

C

A N N U A L
R E P O R T

1994-95

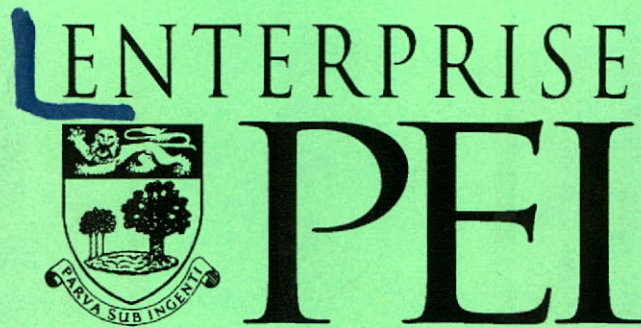


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LETTER OF TRANSMITTAL

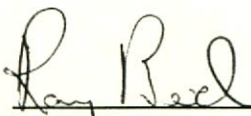
June 21, 1995

The Honourable Robert Morrissey
Minister of Economic Development and Tourism
Province of Prince Edward Island

Honourable Sir:

I am pleased to submit the Annual Report of Enterprise PEI for the fiscal year ended March 31, 1995.

Respectfully submitted,



Rory Beck
Chief Executive Officer

Report of the Chief Executive Officer

It is the mandate of Enterprise PEI to provide leadership and support in the creation of jobs for Islanders; wealth creation for Island businesses; promoting entrepreneurial growth and risk sharing; promoting community economic development; providing effective, efficient and economic management of the overall operations; and aggressively promoting PEI as a competitive place to invest.

Enterprise PEI has made great strides over the past year to fulfill this mandate. Although the reports of the various divisions are contained within this Annual Report, I would like to take this opportunity to share with you what I feel to be some of the major developments that have taken place within the Corporation over the past twelve months:

- A \$55 million expansion at the Cavendish Farms Plant in New Annan which will result in the creation of 150 - 200 new jobs for Islanders.
- Small Fry Foods Inc.'s acquisition of Humpty Dumpty and the establishment of their regional operations in Slemon Park will produce \$20 million worth of snack food per year and create 80 - 100 jobs.
- Prince Edward Island entered into the Canada/Atlantic Provinces Cooperation Agreement on International Development. The purpose of the Agreement is to undertake specific measures to optimize regional coordination in international business development. This is a three-year, \$3 million agreement which combines the limited resources of Atlantic Canada to coordinate trade-related activities.
- Commenced the Eastern Kings Redevelopment Initiative.
- The successful establishment of the Tourism Marketing Authority (TMA) and Tourism PEI.
- The creation of a very successful marketing campaign in tourism, which resulted in an increase of visitation by 30 percent over 1993 and included an infomercial entitled "Cradled on the Waves" for the Ontario Market.
- The completion of a Golf Strategy for PEI which predicts over 300,000 rounds of golf will be played on PEI by the year 1999 and, that by the year 2005, demand will exceed 350,000 rounds.
- The Lending Services Division's significant reduction of arrears on repayable loans and leases owed to Enterprise PEI.

As my first year as CEO of Enterprise PEI comes to a close I would like to take this opportunity to acknowledge the hard work and dedication exhibited by the staff at Enterprise PEI, and the Food Technology Centre as well as acknowledge my appreciation to other government organizations which assist us in discharging our mandate. It has been a very busy year and the ongoing success of Enterprise P.E.I. rests with the skills and dedication of its staff.

Development

Divisional Report

Overview:

The Development Division of Enterprise PEI was established in June, 1994, as part of a realignment of activities to provide greater focus on specific key activities of the organization. The Development Division assumed primary responsibilities for all business development and support activities outside of the Tourism sector.

The key components of the Development Division include the following:

- 1) Investment - this section has responsibility for off-Island investment prospecting, financial analysis for major projects, property management and immigration and procurement.
- 2) Client Services - this section has responsibility for the delivery and administration of financial, marketing and business counselling assistance to Prince Edward Island based companies.
- 3) Advertising and Promotion - this section is responsible for providing Tourism P.E.I. with support in the development of various tourism publications and related collateral sales material, assisting the Investment section with business to business advertising and promotional support, and acting as an internal resource to Client Services and its clients.
- 4) Research - this section is responsible for the design and execution of the Research Program for Tourism P.E.I., performing research work on specific public and economic policy issues, and acting as an internal resource to Client Services and its clients as well as other divisions of the Ministry of Economic Development and Tourism.

The summary highlights for each of the above sections follows.

INVESTMENT

Implemented the Investment Prospecting Strategy; a marketing and sales strategy to direct the corporate recruitment efforts of the government in the key areas of food processing, aerospace, information technology, telecommunications and pharmaceutical. In food processing, pursued numerous leads and analyzed business plans for the Souris Food Park; successfully completed negotiations for the construction of an expanded potato chip processing facility in Slemon Park; assisted the Food Technology Centre in the development of business plans for new value-added vegetable and potato products; assisted a local pizza manufacturer in a market test expansion; and developed numerous leads with off-Island processors for future investments in Prince Edward Island.

In the aerospace sector, the section assisted two of the firms in Slemon Park with expansions. Numerous aerospace trade shows were attended and contact made with firms considering investment expansions.

The telecommunications sector became active in the fiscal year as the Division began to strengthen its relationship with Island Telephone Co. Ltd. Call centre trade shows were attended and numerous leads were generated. Information Technology also moved to the forefront of the Division's economic development efforts. Three of the Island's most promising information technology companies were in discussions with the section on expansion projects. A joint venture in broadband communications was launched with UPEI, Holland College, Island Cablevision and Island Telephone. A P.E.I. based, high-tech sign manufacturer was assisted in the development of its business and marketing plan.

Off-Island recruitment activities included a computer based education project, a Calgary based manufacturer of advanced telecommunications equipment and an Atlantic Canadian investment prospecting effort in Europe with the Department of Foreign Affairs and International Trade.

In the pharmaceutical sector, research was concluded and prospecting efforts started in conjunction with the Atlantic Veterinary College in an attempt to increase the amount of pharmaceutical research being conducted on P.E.I. The section also launched a major review of the venture capital industry on P.E.I. Concluding there was a lack of availability, efforts were made to increase the presence of one or more national funds in the local marketplace, and to facilitate the establishment of smaller, local funds.

RESEARCH

The major pieces of research conducted on behalf of Tourism PEI included the Exit Survey, VIC Tracking and Conversion Study, Resident Expenditure Survey and numerous smaller studies to assist in the development of the advertising campaign and to measure the effectiveness of various marketing and sales projects. This work has proven to be invaluable in ensuring the annual marketing plan is developed and evaluated on the most objective criteria possible. Ten research projects were conducted on behalf of Divisional clients, including the P.E.I. seafood industry for the manufacture of value added mussel products. A Small Business Needs Assessment was conducted with small business clients to determine the suitability and effectiveness of current small business assistance programs.

ADVERTISING AND PROMOTION

The Section produced the very successful Visitors Guide and numerous other support materials for Tourism PEI. The Editorial Program, targeting travel writers, generated significant free editorial coverage in key travel and investment markets. Promotional video tapes for investment and key sectors of the P.E.I. economy were produced. The Ministry's Communication Plan was developed and implemented resulting in better communication between the Ministry and its clients.

CLIENT SERVICES

The Section delivered capital assistance and marketing programs to small business clients across the province. Delivery was done from the Enterprise PEI offices in West Royalty and from the Regional Service Centres across the province. Specific program assistance included Market Research and Intelligence, Product Development and Promotion, Equity Investor's Incentive and Small Business Assistance.

Product Development and Promotion activity assisted in numerous new product launches and advertising campaigns for clients. Incoming buyer missions were hosted from Japan, France and Mexico. Provincial participation in six international trade shows was led by the section. Program changes were examined as a result of the Needs Assessment conducted by the Research Section. Details regarding approvals during the period can be found on Pages 10 and 11.

Lending Services Divisional Report

Within the Corporation's Lending Services Division, the year under review can be described as both challenging and rewarding.

The report covering the immediately prior fiscal period introduced new operational initiatives including the account management concept, borrower risk rating measurement, the addressing of unacceptable levels of default and delinquency and a review of lending programs and products.

The current reporting period provided Lending Services' staff a full year experiencing and working "hands on" with the new initiatives.

The account management element, which assigns individual account managers to a specific grouping of clients functioned quite satisfactorily, being well received and accepted by our staff and clients alike.

The risk rating measurement is fully operational providing a consistent method in determining key risks to each and every loan or lease exposure.

Dealing with defaults and delinquent accounts was identified a top priority for fiscal year 1994/95. In response, a contract position titled Manger, Lending Operations was specifically created, on a term basis, for the purpose of addressing a serious delinquency problem. The position also carries responsibilities associated with the assessment of applications for credit. The position was filled effectively September 1, 1994.

As a consequence, the quality of the Lending Services' portfolio has improved significantly resulting from the dedication and commitment of all staff, and particularly from their business- like approach to risk management. A related benefit accruing therefrom is the positive impact upon loss provisions.

The review of lending programs and products continues with project completion anticipated early in the coming fiscal year.

Appreciating that EPEI Lending Services is considered the largest single commercial lender in the province, the review includes but is not limited to achieving a reduction in the overall exposure within the entire portfolio. The scaling back or possible elimination of identified duplication of products and programs offered by other public and private lenders is a further consideration.

Going forward the emphasis by Lending Services will continue to be directed towards services which enhance and support job and wealth creation.

Particulars relating to financing approvals during the reporting year by Lending Services Division are presented on Page 9.

Tourism PEI (Marketing)

The tourism industry continued a positive growth trend over the 1994 season, with a 29 percent increase in revenues over 1993. Approximately 760,000 visitors spent over \$154 million from May to October, 1994.

In the spring of 1994, the Tourism Marketing Council was dissolved and the Minister of Tourism and Economic Development and Tourism made appointments by sector to the new Tourism Marketing Authority. The new board continued a strong role as industry advisors, contributing to the development and management of the second year of a three-year tourism marketing strategy. As well, a cooperative marketing program attracted great interest from private sector tourism operators, and the first cooperative Maritime television campaign was successfully mounted in 1994.

In the fall of 1994, a separate agency was formed under the auspices of the Department of Economic Development and Tourism to serve the Prince Edward Island tourism industry. Tourism PEI, with two primary divisions, Marketing and Development, now oversees the promotion and development of the province's tourism sector.

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 newly organized 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. 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.

Approved Financing to Establish or Expand Island Businesses

In Fiscal Year Ended March 31, 1995

| | 1995 | | 1994 | |
|-----------------------------------|------------|-------------------|------------|-------------------|
| | No. | \$ | No. | \$ |
| <u>ECONOMIC SECTOR</u> | | | | |
| Agriculture | 145 | 17,044,438 | 92 | 9,170,586 |
| Fisheries | 83 | 4,254,174 | 34 | 2,626,946 |
| Tourism | 12 | 1,798,062 | 2 | 210,000 |
| Small Business | 9 | 1,969,480 | 2 | 325,000 |
| Manufacturing & Processing | <u>15</u> | <u>6,055,901</u> | <u>12</u> | <u>8,641,780</u> |
| | <u>264</u> | <u>31,122,055</u> | <u>142</u> | <u>20,974,312</u> |

Approved Financial Incentives to Establish or Expand Island Businesses

In Fiscal Year Ended March 31, 1995

| | <u>1995</u> | | <u>1994</u> | |
|----------------------------------|-------------|------------------|-------------|------------------|
| | <u>No.</u> | <u>\$</u> | <u>No.</u> | <u>\$</u> |
| <u>ECONOMIC SECTOR</u> | | | | |
| Agri-food | 7 | 53,723 | 4 | 31,453 |
| Fisheries | 4 | 159,116 | 7 | 186,750 |
| Manufacturing | 133 | 2,731,355 | 102 | 1,481,530 |
| General | <u>169</u> | <u>829,680</u> | <u>160</u> | <u>967,610</u> |
| | <u>313</u> | <u>3,773,874</u> | <u>273</u> | <u>2,667,343</u> |
| <u>TYPE OF ASSISTANCE</u> | | | | |
| Industrial Mall | 26 | 252,844 | 19 | 263,719 |
| Rental Incentive | 8 | 105,384 | 12 | 299,224 |
| Equity Investors Incentive | 11 | 208,710 | 13 | 383,025 |
| Job Creation | 0 | 0 | 3 | 91,538 |
| Enterprise Assistance | 27 | 756,691 | 28 | 775,109 |
| New Entrepreneur Loan | 39 | 467,200 | 24 | 273,900 |
| Small Business Dev. | 59 | 678,885 | 50 | 536,423 |
| Small Business Counselling | 107 | 37,670 | 124 | 44,405 |
| Students in Business | 29 | 67,990 | 0 | 0 |
| Graduates in Business | 5 | 28,500 | 0 | 0 |
| Tax Incentives-Slemon Park | <u>2</u> | <u>1,170,000</u> | <u>0</u> | <u>0</u> |
| | <u>313</u> | <u>3,773,874</u> | <u>273</u> | <u>2,667,343</u> |

* Interest free repayable loans (first year only).

Approved Marketing Assistance to Develop and Expand Markets for Island Products

In Fiscal Year Ended March 31, 1995

| | <u>1995</u> | | <u>1994</u> | |
|--------------------------------------|-------------|------------------|-------------|------------------|
| | <u>No.</u> | <u>\$</u> | <u>No.</u> | <u>\$</u> |
| <u>ECONOMIC SECTOR</u> | | | | |
| Agri-Food | 56 | 302,577 | 78 | 428,538 |
| Fisheries | 60 | 258,834 | 92 | 398,292 |
| Manufacturing | 79 | 263,660 | 100 | 451,656 |
| General | <u>31</u> | <u>291,771</u> | <u>25</u> | <u>171,634</u> |
| | <u>226</u> | <u>1,116,842</u> | <u>295</u> | <u>1,450,120</u> |
| <u>TYPE OF ASSISTANCE</u> | | | | |
| Product Development & Promotion | 127 | 540,545 | 195 | 900,524 |
| Research | 10 | 77,998 | 34 | 191,862 |
| Comm.& Evaluation | <u>2</u> | <u>107,400</u> | <u>1</u> | <u>5,000</u> |
| | 139 | 725,943 | 230 | 1,097,386 |
| Strategic Market Development | <u>87</u> | <u>390,899</u> | <u>65</u> | <u>352,734</u> |
| | <u>226</u> | <u>1,116,842</u> | <u>295</u> | <u>1,450,120</u> |

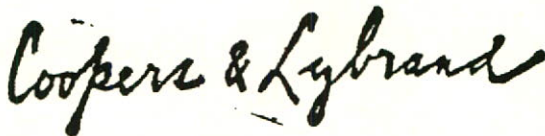
AUDITORS' REPORT

To the Directors of Enterprise P.E.I.

We have audited the consolidated balance sheet of Enterprise P.E.I. as at March 31, 1995 and the consolidated statements of operations and retained earnings 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, 1995 and the results of its operations for the year then ended in accordance with generally accepted accounting principles.

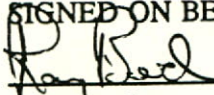



Chartered Accountants
June 22, 1995

ENTERPRISE P.E.I.

Consolidated Balance Sheet

As at March 31, 1995

| | 1995 \$ | 1994 \$ |
|--|--------------------|--------------------|
| ASSETS | | |
| Current Assets | | |
| Cash (note 19) | 12,986,479 | 2,493,411 |
| Accounts receivable | 1,045,718 | 1,179,861 |
| Prepaid expenses | 312,342 | 157,497 |
| Inventory | - | 533,520 |
| Short-term loans receivable (note 3) | 11,808,229 | 6,591,854 |
| Due from the Province of Prince Edward Island (note 4) | | |
| - Current operations | 150,544 | 321,466 |
| | <u>26,303,312</u> | <u>11,277,609</u> |
| Due from the Province of Prince Edward Island (note 4) | | |
| - Provision for possible losses | 12,437,930 | 16,012,155 |
| Leased Property (note 5) | 26,705,885 | 34,627,020 |
| Property Holdings (note 6) | 4,214,667 | 5,028,597 |
| Fixed Assets (note 7) | 31,238,109 | 32,449,619 |
| Mortgage Loans Receivable (note 8) | 58,169,684 | 64,895,826 |
| Investment in Non-Marketable Securities (note 9) | 3,569,925 | 1,644,033 |
| Funds Held in Trust (note 10) | 7,112,412 | 1,005,406 |
| | <u>169,751,924</u> | <u>166,940,265</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | 4,347,551 | 9,487,219 |
| Deferred revenue | 39,084 | 260,977 |
| Short-term promissory notes (note 11) | 45,359,817 | 51,086,320 |
| Current portion of notes payable | 6,728,453 | 7,218,644 |
| | <u>56,474,905</u> | <u>68,053,160</u> |
| Funds Held in Trust (note 10) | 7,112,412 | 1,005,406 |
| Notes Payable, less current portion (note 12) | 67,908,548 | 71,104,199 |
| Deferred Credits (note 13) | 37,625,441 | 26,171,715 |
| | <u>169,121,306</u> | <u>166,334,480</u> |
| Contingent Liabilities (note 14) | | |
| SHAREHOLDERS' EQUITY | | |
| Contributed Surplus (note 15) | 366,040 | 366,040 |
| Retained Earnings | 264,578 | 239,745 |
| | <u>630,618</u> | <u>605,785</u> |
| | <u>169,751,924</u> | <u>166,940,265</u> |
| SIGNED ON BEHALF OF THE BOARD | | |
|  _____ Director | | |
|  _____ Director | | |

ENTERPRISE P.E.I.
Consolidated Statement of Retained Earnings
For the Year Ended March 31, 1995

| | 1995 \$ | 1994 \$ |
|--|----------------|----------------|
| RETAINED EARNINGS - BEGINNING OF YEAR | | |
| As previously reported | 334,745 | 41,083 |
| Adjustment of contributed surplus and prior years' income (note 15) | (95,000) | 181,200 |
| As restated | 239,745 | 222,283 |
| Net revenue for the year | 28,783 | 17,462 |
| | 268,528 | 239,745 |
| Excess revenue repayable to Province of Prince Edward Island (note 4) | 3,950 | - |
| RETAINED EARNINGS - END OF YEAR | 264,578 | 239,745 |

ENTERPRISE P.E.I.
Consolidated Statement of Operations
For the Year Ended March 31, 1995

| | Budget (Unaudited) 1995 \$ | Actual 1995 \$ | Actual 1994 \$ |
|---|-------------------------------------|----------------------|----------------------|
| Revenue | | | |
| Grants from Province | 24,506,400 | 37,593,950 | 27,333,166 |
| Interest from borrowers | 11,656,000 | 7,521,349 | 7,849,948 |
| Interest from deposits | 100,000 | 639,107 | 201,010 |
| Agricultural leases | - | 2,840,042 | 3,896,933 |
| Park operations | 501,500 | 521,879 | 420,025 |
| Miscellaneous | - | 2,427 | 26,540 |
| Project revenues | 888,000 | 1,572,401 | 829,753 |
| | <u>37,651,900</u> | <u>50,691,155</u> | <u>40,557,375</u> |
| Expenses | | | |
| Administration | 4,520,400 | 4,734,669 | 5,664,921 |
| Business Development | 10,855,700 | 17,935,254 | 3,104,007 |
| Market development and research | 1,526,300 | 1,470,440 | 1,602,913 |
| Development organizations | 6,736,900 | 13,682,116 | 11,287,755 |
| Investment development | 215,000 | 329,557 | 222,429 |
| Property operations | 1,165,000 | 1,095,476 | 1,279,099 |
| Interest on funds borrowed | 11,074,000 | 10,366,689 | 10,343,808 |
| Land sales | - | 29,315 | 657,981 |
| Provision for possible losses | 1,558,600 | 1,018,856 | 6,377,000 |
| | <u>37,651,900</u> | <u>50,662,372</u> | <u>40,539,913</u> |
| EXCESS REVENUE FOR THE YEAR (note 4) | - | 28,783 | 17,462 |

ENTERPRISE P.E.I.

Notes to Consolidated Financial Statements

For the Year Ended March 31, 1995

1. Accounting Policies

The financial statements of Enterprise P.E.I. have been prepared in accordance with generally accepted accounting principles. The accounting principles 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., Ward Holdings Ltd., Souris Food Park Development Corporation and Island Products Holdings Inc., all having year ends of March 31, 1995.

b. 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.

c. 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 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, 1995 was \$128,852.

Subsidiaries record fixed assets at cost.

d. Depreciation

(i) Property holdings

Industrial malls are depreciated using the straight-line method at the annual rates of 7% and 4%.

Industrial sites and assets held for resale are not depreciated.

(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.

ENTERPRISE P.E.I.

Notes to Consolidated Financial Statements For the Year Ended March 31, 1995

1. Accounting Policies (cont'd)

e. 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.

f. Investments in non-marketable securities

(i) Investment in private companies

One-half of investments made under the small business equity program are included in the balance sheet as share investments. The remaining one-half of the investments approved 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 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 an enterprise assistance program expense under incentive programs.

A subsidiary company has a 33% interest in a private corporation established to pursue development and marketing initiatives. The investment is recorded at cost.

(ii) Investment in preferred shares

Under agreements with Garden Province Meats Inc., Enterprise P.E.I.'s predecessor made an original investment of \$3,969,000 in preferred shares relating to capital expenditures made by Garden Province Meats Inc. By way of an agreement entered into during the 1994 year with Garden Province Meats Inc., Enterprise P.E.I. has agreed to relinquish its preferred shares over a three-year period ending March 31, 1996. The carrying value of the investment in preferred shares is therefore being written off over the three-year period at the rate of \$753,663 annually (note 9b).

g. 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.

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, 1995

1. Accounting Policies (cont'd)

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 \$128,321 at March 31, 1995, 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. 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. has adopted the policy that contributions received towards the acquisition of fixed assets will be deferred and amortized to income on the same basis as the related fixed assets are depreciated.

l. Revenue recognition

Enterprise P.E.I. follows 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.

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

ENTERPRISE P.E.I.

Notes to Consolidated Financial Statements For the Year Ended March 31, 1995

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

| | 1995 \$ | 1994 \$ |
|---------------------------------------|-------------|-------------|
| Working capital loans | 12,512,216 | 6,974,854 |
| Advance to Garden Province Meats Inc. | 518,000 | 518,000 |
| | <hr/> | <hr/> |
| | 13,030,216 | 7,492,854 |
| Less: Provision for possible losses | 1,221,987 | 901,000 |
| | <hr/> | <hr/> |
| | 11,808,229 | 6,591,854 |
| | <hr/> <hr/> | <hr/> <hr/> |

4. Due from the Province of Prince Edward Island

| | 1995 \$ | 1994 \$ |
|---|-------------|-------------|
| a. Current Operations | | |
| Excess revenue for the year | (3,950) | - |
| Excess funds advanced by the Province of Prince Edward Island | (385,250) | - |
| Excess of current year's forecast for possible losses over actual provision for possible loss | 539,744 | 321,466 |
| | <hr/> | <hr/> |
| | 150,544 | 321,466 |
| | <hr/> <hr/> | <hr/> <hr/> |
| b. Provision for Possible Losses | | |
| Balance - beginning of year | 16,012,155 | 9,635,155 |
| Current year's expense | 1,018,856 | 6,377,000 |
| | <hr/> | <hr/> |
| | 17,031,011 | 16,012,155 |
| | <hr/> | <hr/> |
| Less: Write-offs during the year | 3,293,081 | - |
| Advances from the Province of Prince Edward Island | 1,300,000 | - |
| | <hr/> | <hr/> |
| | 4,593,081 | - |
| | <hr/> | <hr/> |
| Balance - end of year | 12,437,930 | 16,012,155 |
| | <hr/> <hr/> | <hr/> <hr/> |

ENTERPRISE P.E.I.

Notes to Consolidated Financial Statements For the Year Ended March 31, 1995

5. Leased Property

| | 1995 \$ | 1994 \$ |
|-------------------------------------|-------------------|-------------------|
| Agricultural leases | 27,864,352 | 36,922,385 |
| Less: Provision for possible losses | 1,158,467 | 2,295,365 |
| | <u>26,705,885</u> | <u>34,627,020</u> |

6. Property Holdings

| | 1995 | | 1994 |
|--|------------------|---|------------------|
| | Cost | Accumulated depreciation and grants | Net |
| | \$ | \$ | \$ |
| Industrial sites | 3,647,360 | 2,938,096 | 709,264 |
| Industrial malls | 3,365,788 | 2,084,109 | 1,281,679 |
| | <u>7,013,148</u> | <u>5,022,205</u> | 1,990,943 |
| Foreclosed projects | | | 364,198 |
| Land held for resale | | | 216,839 |
| Buildings and equipment held for resale or under lease purchase options | | | 2,280,078 |
| | | | <u>4,852,058</u> |
| Less: Provision for possible losses | | | 637,391 |
| | | | <u>4,214,667</u> |
| | | | <u>5,028,597</u> |

ENTERPRISE P.E.I.

Notes to Consolidated Financial Statements
For the Year Ended March 31, 1995

7. Fixed Assets

| | Rate % | 1995 | | Net \$ | 1994 Net \$ |
|---|---------------|-------------------|-----------------------------------|-------------------|-------------------|
| | | Cost \$ | Accumulated depreciation \$ | | |
| Environmental Industrial Services Inc. | | | | | |
| McCain's Plant | | | | | |
| Land and land improvements | 8% DB | 1,565,489 | 345,243 | 1,220,246 | 1,326,111 |
| Soft costs | 4% DB | 3,238,378 | 357,019 | 2,881,359 | 2,808,372 |
| Buildings | 4% DB | 5,984,130 | 689,038 | 5,295,092 | 5,515,721 |
| Equipment | 20% DB | 2,842,770 | 1,385,974 | 1,456,796 | 1,820,995 |
| | | <u>13,630,767</u> | <u>2,777,274</u> | <u>10,853,493</u> | <u>11,471,199</u> |
| Cavendish Plant | | | | | |
| Land improvements | 8% DB | 1,261,638 | 58,876 | 1,202,762 | 1,237,922 |
| Soft costs | 4% DB | 7,143,498 | 166,682 | 6,976,816 | 6,860,731 |
| Building | 4% DB | 1,296,241 | 30,246 | 1,265,995 | 1,207,352 |
| Equipment | 20% DB | 9,758,487 | 1,138,490 | 8,619,997 | 9,288,755 |
| | | <u>19,459,864</u> | <u>1,394,294</u> | <u>18,065,570</u> | <u>18,594,760</u> |
| Small Fry Plant | | | | | |
| | | 81,156 | - | 81,156 | - |
| | | <u>33,171,787</u> | <u>4,171,568</u> | <u>29,000,219</u> | <u>30,065,959</u> |
| F.T.C. Enterprises Limited | | | | | |
| Building | 5% SL | 2,426,122 | 688,519 | 1,737,603 | 1,716,029 |
| Pilot plant and laboratory equipment | 5% and 10% SL | 1,273,361 | 828,779 | 444,582 | 589,798 |
| Laboratory supplies | 50% SL | 120,525 | 120,525 | - | - |
| Computer and audio visual equipment | 33 1/3% SL | 331,501 | 280,633 | 50,868 | 68,918 |
| Office furniture and equipment | 20% SL | 114,960 | 110,123 | 4,837 | 8,915 |
| | | <u>4,266,469</u> | <u>2,028,579</u> | <u>2,237,890</u> | <u>2,383,660</u> |
| | | <u>37,438,256</u> | <u>6,200,147</u> | <u>31,238,109</u> | <u>32,449,619</u> |
| DB - declining balance SL - straight line | | | | | |

ENTERPRISE P.E.I.

Notes to Consolidated Financial Statements
For the Year Ended March 31, 1995

8. Mortgage Loans Receivable

| | 1995 \$ | 1994 \$ |
|-------------------------------------|-------------------|-------------------|
| Mortgage loans receivable | | |
| Agriculture | 18,959,087 | 20,183,064 |
| New Farmer | 297,218 | - |
| Tourism | 17,047,485 | 18,647,126 |
| Manufacturing and processing | 8,797,667 | 10,774,599 |
| Fisheries | 8,129,363 | 8,998,462 |
| Small business | 7,955,133 | 8,378,424 |
| Other | 1,027,026 | 2,228,107 |
| | <u>62,212,979</u> | <u>69,209,782</u> |
| Less: Provision for possible losses | 4,043,295 | 4,313,956 |
| | <u>58,169,684</u> | <u>64,895,826</u> |

9. Investment in Non-Marketable Securities

| | 1995 \$ | 1994 \$ |
|--|------------------|------------------|
| a. Private companies | | |
| 840 Class A preferred shares of Amalgamated Holdings | 7,898,312 | - |
| Small Business Equity program | 279,200 | 251,699 |
| Private corporation | 1 | 1 |
| | <u>8,177,513</u> | <u>251,700</u> |
| Less: Provision for possible losses | 5,361,254 | 115,000 |
| | <u>2,816,259</u> | <u>136,700</u> |
| b. Other | | |
| 3,862 Class B preferred shares of Garden Province Meats Inc., net of write-downs of \$3,215,334 (1994 - \$2,461,667) | 753,666 | 1,507,333 |
| | <u>3,569,925</u> | <u>1,644,033</u> |

10. Funds Held in Trust

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

ENTERPRISE P.E.I.

Notes to Consolidated Financial Statements For the Year Ended March 31, 1995

10. Funds Held in Trust (cont'd)

Corporate Services Ltd. will receive the subscription forms for potential investors and hold the funds until the commencement date. The commencement date is to be established within 100 days of receipt of twelve subscription forms. On the commencement date, the Escrow Agent shall:

- advance to Island Fund II:
 - 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 and not Corporate Services Ltd.

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

11. 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.

12. Notes Payable

| | 1995 \$ | 1994 \$ |
|---------------------------|-------------------|-------------------|
| Notes payable - long-term | 74,637,001 | 78,322,843 |
| Less: Current portion | 6,728,453 | 7,218,644 |
| | <u>67,908,548</u> | <u>71,104,199</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, 1996 | 6,728,453 |
| 1997 | 5,758,924 |
| 1998 | 5,038,791 |
| 1999 | 5,100,948 |
| 2000 | 5,536,007 |

ENTERPRISE P.E.I.

Notes to Consolidated Financial Statements For the Year Ended March 31, 1995

13. Deferred Credits

| | 1995 | | 1994 |
|---|-------------------|--------------------------|-------------------|
| | Cost | Accumulated depreciation | Net |
| | \$ | \$ | \$ |
| Environmental Industrial Services Inc. | | | |
| McCain's Plant | | | |
| Federal Government | 9,380,000 | 1,937,021 | 7,442,979 |
| Provincial Government | 4,213,044 | 835,081 | 3,377,963 |
| McCain Foods Ltd. | 37,723 | 5,172 | 32,551 |
| | <u>13,630,767</u> | <u>2,777,274</u> | <u>10,853,493</u> |
| Cavendish Plant | | | |
| Federal Government | 12,275,000 | 905,015 | 11,369,985 |
| Provincial Government | 6,811,954 | 489,279 | 6,322,675 |
| | <u>19,086,954</u> | <u>1,394,294</u> | <u>17,692,660</u> |
| Small Fry Plant | | | |
| Federal Government | 325,000 | - | 325,000 |
| Provincial Government | 281,156 | - | 281,156 |
| | <u>606,156</u> | <u>-</u> | <u>606,156</u> |
| | <u>33,323,877</u> | <u>4,171,568</u> | <u>29,152,309</u> |
| F.T.C. Enterprises Limited | | | |
| Building | 2,324,129 | 661,517 | 1,662,612 |
| Pilot plant and laboratory equipment | 1,055,271 | 702,751 | 352,520 |
| Computer and audio visual equipment | 63,550 | 63,550 | - |
| Office furniture and equipment | 53,063 | 53,063 | - |
| | <u>3,496,013</u> | <u>1,480,881</u> | <u>2,015,132</u> |
| Souris Food Park Development Corporation | | | |
| Provincial | 6,458,000 | - | 6,458,000 |
| | <u>43,277,890</u> | <u>5,652,449</u> | <u>37,625,441</u> |

ENTERPRISE P.E.I.

Notes to Consolidated Financial Statements For the Year Ended March 31, 1995

14. Contingent Liabilities

- a. As of March 31, 1995, Enterprise P.E.I. was contingently liable under loan guarantees in the amount of \$1,525,696 (1994 - \$2,280,654) for which Enterprise P.E.I. has included \$75,000 (1994 - \$603,911) in its provision for possible losses.
- b. Enterprise P.E.I. has entered into commitments to provide up to \$3,750,000 in mortgage financing if expected conventional financing sources are not available. The agreements relating to the commitments provide security to minimize Enterprise P.E.I.'s risk.

15. Contributed Surplus

During the 1994 year, the organization changed its accounting policy regarding \$625,000 in contributions it received through its parent company from its shareholder, the Province of Prince Edward Island. The contribution had been made specifically to fund capital costs and were initially recorded as contributed surplus. The change in accounting policy has been applied retroactively and has resulted in reducing contributed surplus by \$625,000 and increasing deferred credits by \$443,800 and retained earnings by \$181,200.

As a result of an accounting error in preparing the 1994 consolidated financial statements, the balance of retained earnings at March 31, 1994 has been reduced by \$95,000. The 1994 business development expenses and deferred revenue have been increased by the same amount.

16. Commitments

Small Business Development Incentives approved but not disbursed at March 31, 1995, amount to \$228,618 (1994 - \$187,017).

The Corporation has entered into an agreement with Slemon Park Corporation to provide a grant of \$1,000,000 annually for the next two years.

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 \$36,800,000. The present agreements have a cost sharing ratio of \$24,010,000 federally and \$12,790,000 provincially to a maximum of \$36,800,000.

Interest income earned on the original \$4,300,000 in federal and provincial contributions was treated as a contribution for accounting purposes and in determining the participants' funding. However, interest earned on subsequent contributions has been treated as other income.

ENTERPRISE P.E.I.
Notes to Consolidated Financial Statements
For the Year Ended March 31, 1995

18. Operating Agreements

Environmental Industrial Services Inc. has entered into operating agreements with McCain Foods Limited and Irving Pulp & Paper Limited to operate the two wastewater treatment facilities. The agreements are to extend to 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. Restricted Cash

Included in the corporation's cash and short-term investments balance is \$1,300,00 of funds held in trust by a third party to pay a liability of the corporation.

20. Related Party Transactions

During the year, two of the company's subsidiaries have received \$13,744,152 in grants through Enterprise P.E.I. from its shareholder, the Province of Prince Edward Island. These grants have been recorded as deferred credits.

