure that existing P.E.I. processing plants, so important to their local communities, can meet increasingly stringent international safety and quality standards.

Throughout the year, construction continued on the Souris Food Park. As of

March 31, 1997, Souris Seafoods facility was nearing completion and will be ready for the 1997 seafood processing season. Further development initiatives are ongoing with regard to recruiting more tenants for the Souris Food Park.

The division has taken a proactive approach to new product development initiatives in partnership with industry and other departments of government. It is expected that some of these food product development initiatives will emerge into commercially marketable value added products in the next year.

The function of the P.E.I. Food and Beverage Processors Association continues to move in a positive direction. A full-time general manager was hired and over 40 organizations have committed to membership. The growing number of members will greatly assist the association to address the issues within the industry and to work with government in strengthening the environment for the sector to succeed.

Biotechnology/Pharmaceuticals

Enterprise P.E.I. recruited its first projects in this sector in the 1996/97 fiscal year. AF Protein Canada established an operation in the Souris area doing advanced research trial work with bio-engineered growth hormones in commercially farmed fish species.

The Canadian Red Cross announced that Charlottetown would be the location for a new plasma collection facility, creating 30 new jobs, which is scheduled to open in late 1997.

An expanded level of activity in these sectors has arisen through coordination of the local scientific community (academe, private sector and government) in terms of growth and expansion based on commercialization of technology and through support to directed prospecting efforts. Continued support to the AVC relating to its specific interests in fish health and diagnostics have enhanced the potential for increased self-sufficiency through contractual services and private sector partnerships. Interprovincial and intergovernmental associations are considered vital elements of economic development within these sectors and therefore extensive efforts have been made to ensure that these relationships are built and expanded upon.

Increased business activity within these sectors is supported by the rapid development of bio-industries globally and the concomitant recognition that technological advancements of the next millennium will be based on the technologies of biological science. Specific sectors of economic development targeted within P.E.I. have included pharmaceuticals for human and animal health, fine chemical manufacture, diagnostic kits for human and animal health, clinical trials, medical equipment and genetic engineering within the agriculture and aquaculture industries.

Information and Communications Technology

The information technology sector had a very strong year in 1996/97 with call centres such as Watts Communications, OnLine Support and Advantage Communications all enjoying significant growth creating over 250 work opportunities for Islanders. During the year Enterprise P.E.I. assisted a number of smaller information technology companies in forming and expanding. These companies joined with several other consulting, multimedia and Internet-based businesses to form a solid nucleus for the Information Technologies Association of P.E.I. (ITAP). Although formed late in the year, the association already has over 40 members and continues to grow. ITAP will be a key resource for government in the development of policies and programs in support of this economic sector.

Also in 1996/97, the Province of Prince Edward Island, in partnership with Island Tel Advanced Solutions, Sun Microsystems and Newbridge Networks, announced plans to build Canada's first province-wide ATM network. This aggressive project positioned P.E.I. as a leader in Canada in public key infrastructure. The push to make Canada's smallest province, Canada's smartest province will have a strong influence on future economic development efforts in this sector on P.E.I.

The province, with the federal government, the University of Prince Edward Island and Holland College, formed the Knowledge Economy Partnership (KEP). KEP is designed to get partners to funnel existing expertise and information networks in specific areas to improved service delivery, knowledge transfer and enterprise development. The partnership is developing knowledge economy solutions for Prince Edward Island, leveraging "new economy" opportunities and through federal-provincial collaboration initiating projects which should create both development and employment opportunities in the growing information technology industry on P.E.I.

Research

The Research Section continued its research support to Tourism P.E.I., by completing twenty quantitative and qualitative research projects, including the annual Tourism Exit Survey. At the request of the Atlantic Canada Tourism Partnership, Enterprise P.E.I.'s Research Section completed seven comprehensive research projects on behalf of ACTP's Management and Marketing Advisory Committees. The Research Section also completed twelve quantitative and qualitative research projects to support some of the information and marketing intelligence requirements of the Development Division's clients.

Particulars relating to financial approvals covering the reporting period through the Development Division are presented on Pages 20 and 21.

Tourism P.E.I. (Marketing) ***Divisional Report***

The 1996 tourism season set records in visitation and revenue. According to the Economic Impact Report, 788,278 visitors spent \$171.2 million while vacationing and doing business in P.E.I. A total of 740,981 pleasure travellers visited the province, representing an eight percent increase over 1995. The report estimates that pleasure travel has increased at an average annual rate of 4.5 percent since 1992, signifying a strong and steady growth pattern in the industry.

The Tourism Marketing Authority is well established in their role as industry advisers; in 1996 a new tourism marketing strategy was launched. Private sector tourism operators contributed more than \$600,000 to the marketing program through cooperative advertising vehicles and purchased space in Tourism P.E.I.'s publications, and Visitors Guide listings. *

Distribution Services mailed out more than 150,000 visitor information kits in 1996 and more than 300,000 pieces of literature (including maps, visitors guides and coupons) were handed out from Visitor Information Centres across the Island.

The 1996 market strategy as developed by the newly signed firm, Young & Rubicam, presented a strong new creative, introducing Martha MacIsaac as the Island Girl. Her presence in print and television advertising reinforced the positioning statement that incorporated the *relax* theme with a strong *activity* message.

A dynamic new sales team was formed which will focus on motorcoach, auto clubs and FIT (Foreign Independent Travel) or wholesale/packagegers as well as the Japanese and European markets. The team has set sales quotas and first year results are positive.

To boost the province's presence in the Toronto/Ontario market, Tourism P.E.I. organized a high-profile media/sales event for the spring of 1996. The Premier was interviewed by several major media outlets, teams performed sales calls to media and trade contacts around the city and information evenings were hosted during the event which was dubbed P.E.I. Week.

Other marketing initiatives included the production of high-quality publications and sales pieces, trade missions to key markets in the northeast region of North America, an expanded editorial program and a successful co-promotion with the Canadian and American auto clubs, CAA and AAA.

Prince Edward Island was an active participant in the Atlantic Canada Tourism

Partnership, a three-way cooperative venture involving two levels of government and the region's private sector. The province led regional efforts in certain key markets such as Japan and US trade. The province also led the regional research program. The Atlantic partnership proved to be an effective means of reaching long-haul markets such as mid-Atlantic United States and overseas, where individual provincial efforts would not be cost-efficient.

* Tourism P.E.I. uses an operating budget based on a market year that runs from October to September. Revenue figures quoted above are for the market year October 1995 to September 1996.

Lending Services ***Divisional Report***

As referenced in last year's report, Lending Services continues in the direction established with the implementation of the division's Strategic Plan.

The number of borrowing clients overall decreased by 23 percent compared to the previous fiscal year; however, borrowings increased nearly \$10 million or 10 percent. The majority of these borrowers are in the resource sectors of agriculture and fisheries.

The Strategic Plan also stated the portfolio being "large and troubled" with total portfolio arrears of 34.3 percent. With the encouragement by government for clients to seek outside lenders, we fully expected the percentage of arrears to increase with the exit of "bankable" clients. This, in fact, has not been the case and the opposite results have occurred. As of March 31, 1996, arrears had fallen to 13.7 percent, with a further decrease of five percent to 8.7 percent being obtained as of March 31, 1997.

Strategic Economic Development

1996's report speaks directly to the establishment of Blueberry and Shellfish Financing Programs. The further growth in the establishment of additional blueberry lands has not materialized, however the growth in shellfish has. Take up on the Shellfish Program has required Lending Services to provide loans totalling \$557,000 over 12 borrowers with an additional \$300,000 booked in 1997/98.

Together with the Department of Agriculture and Forestry, Lending Services is preparing a financial program targeted at increasing the province's production of cranberries. Due to the heavy capitalization from the outset, approximately \$40,000 per acre, it is anticipated we will be required to provide approximately \$2 million in loans to enhance production by approximately 50 acres in the first year.

Looking ahead into 1997/98, we envision the majority of growth in Lending to be in tourism, small business, and agriculture. The spin-offs resulting from the completion of the Confederation Bridge will see more tourists, more often, throughout the year, resulting in the need for additional fixed roof accommodations and increased assistance to retail business to service the needs of these visitors.

As non repayable contributions decrease, the role of a provincial lender will need to be enhanced. Projects of a developmental nature, or in tune with the province's economic mandate, may not receive support from conventional lenders who do not necessarily share our view on job and wealth creation. Islanders involved in seasonal business or are dependent upon the climate, must be able to rely on a lender that will ensure industry integrity is protected.

Particulars relating to financing approvals are presented on Page 19.

Special Projects ***Divisional Report***

The focus and role of the Special Projects function within Enterprise P.E.I. is to manage and "fast-track" strategic initiatives identified by the Minister of Economic Development and Tourism and the Premier's Office. This is the final report from the Special Projects unit which was dissolved effective May 30, 1997.

During the year, the focus of Special Projects was to continue to manage the Province of P.E.I.'s interest in the construction of the Confederation Bridge and to build the first phase of Gateway Village at the landfall of the bridge in Borden-Carleton.

Gateway Village Phase I was a \$7.3 million capital project built by Gateway Village Development Inc., a crown corporation and wholly owned subsidiary of Enterprise P.E.I. Our federal funding partners, Atlantic Canada Opportunities Agency and Human Resources Development Canada, contributed \$3.9 million; and \$3.4 million was provided by the P.E.I. government.

Phase I of the Gateway Village project included installation of site infrastructure, such as underground services, curbing and the road network connecting the development with the Confederation Bridge and the community of Borden-Carleton. Gateway Village Development Inc. also built the 22,000 square foot Gateway Centre to anchor the development and constructed the three-hectare Gateway Park. The strategy which was fundamental to the first phase development of Gateway Village was to create a premium quality retail/tourism destination at a principal point of entry to Prince Edward Island and to communicate a positive first impression of the province.

Gateway Centre serves as the anchor for Gateway Village and creates early critical mass for Phase II retail/commercial/tourism development. The anchor complex houses a Visitor Information Centre, the "Our Island Home" exhibition pavilion, The Official Island Store, a P.E.I. Liquor Control Commission store, and food service space leased to Cow's, Sweet Factory and Tim Hortons.

The Confederation Bridge and Gateway Village were officially opened on May 31, 1997, as elements of BridgeFest '97. Over 150,000 people attended this carefully planned celebration which was so successful on all fronts, that the various partners are examining a potential for a scaled-down annual festival.

Gateway Village Phase I has been very well received by visitors and Islanders.

The "Our Island Home" exhibition pavilion was visited by an estimated 300,000 people to experience a multi-media, interactive interpretation of P.E.I.'s heritage and culture. The Official Island Store was designed to showcase P.E.I. manufactured, processed and value added products. Another priority is to generate earnings to subsidize the non-revenue producing elements of Gateway Village, such as the Visitor Information

Centre, "Our Island Home" and Gateway Park. During the first 90 days of operation, The Official Island Store achieved its original revenue forecast for fiscal year 1997/98. Opportunities to creatively showcase Island products are being cultivated on an ongoing basis with manufacturers and processors across the province.

Marketing & Communications

Divisional Report

Through targeted communications, public and media relations, advertising and promotions, the Marketing and Communications section is responsible for increasing awareness both on- and off-Island of the provincial economic and social climate, and positioning the province as a competitive place to live, work and do business. In addition, the section supports departments with the resources and expertise to develop communications plans and activities that keep Islanders informed of government services and initiatives.

Significant progress has been made in the frequency and quality of government marketing and communications activities. In the 1996/97 fiscal year, the section introduced a bilingual corporate identity for the business of government. The new provincial wordmark, endorsed by management board, is now an officially registered trademark of the government of Prince Edward Island. The section continues to work with all departments of government on standard guidelines for its use on all printed and electronic applications.

The section continues to produce *The Quarter in Review* which covers the activities of government over the previous quarter. This publication is distributed to all government employees, 4500 key opinion leaders in the P.E.I. community, as well as selected distribution to other Canadian government offices in Canada and the US. Results of a research survey conducted in March of 1997 strongly support continued publication.

The most notable project the section worked on this past year was the development and implementation of a media strategy for the June opening of the Confederation Bridge. Section staff successfully alerted, accredited and accommodated the specific needs of close to 500 national and international media.

Ongoing work of the section includes advertising, media and public relations support to the Office of the Premier, lead communications on the province-wide Knowledge Economy Partnership and marketing support for Enterprise P.E.I. prospecting efforts.

Approved Financing to Establish or Expand Island Businesses

In Fiscal Year Ended March 31, 1997

	1997		1996	
	No.	\$	No.	\$
<u>ECONOMIC SECTOR</u>				
Agriculture	33	3,591,820	54	4,774,035
Blueberry	14	1,845,354	5	4,279,565
Fisheries & Aquaculture	25	2,702,413	21	2,708,025
Tourism	3	2,609,000	1	200,000
Small Business	2	150,000	0	0
Manufacturing & Processing	9	1,284,611	11	25,707,278
Information Technology	<u>2</u>	<u>675,000</u>	<u>3</u>	<u>640,000</u>
	<u>88</u>	<u>12,858,198</u>	<u>95</u>	<u>38,308,903</u>

Approved Financial Incentives to Establish or Expand Island Businesses and Developmental Organizations

In Fiscal Year Ended March 31, 1997

	1997		1996	
	No.	\$	No.	\$
<u>ECONOMIC SECTOR</u>				
Aerospace	2	154,113	2	400,000
Biotechnology & Pharmaceuticals	2	470,000	0	0
Food - Agriculture	19	1,152,002	15	5,270,920
Food - Fisheries	23	3,217,560	14	8,111,195
General/Service/Film	142	3,983,092	91	1,525,118
Information Technology & Communications	16	1,237,400	5	2,500,000
Manufacturing	64	1,651,051	73	5,453,719
Tourism	<u>13</u>	<u>3,777,766</u>	<u>8</u>	<u>1,279,985</u>
	<u>281</u>	<u>15,642,984</u>	<u>208</u>	<u>24,540,937</u>

TYPE OF ASSISTANCE

Industrial Mall	22	326,454	27	279,986
Rental Incentive	6	139,668	5	28,869
Equity Investors Incentive	21	749,500	9	306,860
Enterprise Assistance	24	1,691,838	10	464,082
New Entrepreneur Loan*	92	1,120,264	67	841,667
Venture Capital Loan Program**	8	660,000	0	0
Small Bus. Support - Bus. Dev.	18	177,930	20	221,779
Micro Business Assistance	50	398,313	43	261,168
Strategic Infrastructure Fund	<u>40</u>	<u>10,379,017</u>	<u>27</u>	<u>22,136,526</u>
	<u>281</u>	<u>15,642,984</u>	<u>208</u>	<u>24,540,937</u>

*Repayable loans which are interest free in the first year.

**Repayable loans with interest only payable in the first year following which the investment is amortized over the balance of the approved term in regularly scheduled payments of interest and principal.

Approved Marketing Assistance to Develop and Expand Markets for Island Products

In Fiscal Year Ended March 31, 1997

	1997		1996	
	No.	\$	No.	\$
<u>ECONOMIC SECTOR</u>				
Food - Agriculture	25	178,648	23	119,880
Food - Fisheries	34	286,253	47	172,153
General/Service/Film	16	155,624	24	80,431
Manufacturing	<u>69</u>	<u>288,776</u>	<u>62</u>	<u>260,081</u>
	<u>144</u>	<u>909,301</u>	<u>156</u>	<u>632,545</u>
<u>TYPE OF ASSISTANCE</u>				
Small Business Support - Market Development	31	424,208	52	253,928
Small Business Development - on Island	2	13,138	2	2,190
Export Development	<u>111</u>	<u>471,965</u>	<u>102</u>	<u>376,427</u>
	<u>144</u>	<u>909,311</u>	<u>156</u>	<u>632,545</u>

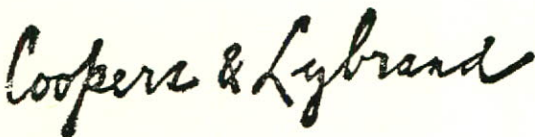
AUDITORS' REPORT

To the Minister of Economic Development

We have audited the consolidated balance sheet of Enterprise P.E.I. as at March 31, 1997 and the consolidated statements of operations, retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations for the year then ended in accordance with generally accepted accounting principles.



Chartered Accountants
June 13, 1997

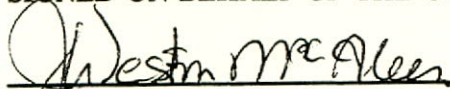
ENTERPRISE P.E.I.

Consolidated Balance Sheet

As at March 31, 1997

	1997	1996
	\$	\$
ASSETS		
Current Assets		
Cash	5,467,459	11,438,195
Accounts receivable	2,825,050	1,446,915
Grant receivable	2,944,123	3,395,529
Prepaid expenses	473,116	599,827
Short-term loans receivable (note 3)	14,726,439	11,984,803
Work in progress in excess of progress billings	8,406	-
Due from the Province of Prince Edward Island (note 4)		
- Current operations	1,071,984	520,992
Current portion of net investment in leases	1	-
	<u>27,516,578</u>	<u>29,386,261</u>
Due from the Province of Prince Edward Island (note 4)		
- Provision for possible losses	6,401,173	7,392,093
Leased Property (note 5)	13,267,243	20,981,386
Property Holdings (note 6)	2,310,352	4,177,855
Fixed Assets and Assets under Capital Lease (note 7)	12,378,052	5,933,321
Mortgage Loans Receivable (note 8)	64,936,147	75,168,380
Investment in Non-Marketable Securities (note 9)	3,831,013	2,968,758
Funds Held in Trust (note 10)	11,338,721	8,531,660
Net Investment in Leases, less current portion (note 11)	7,294	7,290
	<u>141,986,573</u>	<u>154,547,004</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	11,024,630	7,955,458
Deferred revenue	7,294	42,064
Short-term promissory notes (note 12)	19,295,024	27,921,535
Current portion of notes payable	6,530,351	6,109,845
	<u>36,857,299</u>	<u>42,028,902</u>
Funds Held in Trust (note 10)	11,338,721	8,531,660
Notes Payable, less current portion (note 13)	78,163,911	93,332,555
Deferred Credits (notes 11 and 14)	14,998,933	9,951,907
	<u>141,358,864</u>	<u>153,845,024</u>
Contingent Liabilities (note 15)		
SHAREHOLDERS' EQUITY		
Contributed Surplus	366,040	366,040
Retained Earnings	261,669	335,940
	<u>627,709</u>	<u>701,980</u>
	<u>141,986,573</u>	<u>154,547,004</u>

SIGNED ON BEHALF OF THE CORPORATION


Minister

ENTERPRISE P.E.I.
Consolidated Statement of Retained Earnings
For the Year Ended March 31, 1997

	1997 \$	1996 \$
RETAINED EARNINGS - BEGINNING OF YEAR	335,940	264,578
Excess revenue (expenses) for the year	(73,501)	71,428
	262,439	336,006
Excess revenue repayable to Province of Prince Edward Island (note 4)	770	66
RETAINED EARNINGS - END OF YEAR	261,669	335,940

ENTERPRISE P.E.I.
Consolidated Statement of Operations
For the Year Ended March 31, 1997

	Budget (Unaudited) 1997 \$	Actual 1997 \$	Actual 1996 \$
Revenue			
Grants from Province	25,540,100	23,111,198	24,210,200
Interest from borrowers	7,979,400	7,338,674	7,526,108
Interest from deposits	15,000	265,662	1,117,051
Agricultural leases	-	1,533,288	2,264,606
Park operations	816,900	589,820	554,309
Miscellaneous	-	4,186	267
Land sales	-	-	37,508
Project revenues	706,000	468,000	625,877
Dividend income	-	3,600	-
	<u>35,057,400</u>	<u>33,314,428</u>	<u>36,335,926</u>
Expenses			
Administration	5,688,500	5,570,094	5,165,556
Business Development	13,105,800	11,559,350	12,626,314
Development organizations	5,616,000	6,515,533	6,423,912
Property operations	1,226,500	949,604	1,100,910
Interest on funds borrowed	7,876,000	8,873,964	10,022,664
Land sales	-	31,138	-
Provision for possible losses (recovery)	1,544,600	(111,754)	925,142
	<u>35,057,400</u>	<u>33,387,929</u>	<u>36,264,498</u>
EXCESS REVENUE (EXPENSE) FOR THE YEAR	-	(73,501)	71,428

ENTERPRISE P.E.I.

Consolidated Statement of Changes in Financial Position For the Year Ended March 31, 1997

	1997 \$	1996 \$
Operating Activities		
Excess revenue (expense) for the year	(73,501)	71,428
Items not affecting cash:		
Depreciation and amortization	393,591	556,594
Loss (gain) on disposal of property holdings	31,138	(37,508)
Decrease in due from the Province of Prince Edward Island - provision for possible losses	990,920	5,045,837
Reduction in carrying value of investment in non-marketable securities	114,246	1,323,666
	<u>1,456,394</u>	<u>6,960,017</u>
Net change in non-cash working capital balances related to operations:		
- decrease (increase) in grant receivable	451,406	(3,395,529)
- increase in accounts receivable	(1,378,135)	(394,538)
- increase in work in progress in excess of progress billings	(8,406)	-
- decrease (increase) in prepaid expenses	126,711	(409,205)
- increase in short-term loans receivable (net)	(2,741,636)	(176,574)
- increase in accounts payable and accruals	3,069,172	1,107,347
- decrease in deferred revenue	(34,770)	(4,310)
- increase (decrease) in due from Province of P.E.I. - current operations	(551,762)	2,130,046
	<u>388,974</u>	<u>5,817,254</u>
Financing Activities		
Increase in deferred credits	5,254,905	6,024,250
Decrease in leased property (net)	7,714,143	5,724,499
Decrease (increase) in mortgage loans receivable (net)	10,232,233	(16,998,697)
Increase in funds held in trust	2,808,061	1,419,248
Proceeds on short-term notes and notes payable	20,273,489	32,412,317
Retirement of short-term notes and notes payable	(43,648,138)	(25,045,200)
Increase in net investment in lease	(5)	-
	<u>2,634,688</u>	<u>3,536,417</u>
Investing Activities		
Increase in fixed assets	(6,726,915)	(8,380,667)
Additions to and purchases of property holdings	(2,038,076)	(2,089,036)
Reductions of and proceeds on disposal of property holdings	3,555,155	1,709,495
Purchase of investment in private companies	(1,227,501)	(942,499)
Proceeds on disposal of investments	250,000	220,000
	<u>(6,187,337)</u>	<u>(9,482,707)</u>
Decrease in Cash and Funds Held in Trust	<u>(3,163,675)</u>	<u>(129,036)</u>
Cash and Funds Held in Trust - Beginning of Year	<u>19,969,855</u>	<u>20,098,891</u>
Cash and Funds Held in Trust - End of Year	<u>16,806,180</u>	<u>19,969,855</u>

ENTERPRISE P.E.I.

Notes to Consolidated Financial Statements

For the Year Ended March 31, 1997

1. Accounting Policies

The financial statements of Enterprise P.E.I. have been prepared in accordance with generally accepted accounting principles. The Corporation's accounting policies are summarized as follows:

a. General

These consolidated financial statements include the accounts of the wholly-owned subsidiaries, F.T.C. Enterprises Limited, Environmental Industrial Services Inc., Corporate Services Ltd., Souris Food Park Development Corporation and Gateway Village Development Inc., all having year ends of March 31, 1996.

b. Short-term loans receivable

Working capital loans bear interest at prime plus 1 3/4% and are repayable at the end of each sector's operating season.

c. Leased Property

Leased property represents the purchase price paid to acquire agricultural property based on appraised market value at the inception of the lease. There is an operating lease negotiated with the lessee for a maximum of 5 years at a rate of interest tied to commercial lending rates. The lease may be renewed for one five-year term after which time the lessee must repurchase the property.

d. Property holdings, fixed assets and assets under construction

Property holdings are valued on a property by property basis at the lower of cost, net of government grants and depreciation, and anticipated realizable value.

Office furniture and equipment and computer equipment are fully expensed in the year of acquisition by the parent company. The amount expensed during the year ended March 31, 1997 was \$139,346 (1996 - \$110,918).

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

Subsidiaries record fixed assets at cost.

e. Depreciation

(i) Property holdings

Buildings held for resale that are being leased or rented and industrial malls are depreciated using the straight-line method at the annual rates of 7% and 4%.

Industrial sites and certain assets held for resale that are not being leased or rented are not depreciated.

ENTERPRISE P.E.I.
Notes to Consolidated Financial Statements
For the Year Ended March 31, 1997

1. Accounting Policies (continued)

e. Depreciation (continued)

(ii) Fixed assets

Fixed assets are depreciated using the declining balance method and the straight-line method at annual rates ranging from 4% to 20% as indicated in note 7.

Assets under construction are not depreciated until construction of the assets is substantially complete.

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

f. Mortgage loans receivable

Mortgage loans consist of loans issued to Prince Edward Island enterprises for purposes of acquiring assets. These loans are issued at long-term interest rates and are repayable over various terms to a maximum of 30 years.

g. Investments in non-marketable securities

Investment in private companies

One-half of investments made under the small business equity program and venture capital programs are included in the balance sheet as share investments. The remaining one-half of these investments are accounted for as a business development program expense on the statement of operations. Any recovery exceeding the balance in share investments is taken into revenue when received.

The small business equity investments, venture capital and other equity investments are written down to reflect estimated realizable value when an impairment in their carrying values becomes evident. Write downs are included in the business development expenses.

The investments in Amalgamated Holdings Inc. and P.E.I. Capital Inc. are being carried at estimated net realizable value.

A subsidiary company has a 33% and a 25% interest in two private corporations.

These investments are being carried at a nominal value of \$1 as the companies are in the early stages of developing various technology related products, processes, and marketing initiatives.

h. Programs assistance payable

Provincially funded non-cost shared program assistance is expensed and included in accrued liabilities when approved and accepted.

ENTERPRISE P.E.I.

Notes to Consolidated Financial Statements

For the Year Ended March 31, 1997

1. Accounting Policies (continued)

i. Vacation Pay

Enterprise P.E.I. does not record accrued vacation pay as this is normally a non-cash expenditure that is funded through operating grants from the Province. To record the accrued vacation liability of \$140,922 at March 31, 1997, Enterprise P.E.I. would also have to record an offsetting receivable from the Province as the Province funds any excess expenses for the year. However, the Province will not recognize this liability until such time that it becomes payable. A subsidiary company has recorded accrued vacation pay in order to match expenses to revenue derived from project recoveries.

j. Provision for possible losses

A provision for possible losses is determined annually based on historical collection experience and a review of loans, guarantees, share investment portfolio and property held for resale on a specific identification basis. Loans identified as impaired are classified as non-current loans and are included with mortgage loans receivable - other (note 8). Interest revenue is not accrued for accounting purposes on loans when a write-off is anticipated.

The provision for possible losses is recorded as an amount due from the Province.

Enterprise P.E.I. records as revenue the annual budgeted provision for current year's possible losses. The budgeted provision for possible losses is established as part of the normal budget process and is updated to reflect known changes as they become evident during the year. Any variance of the actual provision from the updated budgeted provision is recorded as an amount "Due From (To) The Province - Current Operations" (note 4).

k. Deferred credits

Enterprise P.E.I. subsidiaries have adopted the policy that contributions received towards the acquisition of fixed assets are being deferred and amortized to income on the same basis as the related fixed assets are depreciated.

l. Revenue recognition

Enterprise P.E.I. subsidiaries follow the percentage-of-completion method of accounting for revenue and expenditures on project contracts. The percentage-of-completion method records the organization's estimated profit based on the expenditures incurred and work completed on each contract in progress.

When work in progress is in excess of actual billings generated as at year end, the excess is recorded as "work in progress in excess of progress billings" to appropriately recognize revenue under the percentage-of-completion basis of accounting. When billings generated are in excess of the related work in progress at year end, the excess is recorded as deferred revenue.

ENTERPRISE P.E.I.

Notes to Consolidated Financial Statements

For the Year Ended March 31, 1997

1. Accounting Policies (continued)

m. Net investment in leases

The company's subsidiaries accumulate costs of constructing assets that are to be classified as capital leases as assets under capital lease, and the related grants as deferred credits until the lease term begins. When the lease term begins, the assets under capital lease and deferred credits are removed from the balance sheet and a net investment in leases is recorded. The net investment in leases represents the minimum lease payments receivable over the term of the lease plus the purchase option.

2. Status of the Corporation

Enterprise P.E.I. was incorporated as a Crown Corporation in 1993 pursuant to the Enterprise P.E.I. Act. The financial results of Enterprise P.E.I. are included in the public accounts of the Province of Prince Edward Island.

3. Short-Term Loans Receivable

	1997 \$	1996 \$
Working capital loans	15,836,373	12,669,389
Advance to Garden Province Meats Inc.	518,066	518,000
	16,354,439	13,187,389
Less: Provision for possible losses	1,628,000	1,202,586
	14,726,439	11,984,803

4. Due from the Province of Prince Edward Island

	1997 \$	1996 \$
a. Current Operations		
Excess revenue for the year of parent corporation	(770)	(66)
Excess funds advanced by the Province of Prince Edward Island	-	(98,400)
Excess of current year's forecast for possible losses over actual provision for possible loss	1,072,754	619,458
	1,071,984	520,992
b. Provision for Possible Losses		
Balance - beginning of year	7,392,093	12,437,930
Current year's expense (recovery)	(36,754)	925,142
	7,355,339	13,363,072
Less: Write-offs during the year	954,166	5,970,979
	6,401,173	7,392,093

ENTERPRISE P.E.I.

Notes to Consolidated Financial Statements

For the Year Ended March 31, 1997

5. Leased Property

	1997 \$	1996 \$
Agricultural leases	13,600,463	21,562,183
Less: Provision for possible losses	333,220	580,797
	<u>13,267,243</u>	<u>20,981,386</u>

6. Property Holdings

	1997			
	Cost	Accumulated depreciation and grants	Net	1996 Net
	\$	\$	\$	\$
Industrial sites	3,547,960	2,938,094	609,866	621,864
Industrial malls	3,463,153	2,517,208	945,945	1,068,537
	<u>7,011,113</u>	<u>5,455,302</u>	1,555,811	1,690,401
Foreclosed projects			1,412,209	336,413
Land held for resale			114,747	572,613
Buildings and equipment held for resale or under lease purchase options			1,082,424	2,005,513
			<u>4,165,191</u>	<u>4,604,940</u>
Less: Provision for possible losses - foreclosed projects			1,770,839	336,413
- land, building and equipment held for resale			84,000	90,672
			<u>1,854,839</u>	<u>427,085</u>
			<u>2,310,352</u>	<u>4,177,855</u>

ENTERPRISE P.E.I.

Notes to Consolidated Financial Statements

For the Year Ended March 31, 1997

7. Fixed Assets and Assets Under Capital Lease

	Rate %	1997			1996
		Cost \$	Accumulated depreciation \$	Net \$	Net \$
F.T.C. Enterprises Limited					
Building	5% SL	2,512,524	936,711	1,575,813	1,640,228
Pilot plant and laboratory equipment	5% and 10% SL	1,391,292	1,101,707	289,585	422,240
Laboratory supplies	50% SL	120,525	120,525	-	-
Computer and audio visual equipment	33 1/3% SL	355,954	342,677	13,277	15,288
Office furniture and equipment	20% SL	132,427	119,752	12,675	15,127
		<u>4,512,722</u>	<u>2,621,372</u>	<u>1,891,350</u>	<u>2,092,883</u>
Souris Food Park Development Corporation - Assets under Construction					
Dim Sum Plant					
Soft costs		309,070	-	309,070	255,936
Land improvements		244,025	-	244,025	-
		<u>553,095</u>	<u>-</u>	<u>553,095</u>	<u>255,936</u>
Souris Food Park Infrastructure					
Waste treatment - soft costs		91,094	-	91,094	35,887
- equipment		2,450,524	-	2,450,524	387,705
Land		242,898	-	242,898	272,556
Land improvements		2,320,698	-	2,320,698	911,928
Soft costs		1,882,222	-	1,882,222	1,045,569
Equipment		109,564	-	109,564	-
		<u>7,097,000</u>	<u>-</u>	<u>7,097,000</u>	<u>2,653,645</u>
Gateway Village Development Inc.					
Land and land improvements		700,926	-	700,926	-
Building		1,495,587	-	1,495,587	-
Interpretive exhibits		640,094	-	640,094	-
		<u>2,836,607</u>	<u>-</u>	<u>2,836,607</u>	<u>-</u>
		<u>14,999,424</u>	<u>2,621,372</u>	<u>12,378,052</u>	<u>5,002,464</u>
Assets Under Capital Lease					
Souris Seafood Plant					
Soft costs		-	-	-	251,340
Cold storage		-	-	-	679,517
		<u>-</u>	<u>-</u>	<u>-</u>	<u>930,857</u>
		<u>14,999,424</u>	<u>2,621,372</u>	<u>12,378,052</u>	<u>5,933,321</u>

DB - declining balance

SL - straight line

ENTERPRISE P.E.I.
Notes to Consolidated Financial Statements
For the Year Ended March 31, 1997

8. Mortgage Loans Receivable

	1997 \$	1996 \$
Mortgage loans receivable		
Agriculture	9,640,385	13,747,460
New Farmer	85,323	305,295
Tourism	10,263,757	12,988,616
Manufacturing and processing	7,352,672	7,882,585
Fisheries	4,867,807	6,796,113
Small business	4,340,114	6,220,018
Aquaculture	356,670	-
Blueberry	3,649,186	2,936,796
Strategic economic development	25,660,211	25,597,825
Other	1,477,615	2,930,931
	<u>67,693,740</u>	<u>79,405,639</u>
Less: Provision for possible losses	2,757,593	4,237,259
	<u>64,936,147</u>	<u>75,168,380</u>

Included in other mortgage loans receivable at March 31, 1997 are \$1,172,408 in non-current loans. These loans have a related provision for possible losses at March 31, 1997 of \$345,000.

9. Investment in Non-Marketable Securities

	1997 \$	1996 \$
Private companies		
840 Class A preferred shares of Amalgamated Holdings	2,429,812	2,679,812
300 Class A preferred shares, P.E.I. Capital Inc.	255,000	42,500
Small Business Equity program	1,669,200	1,149,199
Venture Capital program investments	394,000	-
Private corporations	1	1
	<u>4,748,013</u>	<u>3,871,512</u>
Less: Provision for possible losses	917,000	902,754
	<u>3,831,013</u>	<u>2,968,758</u>

10. Funds Held in Trust

Under the terms of an agreement between Corporate Services Ltd., Prince Edward Island Government Economic Development Fund (No. II) Inc., (Island Fund II), Prince Edward Island Government Economic Development Fund (No. III) Inc. (Island Fund III), and Prince Edward Island Government Economic Development Fund (No. IV) Inc. (Island Fund IV), Corporate Services Ltd. is to act as the Escrow Agent for investors of a \$30,000,000 venture capital fund offering for each of Island Fund II, Island Fund III and Island Fund IV.

ENTERPRISE P.E.I.

Notes to Consolidated Financial Statements

For the Year Ended March 31, 1997

10. Funds Held in Trust (continued)

Corporate Services Ltd. receives the subscription forms from potential investors and holds the funds in trust until the commencement date. The commencement date is to be established within 100 days of receipt of twelve subscriptions. On the commencement date, the Escrow Agent shall:

- advance to Island Investment Development Inc.
 - 70% of subscription proceeds to be reinvested;
 - 10% of subscription proceeds to be used to cover offering and operating costs;

Interest earned on the account while the funds are in escrow is the property of Island Investment Development Inc.

- establish a repayment account to retain on deposit the remaining 20% of the investment proceeds to be invested in a liquid, high-rate investment account for the purpose of refunding rejected investors. Interest earned on the repayment account accrues to the benefit of the specific projects or Island Investment Development Inc. and not Corporate Services Ltd.

Corporate Services Ltd. also administers a sinking fund for a non-related company.

11. Net Investment in Leases

Environmental Industrial Services Inc. entered into agreements to lease its three properties on terms that require these leases to be accounted for as capital leases. In accounting for the capital leases, the fixed assets and related deferred credits have been removed and recorded as net investment in leases. The prior year's fixed assets and deferred credit balances have been restated to record the change retroactively.

The net investment in leases represents the minimum lease payments plus purchase options receivable. The net investment in leases consists of the following:

- McCain Foods Limited - 10-year lease term for the period from February 20, 1991 to December 31, 2000, with a purchase option of \$20.
- Cavendish Farms - 8-year lease term from the period from January 1, 1994 to December 31, 2001, with a purchase option of \$10.

Both leases have the option to be extended by an additional 10 years at the expiration of the lease term at the option of the lessee.

- Small Fry - 9-year lease term for the period from December 22, 1996 to December 31, 2005, with a purchase option of \$7,260.

Souris Food Park Development Corporation entered into a lease that transfers substantially all of the benefits and risks incident to ownership to the lessee for a term of five years for the period from February 1, 1997 to January 31, 2002. At the expiration of the lease term, the lessee has the option to purchase the assets under capital lease for \$1.

ENTERPRISE P.E.I.

Notes to Consolidated Financial Statements

For the Year Ended March 31, 1997

11. Net Investment in Leases (continued)

The net investment in the lease represents the minimum lease payments receivable over the remaining term of the lease and the purchase option. Upon recording the net investment in lease, Souris Food Park Development Corporation removed \$6,962,844 in assets under capital lease and deferred credits.

12. Short-Term Promissory Notes

Short-term promissory notes are issued to the Province of Prince Edward Island with interest set monthly based on the Province's short-term lending rate in existence at the first day of the month. These notes are renewed on an ongoing basis with interest payable monthly.

13. Notes Payable

	1997	1996
	\$	\$
Notes payable - long-term	84,694,262	99,442,400
Less: Current portion	6,530,351	6,109,845
	<u>78,163,911</u>	<u>93,332,555</u>

The notes payable - long-term are issued to the Province of Prince Edward Island and have various repayment terms and interest rates ranging from 6.6875% to 13.65%.

The aggregate amount of principal payments required in each of the next five years to meet retirement provisions is as indicated below. Certain notes becoming due during the next five years have been assumed to be refinanced under similar terms:

	\$
Year ending March 31, 1998	6,530,351
1999	6,771,439
2000	6,933,729
2001	6,633,960
2002	6,983,071

ENTERPRISE P.E.I.

Notes to Consolidated Financial Statements

For the Year Ended March 31, 1997

14. Deferred Credits

	1997			1996
	Cost	Accumulated depreciation	Net	Net
	\$	\$	\$	\$
F.T.C. Enterprises Limited				
Building	2,349,320	896,449	1,452,871	1,570,337
Pilot plant and laboratory equipment	1,055,271	883,577	171,694	262,107
Computer and audio visual equipment	63,550	63,550	-	-
Office furniture and equipment	53,063	53,063	-	-
	<u>3,521,204</u>	<u>1,896,639</u>	<u>1,624,565</u>	<u>1,832,444</u>
Souris Food Park Development Corporation				
Federal	7,336,306	-	7,336,306	3,520,229
Provincial	313,789	-	313,789	3,000,000
	<u>7,650,095</u>	<u>-</u>	<u>7,650,095</u>	<u>6,520,229</u>
Gateway Village Development Inc.				
Federal Government	3,799,273	-	3,799,273	-
Provincial Government	1,925,000	-	1,925,000	-
	<u>5,724,273</u>	<u>-</u>	<u>5,724,273</u>	<u>-</u>
Environmental Industrial Services				
Cavendish Plant				
Provincial Government	-	-	-	1,417,203
Small Fry Plant				
Provincial Government	-	-	-	182,031
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,599,234</u>
	<u>16,895,572</u>	<u>1,896,639</u>	<u>14,998,933</u>	<u>9,951,907</u>

15. Contingent Liabilities

As at March 31, 1997, Enterprise P.E.I. was contingently liable under loan guarantees in the amount of \$2,056,315 (1996 - \$2,505,736) for which Enterprise P.E.I. has included \$75,000 (1996 - \$208,358) in its provision for possible losses.

ENTERPRISE P.E.I.

Notes to Consolidated Financial Statements

For the Year Ended March 31, 1997

15. Contingent Liabilities (continued)

As a result of a decision of the Trial Division of the Supreme Court of Prince Edward Island, Georgetown Shipyards Inc. is liable to the claimants for an undetermined amount presently estimated to be \$1,500,000. Enterprise P.E.I. assumed all liabilities of Georgetown Shipyards Inc. pursuant to the windup of Georgetown Shipyards Inc. An appeal of the decision is pending, with the outcome not determinable at this time. No provision has been made in the accounts of Enterprise P.E.I. for this contingent liability as at March 31, 1997, as it is management's view that the Company's portion of the award will be reduced to nil.

Souris Food Park Development Corporation has currently received \$110,242 in federal funding for one sub-project in excess of the original cost-sharing agreement. If the funding agreement for specific projects is not renegotiated, Souris Food Park Development Corporation will have an unrecorded and unfunded liability.

In Souris Food Park Development Corporation, two sub-projects were combined as a single construction project to be cost shared \$3,500,000 federally and \$3,000,000 provincially. The cost allocation of these two sub-projects by the project manager has not been completed. The project has been fully funded. If the allocated project costs for the project funded federally differ from the funding, Souris Food Park Development Corporation will have an unrecorded and unfunded liability.

16. Commitments

Small Business Development Incentives approved but not disbursed at March 31, 1997, amount to \$126,296 (1996 - \$204,134).

The corporation has one year remaining in an agreement with Atlantic Tourism Institute to provide annual funding. The committed funding for 1998 is \$96,666.

The minimum annual lease payments under three operating leases over the next five years aggregates \$3,317 per year.

F.T.C. Enterprises Limited has entered into a twenty-five year lease expiring November 2013 with the University of Prince Edward Island for the lease of 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.

17. Funding

Environmental Industrial Services Inc. has been incorporated to construct three industrial wastewater treatment facilities estimated to cost \$39,800,000. The present agreements have a cost sharing ratio of \$26,110,000 federally and \$13,690,000 provincially to a maximum of \$39,800,000. All projects are now completed with total construction costs equalling \$39,165,415.

Souris Food Park Development Corporation was incorporated to design, construct, own and operate a food processing industrial mall and park. The present funding arrangements have a cost sharing ratio of \$15,300,000 federally and \$3,352,602 provincially to a maximum of \$18,652,602.

ENTERPRISE P.E.I.

Notes to Consolidated Financial Statements For the Year Ended March 31, 1997

17 Funding (continued)

Gateway Village Development Inc. was incorporated to develop and construct a commercial retail centre and tourism destination estimated to cost \$7,346,000. The present funding agreements have a cost sharing ratio of \$4,103,000 federally and \$3,200,000 provincially.

18. Operating Agreements

Environmental Industrial Services Inc. has agreements with McCain Foods Limited and Irving Pulp & Paper Limited to operate wastewater treatment facilities until December 2000 and 2001, respectively, and stipulate that the companies shall pay Environmental Industrial Services Inc. a user fee equal to the operating costs of the facilities excluding interest and depreciation charges.

19. Related Party Transactions

Included in accounts payable and accrued liabilities is \$82,364 (1996 - \$135,498) that is due to the Province of Prince Edward Island.

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

	1997 \$	1996 \$
Accrued interest payable to Province of Prince Edward Island	82,364	155,498
Amounts payable to associated company under common control	350,072	838,132
	<u>432,436</u>	<u>993,630</u>

Included in expenses is \$9,193,854 (1996 - \$10,485,640) in interest paid to Province of Prince Edward Island.

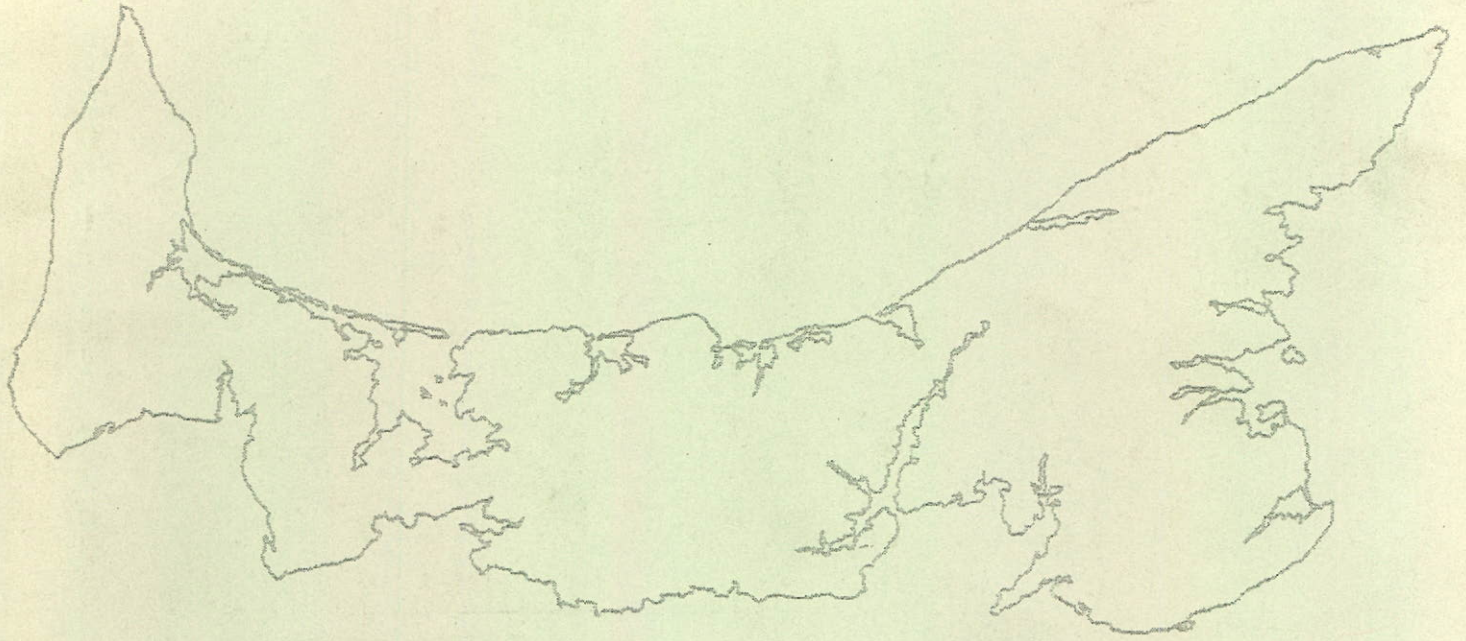
The above transactions were recorded in the normal course of operations and measured on the same terms as transactions with unrelated parties.

During the year, the company's subsidiaries received \$2,277,602 (1996 - \$3,458,900) in grants through Enterprise P.E.I. from its shareholder, the Province of Prince Edward Island. These grants have been recorded as deferred credits.

The Province of Prince Edward Island has also sold one of the company's subsidiary's 23 acres of land for consideration of \$1.

20. Comparative Figures

Certain figures in the 1996 financial statements have been reclassified to conform with the basis of presentation adopted for the current year.



*Prince
Edward
Island*

CANADA