



# **PEI LENDING AGENCY**

**Annual Report  
2005-2006**

# Message from the Minister Designate

The Honourable J. Léonce Bernard  
Lieutenant Governor of Prince Edward Island  
PO Box 2000  
Charlottetown, PE C1A 7N8

May It Please Your Honour:

Pursuant to the *PEI Lending Agency Act* and  
as minister designate for the time period  
covered by this report,  
it is my privilege to submit the Annual Report  
of the PEI Lending Agency  
for the period ending March 31, 2006.



Respectfully submitted,

A handwritten signature in black ink that reads "Mitch Murphy". The signature is written in a cursive, slightly slanted style.

Mitch Murphy  
Provincial Treasurer

# Table of Contents

Message From the Board Chair .....	1
Message From the Chief Executive Officer .....	3
Mandate of the PEI Lending Agency .....	5
Corporate Profile .....	7
Year in Review .....	9
Revue de l'année .....	15

## Appendices

Appendix A – Corporate Directory

Appendix B – Organizational Chart

Appendix C – Auditor's Report

Appendix D – Financial Statements

Appendix E – Clarification to Note 4 of Financial Statement

Appendix F – Application Statistics for April 1, 2005, to March 31, 2006

# Message of the Board Chair

March 31, 2006

The Honourable Mitch Murphy  
Provincial Treasurer  
Province of Prince Edward Island

Dear Minister:

On behalf of the board of directors of the PEI Lending Agency, I take pleasure in presenting you with this, the Annual Report of the agency for the fiscal year ending March 31, 2006.

This report is being presented pursuant to the  
*PEI Lending Agency Act* and Regulations.

Sincerely,



A handwritten signature in black ink that reads "Brian MacPhee". The signature is written in a cursive, slightly stylized font.

Brian MacPhee  
Chairman, Board of Directors  
PEI Lending Agency

# Message from the Chief Executive Officer

Mr. Brian MacPhee, Chairman  
Board of Directors  
PEI Lending Agency



Dear Mr. MacPhee:

It is my pleasure to present the Annual Report of the PEI Lending Agency, for the fiscal year ending March 31, 2006.

Once again the agency increased its provision for loan losses, on the recommendation of external auditors. This cautionary measure was taken in response to a number of loans invested in sectors of the Island's economy, as well as specific businesses, that have experienced financial difficulties.

The inability to access adequate capital funding continues to plague the resource-based industries such as fisheries and agriculture. The tourism sector, which has a short window of opportunity and is weather dependant, continues to compete with the other Maritime provinces, for a consumer that is faced with increased fuel prices and border security issues. Traditional financiers such as the chartered banks and credit unions are profit-oriented and, in some cases, may be restricted by their existing risk exposure in a particular industry sector.

The decline in lobster landings and other fish species, combined with volatile market prices for commodity based livestock such as hogs and beef, has created future uncertainty in our resource-based borrowers. For this reason, there is a need, more than ever, for a long-term partner who understands and will ensure access to financial assistance is available through difficult times. This continues to be the role of the PEI Lending Agency.

As the province's principal lending group, the Lending Agency must strike a balance between mitigating risk or minimizing loan losses, and fulfilling the developmental objectives of government. Agency staff remain committed to meeting this challenge while continuing to ensure the integrity of the loan portfolio is maintained.

Respectfully submitted,

A handwritten signature in black ink that reads "P.A. Wilson". The signature is written in a cursive, flowing style.

P.A. Wilson  
Chief Executive Officer

# Mandate of the PEI Lending Agency

*The mandate of the PEI Lending Agency is to provide financial assistance, through loan agreements, in support of the government's economic development strategy; to support enterprises that demonstrate reasonable viability, though are unable to access private sector financing on terms and conditions required to meet their needs; and to provide loans and credit assistance to businesses maintaining or expanding economic development activity on Prince Edward Island.*

The agency is to operate as a responsible, professional lender, basing decisions or recommendations on sound lending practices. Under the authority of the *PEI Lending Agency Act* and Regulations, the board of directors, consisting of six private sector and two Government-designated directors, provide agency staff with consistent guidance and direction. They strive to meet the needs of Island industries and individual businesses throughout the constantly shifting priorities and challenges which may evolve as a result of local provincial issues or from various constraints imposed by national and international markets.

Though the general mandate of the agency will remain unchanged, the focus may be altered in favour of specific industries, at Government's direction, or through identifiable gaps which may emerge in commercial bank financing. With their singular objective of profitability and with policy decisions which are generally nationally directed, there will always be areas or gaps left by the banks that the agency will be needed to fill.

As the province's lending arm, the agency will undoubtedly continue to collaborate with other Government departments and corporations to structure financial programs to promote new

development or to assist industry-specific difficulties. It continues to support the needs of our primary industries for capital purchases, expansion and operational expenses as well as encourages financing of non-traditional, potentially prosperous new enterprises.

The agency is unquestionably a higher-risk lender and often lender of last resort. Where any business can continue to demonstrate a potential for viability, the agency is generally supportive of providing assistance as it will maintain current employment while offering the operator the opportunity for recovery. This is a role the agency has historically provided and numerous businesses have been ultimately successful due to this support in difficult times. Also, differing from the commercial banks' profit requirement, the agency's mandate is to strive for a break-even operation. If this can be achieved, there are numerous benefits to the province, in various capacities, but no cost to the taxpayer for the service. By sustaining businesses and maintaining employment, it reduces the drain on already stressed provincial and federal support programs. In addition, revenue from business, personal and sales taxes is maintained. These are all valuable considerations and are weighed, along with various other factors, when decisions are made by agency staff.

# Corporate Profile

**T**he PEI Lending Agency was established to provide both term and working capital loans to eligible borrowers in the following sectors:

## Small Business

**Definition** – Small business includes any person who:

- (i) *carries on business, or intends to carry on business, in the province;*
- (ii) *purchases a finished product from a supplier and resells that product without alteration; and*
- (iii) *does not employ more than 100 employees; or*
- (iv) *did not have annual gross sales exceeding \$10 million in the fiscal year immediately preceding an application made pursuant to Section 9 of the act.*

This program is designed to meet the special needs of the Island's small business community and entrepreneurs for business acquisitions, expansions and debt consolidation.

## Agriculture

**Definition** – Agriculture includes any person who:

- (i) *carries on business, or intends to carry on business, in the province;*
- (ii) *owns or will acquire farm assets with the loan proceeds pursuant to the act or the regulations; and*
- (iii) *is actively engaged in farming or intends to work actively at producing farm products.*

It is the objective of the agency to encourage increased production of both established and new variety agricultural products, as well as, improved marketing facets and techniques for PEI agricultural products. This may include better storage, handling, grading and packaging facilities.

## Tourism

**Definition** – Tourism includes any person who:

- (i) *carries on business, or intends to carry on business, in the province; and*
- (ii) *operates a business, other than a Bed & Breakfast establishment as defined in the Tourism Industry Act Regulations (EC267/99), that holds a valid tourism establishment licence issued pursuant to the Tourism Industry Act Regulations.*

Projects to expand the shoulder tourist season and development of integrated recreational complexes which would feature entertainment facilities, lodging and dining facilities are encouraged. In some cases, loans may be granted for accommodation units which are converted to other uses during off-season periods.

This program is designed to meet the special needs of Island tourism operators for business acquisitions, expansions and debt consolidation, refurbishment of fixed assets and in some cases working capital for seasonal startup.

Bed & Breakfast operations, as defined by the *Tourism Industry Act Regulations*, are ineligible to borrow from the agency.

## **Manufacturing and Processing**

**Definition** – Manufacturing and processing includes any person who:

- (i) *carries on business, or intends to carry on business, in the province; and*
- (ii) *operates a business which produces a product by mechanical method from a raw material that is altered to add value.*

Loans are available to finance land and buildings, specialized equipment, and in some cases, production inventory.

## **Fisheries and Aquaculture**

**Definition** – Fisheries and Aquaculture includes any person who:

- (i) *carries on business, or intends to carry on business, in the province; and*
- (ii) *is licensed or qualified to obtain a licence or aquaculture permit issued by the federal Department of Fisheries and Oceans, for any of the commercial fisheries or aquaculture industries in the province.*

The objective of the agency is to provide term financing, recapitalization and operating lines of credit to assist applicants in the commercial fishery and/or aquaculture industry. The agency takes a particular interest in supporting projects that have a potential commercial viability for under-exploited species of finfish, shellfish and sea plants.

## **Information Technology**

**Definition** – Information technology includes any person who:

- (i) *carries on business, or intends to carry on business, in the province; and*
- (ii) *operates a business that derives at least 60 per cent of revenue from software publishing, computer systems design and related services, the provision of online information services, or the manufacture of computer and peripheral equipment or related electronic components.*

The objective of the agency is to provide term financing and operating lines of credit to assist borrowers purchasing fixed assets and for production and marketing expenses.

## **Aerospace**

**Definition** – Aerospace includes any person who:

- (i) *carries on business, or intends to carry on business, in the province;*
- (ii) *owns or will acquire assets of an aviation or aerospace-related business with loan proceeds received pursuant of the act or the regulations; and*
- (iii) *is actively engaged in or intends to work actively in an aviation or aerospace-related business.*



## Year in Review

**T**he overall results for the fiscal year ending March 31, 2006, were not as favourable as management would have preferred. Once again, there was a need for the agency to increase the provision for possible loan losses to support the potential risk attributable to clients within the tourism, agriculture and fisheries portfolios.

There was a marginal increase in the size of the agency's portfolio over the period in review. At March 31, 2006, outstanding balances were at approximately \$149 million, which is a \$4.4 million or 3.1% increase over the previous year. This growth can be attributed, primarily, to support provided to the fisheries industry. The fisheries portfolio grew by \$11.9 million over the previous year, more than doubling the dollar value at year-end over the prior year. There was a modest increase in the dollar value of the tourism portfolio also by year-end. All other sectors, however, saw a decrease over the same period. The agency received 138 applications for financing during the year, with 120 requests being approved. The remaining 18 were either declined or withdrawn.

The financial status of the agency's clients within the traditional or primary industry sectors have generally remained static or saw modest gains over the past year. For the most part, many are still embattled in or trying to recover from various issues which have plagued them over the past number of years. Programs established in attempt to respond to the shift in market demands, such as development of blueberry,

cranberry and cultured oyster industries, had very little success. Undoubtedly, Island businesses involved in the sale or production of commodities that historically have enjoyed comfortable success have found it difficult or costly to conform and compete in the changing marketplace. The Island's one-time heavy emphasis on production of PEI potatoes and the traditional tourism product no longer draw the same success and, in recent years, have experienced a reduction in value or marketability. Those businesses that have been able to meet or adapt to consumer demand are generally experiencing a greater degree of success and profitability. Likewise, businesses or industries reliant on US consumers such as those involved in tourism or product export have had the high Canadian dollar, high gas prices and border issues to contend with. The potential for growth for many businesses in these areas has been stalled over the past few years.

From a profit and loss perspective, income was up slightly by \$85,000 year over year. While the agency did not benefit from any income resulting from the sale of property holdings as it did in 2005, post receivership income of \$92,293 made up this difference. The most noticeable variance from year-ending 2005, and from the forecasted budget, was in grants received from the province. This increase of nearly \$4.7 million over the budgeted amount of \$1.7 million, went directly to the provision for possible loan losses for loans. This increase was necessary to cover possible losses to the snow crab fishery, and for some larger loans in the agency's agricultural and tourism sectors.

Expenses once again, and discounting the need by the agency's auditors to increase the loan provision, remained in line with those forecasted during the budget process. Favourable market conditions resulted in lower interest costs to the agency on monies borrowed from the province. The decision by four senior staff to retire realized a further savings of approximately \$125,000 during the period under review.

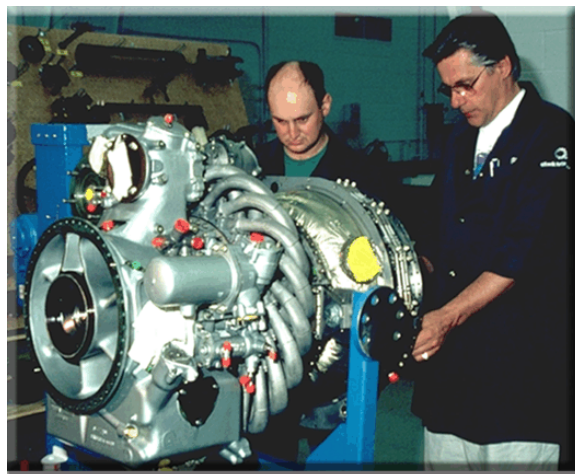
Again, the need to increase the provision for loan loss expense is the single most contributing factor to the agency's recorded loss of \$1.4 million. The significant increase of \$6.5 million above and beyond the original budgeted amount of \$2.9 million, was a one-time occurrence, needed as mentioned previously in this report, for three large borrowers. The agency anticipates the resulting deficit will be recovered from future operational profits. As in past, agency staff will continue to work with Island businesses where continued support has the potential to see them through to greater prosperity. We remain open and willing to work toward finding suitable financing arrangements to assist both existing and new clients, as well as, the various emerging industries which have become evident on the Island landscape over the past few years.

## ***Aerospace***

At March 31, 2006, the aerospace portfolio represented \$15,000,000 or approximately 10% of the agency's loan portfolio. While the Province's prior investment into the aerospace industry is now paying significant dividends in terms of employment and wealth creation from foreign markets, the agency's involvement in this sector is now limited to one major client. Some of the agency's former clients have been able to retire their loans with the agency, through conventional financing methods. This has only been made possible through the early support and assistance made available through the

Lending Agency during the early stages of start up. Others have been able to access lower interest rates through the Century Fund, administered by our sister agency, PEI Business Development Inc.

Loans in this sector have traditionally been for significantly greater amounts than those



historically provided to other industry sectors of the Island economy. The agency's loan investment into this company, whose parent company shares are publicly traded on the TSX, remain stable, and present a below-average risk.

## ***Manufacturing and Processing***

The agency continues to finance a broad spectrum of businesses in this sector. Some examples of the various types of manufacturers include the production of pharmaceutical ingredients, medical devices, boat construction and food processing. There has been, however, a decline in the number of applications received from clients involved in manufacturing and processing businesses from just five years ago.

In past years, this sector comprised more than 50% of the total loan requests. Today, it represents less than 10%. The strengthening Canadian dollar has certainly had a negative impact on Island processing companies that have traditionally shipped or sold their product into the US marketplace. The financial advantage for US companies to acquire more goods with less

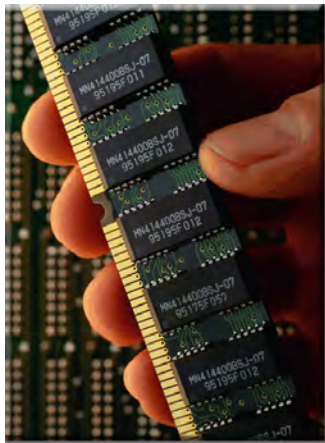
capital is shrinking. The result has been the need by the processor to reduce the price of their goods to maintain clients at the expense of reduced profitability. This is, however, not unique to PEI companies. It has been problematic on a national scale with the US buying power of Canadian products significantly diminished.

For fiscal ending March 31, 2006, the agency received 13 applications and approved slightly less than \$3 million in new loans, with an average loan request of \$230,615. Overall, the health of this portfolio remains stable, and there continues to be a good diversification of clients.

### ***Information Technology***

For the year-ending March 31, 2006, the agency received no applications in the IT sector, while repayment in full was received from all but one borrower in the agency's IT portfolio.

It would appear that the majority of the start up and/or smaller IT companies, for which tangible assets are unavailable for security purposes, are financing themselves by borrowing against their projected investment tax credits. This financing is presently being fulfilled by a sister agency, in which there is a department completely devoted to the development of the information technology sector.



### ***Fisheries***

This sector was certainly the most active for the agency this year, representing 50% of all applications received. For comparative purposes, in fiscal 2005 the agency received 17 fisheries applications. During the same period in 2006, that number jumped to 60 applications, of which 56 or 93% received approval.



While the total value of these approved loans was \$14,269,100, and the average size of these loans increased year over year from \$164,000 to \$255,000, this increase in loan size would be significantly influenced by the single snow crab loan, for \$1.5 million, approved in 2006. The majority of applications received were, however, for loans to purchase lobster fleets, upgrades to gear and vessels, as well as, in some cases, for working capital.

The north shore fishery of PEI continues to perform well, with strong landings. The south shore fishery, however, continues to experience much smaller landings. For this reason, the agency has been required to re-write a number of loans for these fishers, in hopes that the south shore will soon recover. Under present conditions, a significant number of those affected fishers are struggling to meet both their obligations to not only this agency, but to other creditors as well.

## *Agriculture*

The PEI Lending Agency has historically played a significant role in providing financing to the agricultural sector. At year-end 2006, agricultural loans outstanding accounted for 26.7% of the total loan portfolio balance and 52.8% of the agency's entire number of clients. The outstanding balance for loans in this sector at March 31, 2006, amounted to nearly \$40 million, which is a decrease of approximately \$3 million over the same time the previous year. Working capital loans are primarily responsible for the decrease, with an outstanding balance of nearly \$17 million at year-end, down from nearly \$20 million the year prior. Capital loans remained relatively the same, with \$22.1 million at year-end 2006, compared to \$21.7 at year-end 2005. Investments and leases represented only a small portion of the portfolio, with investments at \$521,000 and leases at \$276,000 at March 31, 2006. This compares to balances of \$595,000 and \$750,894, respectively, at March 31, 2005.



In total, 40 applications were received during the year which were equally split between requests for working capital and capital loans. Over this period, the trend of restructuring to relieve financial pressure as a result of downturns in the farming industry, continued. The agency continues to work closely with existing farm clients who have experienced difficulties in their respective industries, and will continue to support potentially viable operations. Working capital loans to clients in the potato industry

would represent some of the larger individual accounts.

The 2005 crop season for potatoes was considered an average year, but in comparison to the previous three years, was more than a welcome change. Acreage reduction appears to have had some impact on prices, as they remained steady throughout the year. Overall quality was good and demand remained constant as well. Though the year was considered a success by many, that view would be influenced by the serious difficulties experienced the previous few years. The 2005 season still saw many Island potato farmers who were only able to break even and others that still experienced losses, albeit possibly not as substantial as in the past few years. The road ahead for PEI's potato industry will continue to prove challenging as, for many growers, debt loads have increased and debt servicing requirements are high. It will likely take several successful years to recover from past losses and place operations in a profitable position again.

The hog industry continues to suffer from volatility in market prices, with 2005 being similar to the previous year. As commodity prices do not appear to offer long-term stability for growers, processors may have to try to tap into value added markets in order to increase returns and prices to growers. The agency's liability to hog operators as it pertains to long-term financing is minimal. However, the agency is the administrator of a number of loans to hog producers previously approved under several programs initiated by the Department of Agriculture and Forestry. These programs have since been cancelled, and in 2005, the various loans for each producer were consolidated into one for administrative and accounting purposes. They will continue to require constant management until maturity is reached.

The lingering effect on the beef industry, due to the discovery of BSE ("mad cow disease") in May

of 2003, and the subsequent closure of the US border to Canadian beef, has been unstable prices paid to producers and stunted growth in the industry. While the border has reopened to Canadian beef, demand has not led to higher prices. Feeder prices in December 2005 were slightly lower than those experienced during the same period in 2003, which was following discovery of BSE. When added to rising production costs such as fuel, feed, fertilizer and insurance, profit margins for producers remain very thin and the monitoring and control of all production costs has become critical. Unless prices improve or producers find ways to reduce costs, the industry will continue to struggle.

With approximately 50% of Atlantic Canada's beef producers located in PEI, this sector is an important part of the Island's agriculture industry. It is hoped the opening of the processing plant in Borden-Carleton in the fall of 2004 will assist the industry through reduced shipping costs. The agency will continue to work with existing beef industry clients and provide support wherever the potential for long-term viability can be determined.

The blueberry industry, since 1995, has transformed itself from being virtually non-existent, to providing an eight million pound harvest in 2005. Though a drop of approximately 400,000 lbs. from the year previous, it was due primarily to problems with frost and blight. The price to growers also saw an increase to 80¢/lb, which equates to a value for the crop of approximately \$6.5 million for the year. Just over half of the loans provided to growers have benefited from the interest relief provided by the Department of Agriculture over the last two years, and they, the producers, are now accountable for future repayment from cash flow. There remain, however, some producers which have been unable to develop their lands to its full potential. In these instances, revenues will be insufficient to meet debt servicing requirements. In consultation with specialists

within the Department of Agriculture, the agency will continue to work with those growers with the objective to see them succeed, and to mitigate possible losses to the province.

The cranberry industry in PEI remains quite modest, though production has been increasing annually. 500,000 pounds were harvested locally in 2005, compared to 320,000 pounds in 2004. While a growers association was established with the aim of working together to secure a long-term market presence and increased market price, they have not achieved the success that was hoped. Until such time, however, as producers are able to successfully freeze and store the berries, they are subject to current fresh market pricing. The consequences of this method are disposing of produce when supply is high, resulting in low prices.

The growers' association continues to solicit the support of government for ideas, and financial assistance that will see the reduction in debt loads, while productivity is increased and markets developed.

### ***Small Business***

The agency's small business portfolio consists of a wide variety of businesses. While there are certain parameters surrounding eligibility, it generally comprises those companies that do not fall within the definition of other industry sectors, as detailed in this report. Unlike the other sectors for which the agency provides assistance, there is no provision for operating credit to borrowers in this portfolio. Loans are provided in the form of mortgages and can be offered for acquisition of fixed capital assets such as buildings, for leasehold improvements, or for debt restructuring using real property as security.

For the period under review, the agency received 18 applications for loan assistance, totaling \$3.3 million, which reflects an increase of five applications and approximately \$1 million over

the same period last year. The portfolio itself showed only a modest dollar value increase, going to \$11.5 million outstanding at March 31, 2006, from \$10.3 million at March 31, 2005. Of the 18 applications, 14 received support totalling \$2.5 million. The purchase of capital assets would have accounted for 45% of the funding approved, with debt restructuring accounting for 45% as well. The remaining 10% would have gone toward replenishing working capital, supported by existing equity in real property as security.

The number of applications received within the sector has fluctuated over the past few years. A seven-year comparison indicates a low of 12 applications for \$2 million in funding in 2003, to a high of 28 applications for \$6.6 million received in 2001. Based on those numbers, 2005/2006 would generally represent an average year for applications from this sector.

## ***Tourism***

For a province heavily reliant on the tourism industry, there has been little growth in this portfolio. For the year ending March 31, 2006, the agency received only 10 applications, of which eight received approval. Five of those, totaling \$3.7 million, were for the purchase of existing facilities, and the remaining three, totalling \$2.1 million in financing, were for either renovations and/or debt restructuring. In comparison, 16 applications were received the previous year for \$12.7 million in funding. However, at year-end 2006, the tourism portfolio was \$27.7 million, which is a \$2.3 million increase over the year previous.



Overall, visitation during the 2005 tourism season was relatively on par with the previous year. Tourism PEI advises there was an increase of 1% in non-resident traffic on the Confederation Bridge and the Charlottetown Airport reported an increase of 11% over the 2004 year. Northumberland Ferries, however, reported a 5% decrease in traffic over the previous year.

While visitation numbers remained fairly consistent year-over-year, they have taken a slight downward turn since their peak in 1997 when the Confederation Bridge itself was a tourist attraction. This decrease can likely be attributed to various factors, including the high cost of fuel, the strengthening Canadian dollar and US/Canadian border security issues. With no foreseeable change to these particular issues over the next year, it is not expected that there'll be any significant change to those numbers over the 2006 tourist season.

## Review de l'année

**D**ans l'ensemble, les résultats de l'exercice financier ayant pris fin le 31 mars 2006 n'ont pas été aussi bons que la direction l'aurait souhaité. L'Agence de crédit a dû, encore une fois, accroître la provision pour les pertes éventuelles sur prêts en vue de supporter le risque potentiel attribuable aux clients des portefeuilles du tourisme, de l'agriculture et des pêches.

Le portefeuille de l'agence a légèrement augmenté au cours de la période visée. Au 31 mars 2006, les soldes impayés se chiffraient à environ 149 millions de dollars, soit une augmentation de 4,4 millions ou de 3,1 % sur l'exercice précédent. Cette augmentation est essentiellement attribuable aux aides accordées à l'industrie des pêches. Le portefeuille des pêches a augmenté de 11,9 millions sur l'année précédente, plus que doublant les sommes en jeu à la fin de l'exercice par rapport à l'exercice antérieur. Il y a également eu une augmentation modeste de la valeur pécuniaire du portefeuille du tourisme à la fin de l'exercice. Cependant, tous les autres secteurs ont connu une diminution au cours de la même période. L'agence a reçu 138 demandes d'aide financière au cours de l'exercice, dont 120 ont été approuvées; les 18 autres demandes ont été soit rejetées soit retirées.

La situation financière des clients de l'agence qui œuvrent dans les secteurs traditionnels ou primaires n'a généralement pas évolué ou n'a connu que des gains modestes au cours de l'année écoulée. Dans la plupart des cas, de

nombreux clients sont encore aux prises avec les mêmes difficultés qu'ils connaissent depuis plusieurs années ou tâchent de s'en remettre. Les programmes créés dans un effort de s'adapter à la réorientation des demandes du marché, comme le développement des industries du bleuets, de la canneberge et de l'huître cultivée, ont eu très peu de succès. À n'en pas douter, les entreprises de l'île qui vendent ou produisent des produits ayant joui d'un succès confortable par le passé ont trouvé difficile ou coûteux de se conformer au marché en évolution et d'y soutenir la concurrence. La large place déjà accordée par l'île à la culture de la pomme de terre de l'île et au produit touristique traditionnel ne suscite plus le même succès et, les dernières années, ces produits ont connu une baisse de leur valeur financière ou marchande. En règle générale, les entreprises qui ont été en mesure de satisfaire à la demande du consommateur ou de s'y adapter connaissent un degré supérieur de succès et de rentabilité. De même, les entreprises et les industries tributaires des consommateurs américains comme celles qui œuvrent dans le secteur du tourisme ou des produits d'exportation ont dû composer avec le dollar canadien fort, les prix élevés de l'essence et les questions frontalières. Le potentiel de croissance de nombreuses entreprises dans ces secteurs a stagné les dernières années.

Sur le plan des profits et pertes, les revenus ont légèrement augmenté de 85 000 \$ par rapport à l'année précédente. Bien que l'agence n'ait bénéficié d'aucun revenu généré par la vente d'actifs immobiliers comme elle l'a fait en 2005, elle a pu se rattraper grâce à des revenus de

92 293 \$ provenant de la liquidation d'entreprises mises sous séquestre. Ce sont sur le plan des subventions provinciales qu'on trouve l'écart le plus marqué par rapport à la fin de l'exercice 2005 et au budget prévu.

L'augmentation de près de 4,7 millions de dollars par rapport à l'augmentation de 1,7 million prévue dans le budget a été directement appliquée à la provision pour pertes sur prêts. L'augmentation s'imposait afin de couvrir les pertes qui pouvaient survenir dans la pêche du crabe des neiges et pour des prêts plus importants dans les secteurs agricoles et touristiques de l'agence.

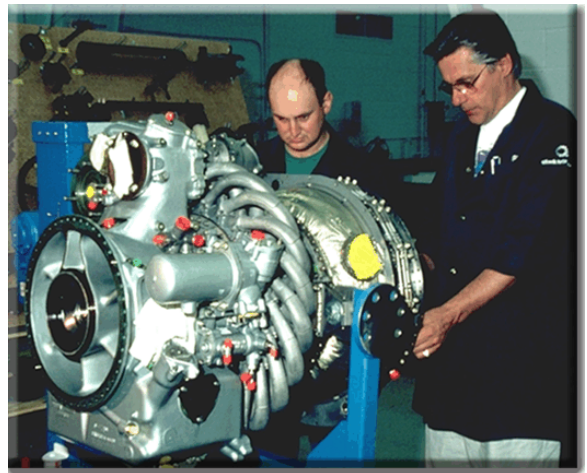
Si on ne tient pas compte du besoin pour les vérificateurs de l'agence d'augmenter les provisions pour pertes sur les prêts, les dépenses correspondent, encore une fois, aux prévisions budgétaires. La conjoncture favorable du marché a eu pour effet de réduire les frais d'intérêts de l'agence sur les fonds empruntés de la province. La décision de quatre cadres supérieurs de prendre leur retraite lui a également permis d'économiser quelque 125 000 \$ au cours de la période visée.

Là encore, la nécessité d'augmenter les provisions pour pertes sur prêts est le plus grand facteur contributif à la perte de 1,4 million de dollars enregistrée par l'agence. L'augmentation importante de 6,5 millions au-delà du montant initialement prévu dans le budget, qui était de 2,9 millions, a été une dépense ponctuelle, comme nous l'avons mentionné plus haut, engagée pour trois grands emprunteurs. L'agence espère combler le déficit qui en a découlé par l'entremise de ses futurs bénéficiaires opérationnels. Comme par le passé, le personnel de l'agence continuera de collaborer avec les entreprises de l'Île dans les secteurs où son soutien permanent pourrait les aider à atteindre une plus grande prospérité. Nous sommes toujours disposés à travailler à trouver des solutions de financement pour venir en aide à des clients actuels et nouveaux ainsi qu'aux différentes industries émergentes qui sont de plus

en plus présentes dans le paysage insulaire depuis les dernières années.

## *Aérospatiale*

Au 31 mars 2006, le portefeuille de l'aérospatiale était de 15 000 000 \$ ou 10 % environ du portefeuille de prêts de l'agence. Les investissements antérieurs de la province dans l'industrie aérospatiale produisent maintenant d'importantes dividendes sur le plan de l'emploi et de la création de richesses issues des marchés extérieurs. Toutefois, la participation de l'agence dans ce secteur se limite maintenant à un seul grand client. Certains des anciens clients de l'agence ont été capables de rembourser les emprunts qu'ils avaient faits à l'agence au moyen de méthodes de financement conventionnelles. Ceci a seulement pu être rendu possible grâce à l'aide et au soutien que l'Agence de crédit a initialement mis à leur disposition dans les premiers stades de leur démarrage. D'autres ont pu avoir des taux d'intérêts inférieurs par l'entremise du Century Fund, administré par notre agence jumelle, la PEI Business Development Inc.



Les prêts dans ce secteur sont depuis les débuts beaucoup plus élevés que ceux accordés aux autres secteurs industriels de l'Île. L'investissement sous forme de prêt dans l'unique entreprise du secteur qui bénéficie actuellement



de l'aide de l'agence, et dont la société mère est cotée au TSX, demeure stable et présente un risque inférieur à la moyenne.

### ***Fabrication et transformation***

L'agence continue de financer une gamme très diversifiée d'entreprises dans le secteur de la fabrication et de la transformation. Voici quelques exemples des différents types de fabricants : production d'ingrédients pharmaceutiques et de dispositifs médicaux, construction navale et transformation des aliments. Le nombre de demandes d'aide de la part de clients exploitant des entreprises de fabrication et de transformation a diminué par rapport à il y a seulement cinq ans.

Dans les années passées, ce secteur constituait plus de 50 % de toutes les demandes de prêts. Aujourd'hui, il représente moins de 10 %. La nouvelle vigueur acquise par le dollar canadien a manifestement eu des répercussions négatives sur les entreprises de transformation de l'Île qui, traditionnellement, expédiaient ou vendaient leurs produits sur le marché américain. Les entreprises des États-Unis ont perdu l'avantage financier que représentait l'acquisition d'une plus grande quantité de produits pour moins d'argent. Les transformateurs se sont vus dans l'obligation de réduire le prix de leurs produits pour ne pas perdre leur clientèle au détriment de la rentabilité. Cependant, les entreprises de l'Île ne sont pas les seules dans cette situation, qui fait problème à l'échelle du pays étant donné que le pouvoir d'achat des Américains pour ce qui est des produits canadiens est nettement diminué.

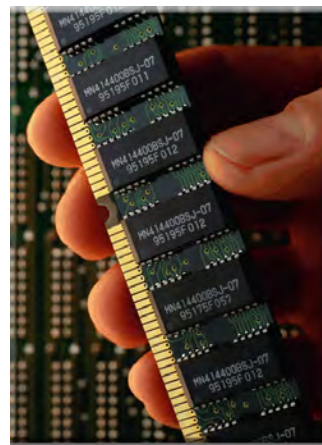
Pour l'exercice financier ayant pris fin le 31 mars 2006, l'agence a reçu 13 demandes de prêts et a approuvé pour un peu moins de 3 millions de dollars en nouveaux prêts. Le montant de prêt demandé était de 230 615 \$ en moyenne. Dans l'ensemble, la santé du portefeuille est stable et sa clientèle demeure bien diversifiée.

### ***Technologie de l'information***

Dans l'exercice ayant pris fin le 31 mars 2006, l'agence n'a reçu aucune demande de prêts dans le secteur de la technologie de l'information (TI), et tous les emprunteurs sauf un du portefeuille TI de l'agence ont remboursé intégralement leur emprunt.

Il semble que la plupart des jeunes ou petites entreprises en TI dont l'actif corporel ne peut servir de caution se financent en empruntant sur la garantie de leur crédit d'impôt à

l'investissement qu'elles prévoient obtenir. Ce mode de financement est actuellement accordé par une agence jumelle dont un département se consacre entièrement au développement du secteur de la technologie de l'information.



### ***Pêches***

C'est le secteur qui a nettement été le plus actif au sein de l'agence cette année, représentant la moitié de toutes les demandes reçues. À titre de comparaison, pour l'exercice 2005, l'agence a reçu 17 demandes dans le secteur des pêches, alors que ce nombre est passé à 60 pour la même période en 2006. Cinquante-six des soixante demandes ont été approuvées, soit 93 % des demandes.

Bien que la valeur totale des prêts approuvés était de 14 269 100 \$ et que le montant moyen de ces prêts soit passé de 164 000 \$ à 255 000 \$ par rapport à la même période l'année précédente, l'augmentation de la somme prêtée est attribuable en grande partie à l'attribution d'un seul prêt de 1,5 million de dollars pour la pêche du crabe des neiges approuvé en 2006.

Cependant, la majorité des demandes reçues l'ont été pour l'achat de flottes de pêche de homard, la mise à niveau des agrès et bateaux de pêche ainsi que, dans certains cas, pour les fonds de roulement.



La pêche sur la côte Nord de l'Île-du-Prince-Édouard continue d'avoir de bons résultats avec des débarquements solides. Toutefois, les débarquements sur la côte Sud sont plus petits. C'est pourquoi l'agence a été obligée de remanier un certain nombre de prêts contractés par des pêcheurs de la côte Sud dans l'espoir que celle-ci se redresserait bientôt. Dans la conjoncture actuelle, un grand nombre des pêcheurs touchés ont du mal à respecter leurs engagements non seulement à l'égard de l'agence mais également envers d'autres créanciers.

## **Agriculture**

L'Agence de crédit de l'Île-du-Prince-Édouard a traditionnellement joué un rôle significatif dans l'attribution de financement au secteur agricole. À la fin de l'exercice 2006, les encours de prêts à l'agriculture représentaient 26,7 % du total de l'encours de prêts du portefeuille et 52,8 % du nombre de clients de l'agence. Au 31 mars 2006, le solde impayé des prêts dans ce secteur se chiffrait à près de 40 millions de dollars, soit une diminution de quelque 3 millions par rapport à la même période l'année précédente. Cette diminution est attribuable surtout aux prêts de fonds de roulement étant donné leur solde impayé de près de 17 millions de dollars à la fin de l'exercice, une baisse par rapport au montant

de près de 20 millions l'année précédente. Les prêts de capital sont demeurés relativement les mêmes avec 22,1 millions à la fin de l'exercice 2006 par rapport à 21,7 à la fin de l'exercice 2005. Les investissements et les locations représentent une petite part seulement du portefeuille, avec des investissements de 521 000 \$ et des locations de 276 000 \$ au 31 mars 2006, par rapport à des soldes de 595 000 \$ et de 750 894 \$ respectivement, au 31 mars 2005.

Au cours de l'année, 40 demandes ont été reçues en tout, réparties également entre des demandes de prêts de fonds de roulement et de capital. Durant cette période, la tendance à restructurer dans le but de diminuer la pression financière



exercée par l'évolution défavorable de l'industrie agricole s'est poursuivie. L'agence continue de travailler en étroite collaboration avec ses clients actuels du secteur agricole qui se heurtent à des difficultés dans leur industrie respective et elle continuera de soutenir des entreprises potentiellement viables. Les prêts de fonds de roulement accordés à des clients de l'industrie de la pomme de terre représentent certains des plus gros comptes individuels.

La saison de culture 2005 pour ce qui est de la pomme de terre est considérée comme une saison moyenne, mais par rapport aux trois années précédentes, elle a été un changement des mieux accueillis. La diminution de la superficie exploitable semble avoir eu des répercussions sur

les prix qui sont demeurés inchangés tout au long de l'année. Dans l'ensemble, la qualité était bonne et la demande est demeurée constante également. L'année est considérée comme une réussite par beaucoup, mais leur opinion a été influencée par les difficultés graves survenues au cours des années précédentes. De nombreux cultivateurs de pommes de terre de l'Île ont seulement pu rentrer dans leurs fonds au cours de la saison 2005 et d'autres ont encore connu des pertes bien que moins lourdes que celles des années antérieures. Le chemin à parcourir pour l'industrie de la pomme de terre de l'Île continuera d'être difficile du fait que le niveau d'endettement de nombreux cultivateurs a augmenté et qu'il faut d'importantes ressources pour assurer le service de la dette. Il faudra selon toute vraisemblance plusieurs années fructueuses pour combler les pertes antérieures et rentabiliser de nouveau les activités.

À l'instar de l'année précédente, en 2005, l'industrie du porc a continué de souffrir de l'instabilité des prix du marché. Comme les prix des produits ne semblent pas offrir une stabilité durable aux éleveurs, les transformateurs devront peut-être tenter d'exploiter les marchés à valeur ajoutée afin d'accroître la rentabilité et d'obtenir de meilleurs prix pour les éleveurs. L'élément passif de l'agence au titre des producteurs de porc pour ce qui est du financement long est minime. Toutefois, l'agence administre un certain nombre de prêts accordés antérieurement à des producteurs de porc au titre de plusieurs programmes mis de l'avant par le ministère de l'Agriculture et des Forêts. Ces programmes ont depuis été supprimés et, en 2005, les différents prêts de chaque producteur ont été consolidés en un seul en vue d'en faciliter l'administration et la comptabilisation. Il faudra continuer à gérer ces prêts jusqu'à leur échéance.

L'instabilité des prix payés aux producteurs et l'arrêt de la croissance de l'industrie sont les répercussions persistantes sur l'industrie du bœuf de la découverte en mai 2003 de l'EBS

(encéphalopathie bovine spongiforme ou maladie de la vache folle) et de la fermeture subséquente de la frontière des États-Unis au bœuf canadien. Les prix aux engraisseurs étaient légèrement inférieurs en décembre 2005 par rapport à la même période en 2003, après la découverte de l'EBS. Lorsqu'on ajoute les coûts de production comme les coûts de l'essence, de l'engrais et de l'assurance, les marges de profit des producteurs demeurent très minces et le contrôle et la surveillance de tous les coûts de production sont devenus d'importance capitale. À moins d'une augmentation des prix ou de nouvelles façons de réduire les coûts, l'industrie continuera à tirer le diable par la queue.

Environ la moitié des producteurs de bœuf du Canada atlantique se trouvent à l'Île. Ce secteur constitue donc une partie importante de l'industrie agricole de la province. Il est à souhaiter que l'ouverture d'une usine de transformation à Borden-Carleton à l'automne 2004 aura été utile à l'industrie en réduisant les coûts de transport. L'agence continuera de collaborer avec les clients actuels de l'industrie du bœuf et de lui assurer son soutien lorsque la viabilité à long terme peut être établie.

Depuis 1995, l'industrie du bleuets est passée d'une industrie presque inexistante à une industrie ayant produit une récolte de huit millions de livres en 2005. L'industrie a cependant connu une baisse d'environ 400 000 livres par rapport à l'année précédente, mais cette baisse était surtout attribuable au gel et à la pourriture. Le prix payé aux cultivateurs a augmenté pour passer à 80 4 la livre, ce qui représente une valeur de quelque 6,5 millions de dollars pour l'année. Un peu plus de la moitié seulement des prêts accordés aux cultivateurs ont bénéficié de l'allègement des intérêts accordé par le ministère de l'Agriculture au cours des deux dernières années, mais les producteurs doivent désormais s'occuper de rembourser leurs prêts en puisant dans leurs rentrées de caisse. Il reste cependant des producteurs qui ont été incapables

d'exploiter leurs terres à leur pleine capacité. Dans ces cas, les revenus seront insuffisants pour assurer le service de la dette. En consultation avec des experts du ministère de l'Agriculture, l'agence continuera de travailler avec ces cultivateurs dans le but de les amener à réussir et de réduire ainsi les pertes que pourraient essuyer la province.

L'industrie insulaire de la canneberge demeure assez modeste quoique la production augmente d'année en année. En 2005, 500 000 livres ont été récoltées par rapport à 320 000 livres en 2004. Une association de producteurs a été créée dans le but de travailler à assurer une présence durable sur le marché et d'accroître les prix du marché, mais elle n'a pas atteint le succès escompté. En attendant de trouver de bonnes méthodes de congélation et d'entreposage des canneberges, les producteurs doivent composer avec les prix du marché établis pour les fruits frais. En conséquence, lorsqu'on vend les produits lorsque la denrée est en abondance, les prix sont bas.

L'association des cultivateurs continue de solliciter le soutien du gouvernement pour trouver des pistes de solution et de l'aide financière qui lui permettront de réduire le niveau d'endettement tout en augmentant la production et en développant les marchés.

### ***Petite entreprise***

Le portefeuille de l'Agence relatif à la petite entreprise est composé d'un large éventail d'entreprises. Quoiqu'il existe certains paramètres par rapport à l'admissibilité, en général, toute entreprise qui ne relève pas des secteurs de l'industrie déjà établis est classée dans ce portefeuille, tel que détaillé dans le présent rapport. Contrairement aux autres secteurs pour lesquels l'Agence offre de l'aide, il n'existe aucune disposition législative pour les prêts d'exploitation aux emprunteurs dans ce portefeuille. Les prêts sont accordés sous forme d'hypothèques et sont offerts pour l'acquisition d'actifs immobilisés tels que les bâtiments, les

améliorations locatives, ou une restructuration de la dette à l'aide de biens réels en garantie.

Au cours de la période à l'étude, l'Agence a reçu 18 demandes de financement sous forme de prêt s'élevant à 3,3 millions de dollars, reflétant une hausse de cinq demandes et d'environ un million de dollars par rapport à la même période l'année dernière. Le portefeuille lui-même a seulement affiché une hausse modeste de sa valeur, se fixant à 11,5 millions de dollars impayés en date du 31 mars 2006, comparativement aux 10,3 millions de dollars en date du 31 mars 2005. Parmi les 18 demandes reçues, l'Agence en a approuvé 14, dont la valeur s'élevait à 2,5 millions. Environ 45 % des demandes concernaient l'achat d'actifs immobilisés, et 45 % visaient la restructuration de la dette. Le 10 % restant était voué au fonds de roulement, appuyé par l'avoir en biens réels comme garantie. Au cours des toutes dernières années, le nombre de demandes reçues dans le secteur a fluctué. En comparant les sept dernières années, on constate un minimum de 12 demandes pour 2 millions de dollars en financement en 2003, et un maximum de 28 demandes reçues pour 6,6 millions de dollars en 2001. En s'appuyant sur les chiffres précédents, 2005/2006 représenterait en général une année moyenne pour les demandes de ce secteur.

Par comparaison avec l'exercice précédent, le nombre de demandes a reculé de sept, et leur valeur a diminué de 800 000 \$. Cependant, la valeur réelle du portefeuille a tout de même augmentée de 6,2 % en un an. À la fin de l'exercice, le total du solde impayé atteignait 12,7 millions de dollars.

### ***Tourisme***

Pour une province qui compte beaucoup sur l'industrie du tourisme, il y a eu peu de croissance dans ce portefeuille. Pour l'exercice se terminant le 31 mars 2006, l'Agence a seulement reçu 10 demandes, et en a approuvé huit. Parmi ces

dernières, cinq demandes, atteignant 3,7 millions de dollars, ont servi à l'achat d'installations existantes. Les trois autres demandes, atteignant 2,1 millions de dollars en financement, ont servi soit à des rénovations ou à une restructuration de dette ou les deux. En comparaison, l'Agence a reçu 16 demandes l'année précédente pour 12,7 millions de dollars en financement. Cependant, à la clôture de l'exercice 2006, le portefeuille du tourisme était de 27,7 millions de dollars, ce qui représente une hausse de 2,3 millions de dollars par rapport à l'année précédente.

Dans l'ensemble, la fréquentation touristique au cours de la saison 2005 a été relativement semblable à celle de l'année précédente. Tourisme Î.-P.-É. souligne que la circulation des non-résidents sur le pont de la Confédération a connu une hausse de 1 % et que l'aéroport de Charlottetown a rapporté une hausse de 11 % au cours de l'année 2004. Northumberland Ferries, cependant, a noté que la circulation a baissé de 5 % au cours de l'année précédente.



Malgré le fait que les chiffres de la fréquentation touristique restent assez stables année après année, ceux-ci ont connu une baisse graduelle depuis qu'ils ont atteint leur plus haut niveau en 1997 lorsque le pont de la Confédération lui-même était un attrait touristique. La baisse est sûrement attribuable à divers facteurs, notamment le prix élevé de l'essence, le raffermissement du dollar canadien et les questions de sécurité à la frontière des É.-U./Canada. Étant donné qu'on ne prévoit aucun changement dans ces enjeux particuliers dans un avenir prévisible, on ne s'attend pas à ce qu'il y ait des changements importants dans ces chiffres lors de la saison touristique 2006.

# Corporate Directory

## Appendix A

as of March 31, 2006

### Executive

Brian MacPhee  
Chairman

Wendy Ripley  
Vice-Chairman

Peter A. Wilson \*  
Secretary-Treasurer and Chief Executive Officer

### Members of the Board

Norman Gallant  
North Rustico, PE

Jean Viaene  
Newtown Cross, PE

Earl Davison  
Kensington, PE

Gerard LeClair  
Central Kildare, PE

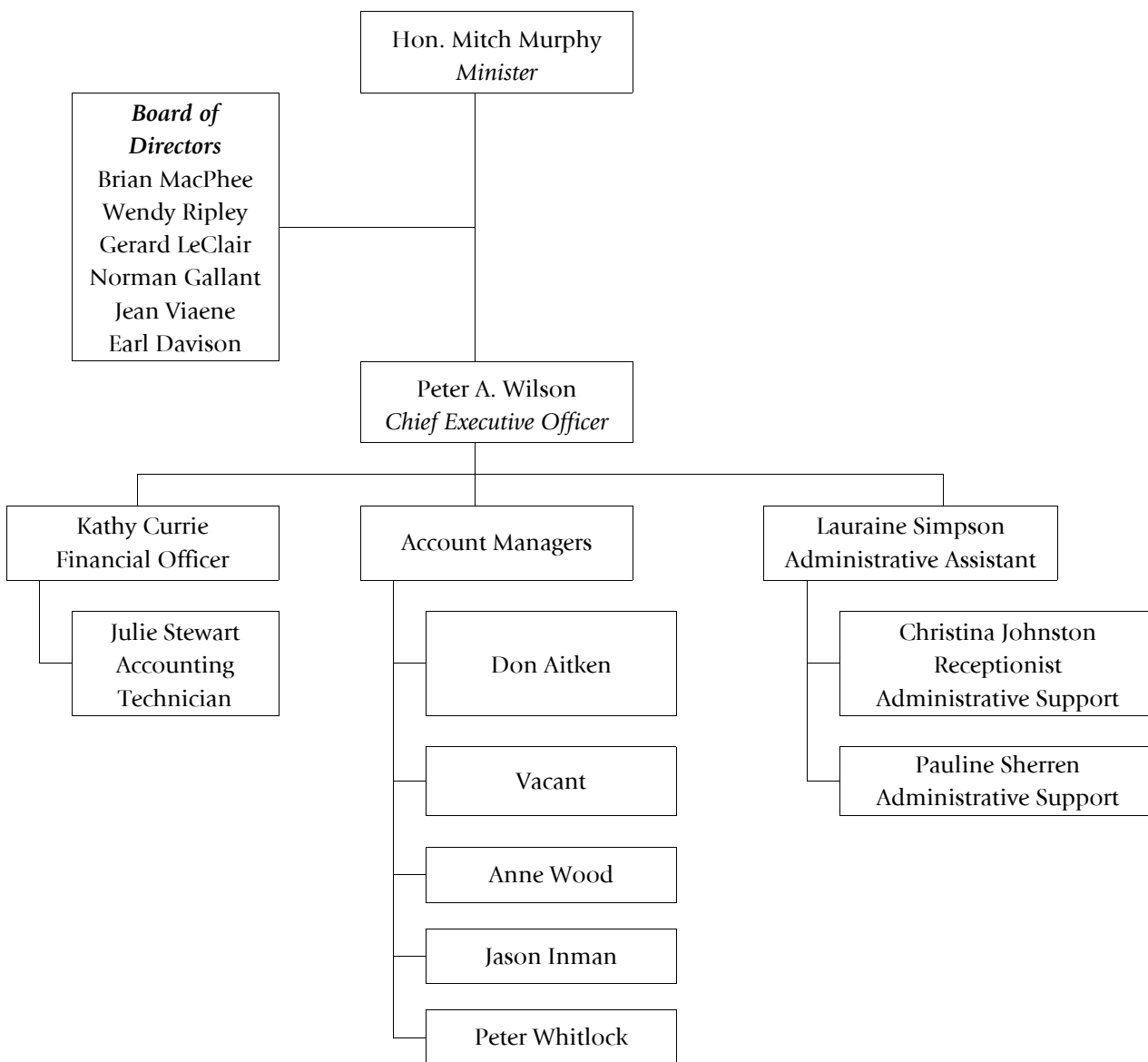
Paul R. Jelley  
Deputy Provincial Treasurer

Mike O'Brien, FCA  
Deputy Minister  
Department of Development and Technology

\* Non-voting

# Organizational Chart

## Appendix B



# *Auditor's Report*

## **Appendix C**



May 19, 2006

## **Auditors' Report**

### **To the Board of Directors**

We have audited the balance sheet of **P.E.I. Lending Agency** as at March 31, 2006 and the statements of earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian 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 financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*ArsenaultBestCameronEllis*

**Chartered Accountants**

# *Financial Statements*

## **Appendix D**

# P.E.I. Lending Agency

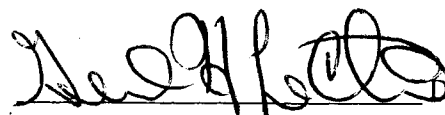
Balance Sheet

As at March 31, 2006

	2006 \$	2005 \$
<b>Assets</b>		
Cash	684,624	1,008,776
Accounts receivable (note 11)	151,070	3,547
Due from Province of Prince Edward Island (note 3)	4,750,000	2,690,000
Loans receivable (note 4)	128,868,901	130,372,719
Leased property (note 5)	232,536	595,400
Property holdings (note 6)	18,161	125,732
Investment in private company preferred shares (note 13)	4,152	521,942
	<u>134,709,444</u>	<u>135,318,116</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities (note 11)	557,288	571,256
Due to Province of Prince Edward Island (note 3)	1,000,000	-
Notes payable (note 8)	<u>134,598,894</u>	<u>134,746,820</u>
	<u>136,156,182</u>	<u>135,318,076</u>
<b>Contingent liabilities (note 9)</b>		
<b>Shareholders' Equity</b>		
Retained earnings - Beginning of year	40	40
Excess expenses for the year	<u>(1,446,778)</u>	<u>-</u>
Retained earnings (deficit) - End of year	<u>(1,446,738)</u>	<u>40</u>
	<u>134,709,444</u>	<u>135,318,116</u>

Approved by the Board of Directors

 Director

 Director

(2)

# P.E.I. Lending Agency

## Statement of Earnings

For the year ended March 31, 2006

	2006		2005
	Budgeted (Unaudited) \$	Actual \$	Actual \$
<b>Revenue</b>			
Grants from Province	1,715,900	6,410,729	3,436,200
Interest from borrowers	9,577,220	9,430,948	9,328,971
Interest from deposits	25,000	29,786	27,166
Prepayment interest	-	10,792	22,927
Agricultural leases	50,000	19,758	62,571
Service fees	60,000	207,305	156,452
Post-receivership income	-	92,293	22,600
Gain on disposal of property holdings	-	-	85,162
	11,428,120	16,201,611	13,142,049
<b>Expenses</b>			
Office supplies and printing	23,100	15,682	18,350
Telecommunications	14,800	10,906	9,120
Rent and occupancy	107,800	105,042	102,312
Meetings and hosted conferences	4,000	5,074	5,460
Computer equipment	10,000	2,211	10,700
Advertising and promotion	3,000	8,690	3,738
Office equipment rentals	9,500	5,450	5,439
Library and subscriptions	1,200	1,008	1,372
Repairs and maintenance	6,000	139	-
Miscellaneous	1,500	8,600	3,219
Professional services	42,000	26,183	36,720
Salaries and benefits	872,800	726,145	853,053
Travel and training	39,600	16,722	20,799
Interest (note 11)	7,365,320	7,211,267	7,742,762
Provision for possible losses	2,927,500	9,505,270	4,329,005
	11,428,120	17,648,389	13,142,049
<b>Excess expenses for the year</b>	-	(1,446,778)	-

**P.E.I. Lending Agency**  
**Statement of Cash Flows**  
**For the year ended March 31, 2006**

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Excess expenses for the year	(1,446,778)	-
Items not affecting cash		
Gain on disposal of property holdings	-	(85,162)
Provision on investment in private company preferred shares	517,000	-
	(929,778)	(85,162)
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable	(147,523)	249,751
Decrease in accounts payable and accrued liabilities	(13,967)	(176,192)
Increase in due from Province of Prince Edward Island - current operations	(2,060,000)	(2,917,744)
	(3,151,268)	(2,929,347)
<b>Financing activities</b>		
Decrease in leased property (net)	362,864	176,395
Decrease in loans receivable (net)	1,503,818	10,710,874
Decrease in due from Province of Prince Edward Island - allowance for possible losses	-	8,831,778
Increase in notes payable	14,000,000	24,100,000
Retirement of notes payable	(14,147,927)	(40,659,873)
Decrease in investment	790	30
Increase in due to Province of Prince Edward Island - alternative heating loan program	1,000,000	-
	2,719,545	3,159,204
<b>Investing activities</b>		
Additions to and purchases of property holdings	(1,473,057)	(5,172,403)
Reductions and proceeds on disposal of property holdings	1,580,628	5,788,314
	107,571	615,911
<b>Change in cash</b>	<b>(324,152)</b>	<b>845,768</b>
<b>Cash - Beginning of year</b>	<b>1,008,776</b>	<b>163,008</b>
<b>Cash - End of year</b>	<b>684,624</b>	<b>1,008,776</b>
<b>Supplementary disclosure</b>		
Interest and dividends received	9,482,090	9,434,269
Interest paid	7,104,152	7,964,160

# P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2006

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## 1 Status of the corporation

P.E.I. Lending Agency is a Crown corporation established by a proclamation of the Lending Agency Act dated December 31, 1998. The Agency's financial results are included in the public accounts of the Province of Prince Edward Island.

## 2 Summary of significant accounting policies

These financial statements have been prepared in accordance with generally accepted accounting principles.

### a) Allowance for possible losses

An allowance is maintained which is considered adequate to absorb all credit losses and off-balance sheet items including guarantees. The allowance is deducted from the applicable asset on the balance sheet, except for guarantees. The general allowance for guarantees of \$50,000 (2005 - \$50,000) is included in accounts payable.

The allowance consists of specific and general provisions.

Specific provisions include the accumulated allowances for losses on particular assets required to reduce the book values to estimated realizable amounts. Specific provisions on loans receivable and leased property total \$13,129,053 (2005 - \$8,806,228).

The company reviews its loan portfolios and leased properties on an ongoing basis to assess whether a loan should be classified as impaired, or an allowance or write-off recorded.

A variety of methods are used to determine the amount expected to be recovered from impaired loans and property holdings, including estimated future cash flows and the estimated fair value of the underlying security and value of any collateral security taken.

A general provision on loans receivable and leased property of \$4,239,026 (2005 - \$2,487,931) includes accumulated allowances for losses which are prudential in nature and cannot be specifically identified. The general provision is based on past performance of similar loans, the level of the specific provision, management's judgement, the economic climate and the maturity and financial strength of the investee.

# P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2006

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## b) Loans receivable

Working capital loans are issued to qualified lenders and are recorded at cost less an allowance for possible losses. These loans bear interest at the Toronto Dominion Bank prime rate plus 1% to 2 ¾% and are repayable at the end of each sector's operating season or specific project.

Mortgage loans consist of loans issued to Prince Edward Island enterprises for purposes of acquiring property and equipment. These loans are recorded at cost less an allowance for possible losses. These loans are issued at long-term interest rates and are repayable over various terms to a maximum of 20 years with interest rates ranging from 4% to 14%. Working capital loans specific to the 2004 Hog Consolidation Program were provided at Toronto Dominion Bank prime rate less .5% to prime plus 1%.

Interest income is recorded on the accrual basis until such time as the loan is classified as non-current. A loan is classified as non-current when the Corporation has been unsuccessful in its attempt to collect arrears payments or have the loan satisfied.

An impaired loan is a loan in arrears in excess of 120 days or where in management's opinion there is no longer reasonable assurance as to the timely collection of the full amount of the principal and interest.

## c) Leased property

Leased property represents the cost to acquire agricultural property based on appraised market value at the inception of the lease less an allowance for possible losses. Operating leases are negotiated with the lessee for a maximum of 5 years at a rate of interest tied to commercial lending rates. The lease rates currently range from 7% to 8.5%. The lease may be renewed for one five-year term after which time the lessee must repurchase the property.

Lease income is recorded on an accrual basis until the lease is repaid or the property is transferred to property holdings - foreclosed projects. When a lease is in arrears in excess of 120 days or when in management's opinion there is no longer reasonable assurance of the timely collection of the full amount of principal and interest, the lease is classified as impaired.

## d) Property holdings and amortization

Office furniture and equipment and computer equipment are fully expensed in the year of acquisition. The amount expensed during the year ended March 31, 2006 was \$2,211 (2005 - \$10,700).

Foreclosed projects are carried at the lower of cost of the impaired asset prior to realization of the related security and the underlying estimated realizable value of the security.

The reduction from cost to estimated realizable value is recorded as an allowance for possible losses.

# P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2006

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## e) Investment in private company

Investment in preferred shares of a private company is recorded at the lower of cost and estimated realizable value.

It is not practical within constraints of timelines and cost to determine the fair value of the investment as it is a closely held private company that has no organized financial market. The estimated realizable value of this investment is based on expected future cash flows.

The reduction from cost to estimated realizable value is recorded as an allowance for possible losses.

## f) Pension liabilities

The Corporation's staff are members of the Province of Prince Edward Island pension plan. The pension plan obligation is a liability of the Province and not the Corporation and no liability for these costs has been accrued by the Corporation at March 31, 2006.

## g) Estimated realizable value of financial instruments

Estimated realizable value (fair value) is subjective in nature requiring a variety of valuation techniques and assumptions. The company's financial instruments are not exchangeable and it is difficult, and often not practical, to determine their estimated realizable value. Where it is possible to estimate realizable value, the company assumes that it will not sell the assets or the liabilities, taking into account only changes in credit risk as credit risk is the main cause of change in the estimated realizable value of the company's financial instruments. Credit risk is defined as the risk that the note holder will fail to discharge an obligation in whole or in part resulting in a financial loss to this company.

## h) Management estimates

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those reported.



# P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2006

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## 3 Due from (to) the Province of Prince Edward Island

	2006	2005
	\$	\$
<b>Current operations</b>		
Balance - Beginning of year	2,690,000	(227,744)
Repaid to (by) the province	(2,690,000)	227,744
Grant receivable	4,750,000	2,690,000
	<hr/>	<hr/>
Balance - End of year	4,750,000	2,690,000
	<hr/>	<hr/>
<b>Allowance for possible losses</b>		
Balance - Beginning of year	-	8,831,778
Less: payment during the year	-	(8,831,778)
	<hr/>	<hr/>
Balance - End of year	-	-
	<hr/>	<hr/>
<b>Alternative Heating loan program</b>		
Balance - Beginning of year	-	-
Advances received	1,000,000	-
Repaid to the province	-	-
	<hr/>	<hr/>
Balance - End of year	1,000,000	-
	<hr/>	<hr/>

During the 2006 year, the Province advanced funds to P.E.I. Lending Agency to be disbursed as unsecured loans administered by the company under the Alternative Heating Loan program. As at March 31, 2006, the company has disbursed \$430,850 in loans approved by the Provincial Department of Energy at an interest rate of 6% with repayment terms varying from one to five years and collected principal repayments of \$11,602.

Any principal repayments received on these loans plus any undisbursed program funds are to be repaid to the Province. Interest earned on the loans is revenue of the P.E.I. Lending Agency.

**P.E.I. Lending Agency**  
Notes to Financial Statements  
**March 31, 2006**

**4 Loans receivable**

					2006	2005
	Total	Impaired loans included in total	Allowance for possible losses		Net	Net
	\$	\$	General	Specific	\$	\$
			\$	\$		
<b>Working capital loans</b>						
Agriculture	7,623,207	3,916,350	598,599	1,940,000	5,084,608	7,024,818
2003 Fur Program	-	-	-	-	-	529,188
Tourism	70,528	-	-	-	70,528	613,790
Manufacturing and processing	2,784,972	53,482	-	-	2,784,972	4,238,079
Fisheries	913,642	210,260	-	-	913,642	883,136
Aquaculture	6,097	-	-	-	6,097	5,698
Small business	20,019	-	-	-	20,019	104,542
Cranberry	-	-	-	-	-	138,543
Beef Cash Flow	268,659	17,459	-	-	268,659	211,329
Hog Program	6,958,394	-	-	-	6,958,394	7,841,159
Information technology	40,751	-	-	-	40,751	67,307
	<b>18,686,269</b>	<b>4,197,551</b>	<b>598,599</b>	<b>1,940,000</b>	<b>16,147,670</b>	<b>21,657,589</b>
<b>Mortgage loans receivable</b>						
Alternative Heating program	419,735	-	-	-	419,735	-
Agriculture	9,262,337	654,855	100,000	22,000	9,140,337	8,295,007
New farmer	-	-	-	-	-	33,721
Tourism	26,814,496	9,676,213	200,400	2,000,000	24,614,096	24,230,261
Manufacturing and processing	26,974,374	1,396,490	200,000	1,338,037	25,436,337	27,808,834
Fisheries	19,496,132	1,819,029	2,500,000	240,000	16,756,132	5,346,401
Aquaculture	119,427	119,427	-	85,000	34,427	156,609
Small business	11,024,533	-	100,000	-	10,924,533	10,864,279
Blueberry	8,288,973	2,927,497	450,000	2,110,000	5,728,973	8,146,424
Cranberry	2,367,026	1,621,578	50,000	1,150,000	1,167,026	1,611,687
Hog Programs	186,154	78,195	-	78,195	107,959	48,027
Aerospace	15,094,455	-	-	-	15,094,455	17,741,350
Information technology	-	-	-	-	-	1,402,712
Other	7,503,069	6,895,013	40,027	4,165,821	3,297,221	3,029,818
	<b>127,550,711</b>	<b>25,188,297</b>	<b>3,640,427</b>	<b>11,189,053</b>	<b>112,721,231</b>	<b>108,715,130</b>
	<b>146,236,980</b>	<b>29,385,848</b>	<b>4,239,026</b>	<b>13,129,053</b>	<b>128,868,901</b>	<b>130,372,719</b>

# P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2006

*Continuity of allowance for possible losses*

	2006 \$	2005 \$
Allowance for possible losses - Beginning of year	11,294,159	10,427,223
Add: Provision recorded during year	8,742,163	4,285,402
Less: Transferred to property holdings	(1,180,743)	(2,480,441)
Less: Loans written off during the year	(1,487,500)	(938,025)
<b>Allowance for possible losses - End of year</b>	<b>17,368,079</b>	<b>11,294,159</b>

**5 Leased property**

	2006		2005			
	Total \$	Impaired loans included in total \$	General \$	Specific \$	Net \$	Net \$
Agricultural leases	232,536	-	-	-	232,536	595,400

*Continuity of allowance for possible losses*

	2006 \$	2005 \$
Allowance for possible losses - Beginning of year	-	96,000
Less: Transferred to property holdings	-	(96,000)
<b>Allowance for possible losses - End of year</b>	<b>-</b>	<b>-</b>

**6 Property holdings**

	2006 \$	2005 \$
Foreclosed projects - land, buildings and equipment held for resale	1,057,942	1,118,449
Less: Allowance for possible losses	(1,039,781)	(92,717)
	<b>18,161</b>	<b>125,732</b>

# P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2006

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## *Continuity of allowance for possible losses*

	2006	2005
	\$	\$
<b>Allowance for possible losses - Beginning of year</b>	992,717	2,276,867
Add: Provision recorded during year	246,107	43,603
Add: Transferred from loans receivable	1,193,000	2,480,441
Add: Transferred from leased property	-	96,000
Less: Write-offs	(1,392,043)	(3,904,194)
<b>Allowance for possible losses - End of year</b>	<u>1,039,781</u>	<u>992,717</u>

## **7 Investment in private company preferred shares**

	2006	2005
	\$	\$
Investment in preferred shares	521,152	521,942
Less: Allowance for possible losses	(517,000)	-
	<u>4,152</u>	<u>521,942</u>

## *Continuity of allowance for possible losses*

	2006	2005
	\$	\$
<b>Allowance for possible losses - Beginning of year</b>	-	-
Add: Provision recorded during year	517,000	-
<b>Allowance for possible losses - End of year</b>	<u>517,000</u>	<u>-</u>

# P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2006

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## 8 Notes payable

	2006	2005
	\$	\$
Short-term promissory notes	5,900,010	11,100,010
Long-term	128,698,884	123,646,810
	<u>134,598,894</u>	<u>134,746,820</u>

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.

The notes payable - long-term are issued to the Province of Prince Edward Island and have various repayment terms and interest rates ranging from 4.43% to 6.69%.

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, 2007	9,067,431
2008	9,536,641
2009	8,536,809
2010	7,358,853
2011	4,431,364

## 9 Contingent liabilities

- a) As of March 31, 2006, P.E.I. Lending Agency was contingently liable under a loan guarantee on behalf of a development company in the amount of \$49,437 (2005 - \$65,949) for which P.E.I. Lending Agency has included \$50,000 in its allowance for possible losses. This portion of the allowance for possible losses is included in accounts payable. The guarantee is secured by a realty mortgage, and proceeds from liquidation are expected to cover the remaining amount of the guarantee.
- b) A counterclaim has been commenced against P.E.I. Lending Agency by two individuals in response to an action against these individuals for a deficiency remaining after realization on collateral held by the P.E.I. Lending Agency. The counterclaim seeks special and general damages of an unspecified amount, as well as punitive damages and costs.

The claim and counterclaim are presently ongoing, however, management has determined that no liability is likely to arise as a result of this counterclaim.

# P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2006

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## 10 Commitments

The P.E.I. Lending Agency new loans approved but not disbursed at March 31, 2006 amount to \$4,637,600 (2005 - \$3,394,950).

## 11 Related party transactions

### Balance Sheet

Included in accounts receivable is \$149,557 (2005 - nil) due from a department of the Province of Prince Edward Island.

Included in accounts payable and accrued liabilities is \$453,534 (2005 - \$346,419) in accrued interest payable to the Province of Prince Edward Island.

### Statement of earnings

Included in expenses is the following in interest paid/payable to the Province of Prince Edward Island:

	2006	2005
	\$	\$
Interest on long-term borrowings	6,939,139	7,378,924
Interest on short-term notes payable	272,128	363,838
	<u>7,211,267</u>	<u>7,742,762</u>

The above transactions were recorded in the normal course of operations.

## 12 Operating lease

The minimum annual lease payment required in the next year under an operating lease expiring September 30, 2006 is \$41,123 in base rent plus common area expenses of approximately \$60,000 annually.

# P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2006

## 13 Interest rate risk

The following table sets out the assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the Agency's interest rate risk position is limited by the fact that borrowers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing date. Examples of this include mortgages, which are shown at contractual maturity but which could prepay earlier.

	Within 1 year \$	After 1 year but within 5 years \$	After 5 years \$	Not interest rate sensitive \$	Provision for possible losses \$	Total \$
<b>Assets</b>						
Cash	684,624	-	-	-	-	684,624
Accounts receivable	-	-	-	151,070	-	151,070
Due from Province of Prince Edward Island	-	-	-	4,750,000	-	4,750,000
Loans receivable	33,787,375	90,939,644	21,509,961	-	(17,368,079)	128,868,901
Leased property	232,536	-	-	-	-	232,536
Property holdings	-	-	-	1,057,942	(1,039,781)	18,161
Investment	-	-	521,152	-	(517,000)	4,152
<b>Total assets</b>	<b>34,704,535</b>	<b>90,939,644</b>	<b>22,031,113</b>	<b>5,959,012</b>	<b>(18,924,860)</b>	<b>134,709,444</b>
<b>Liabilities and surplus</b>						
Accounts payable and accrued liabilities	-	-	-	507,288	50,000	557,288
Due to Province of Prince Edward Island	-	-	-	1,000,000	-	1,000,000
Notes payable	22,029,918	96,474,641	16,094,335	-	-	134,598,894
Deficit	-	-	-	(1,446,738)	-	(1,446,738)
<b>Total liabilities and surplus</b>	<b>22,029,918</b>	<b>96,474,641</b>	<b>16,094,335</b>	<b>60,550</b>	<b>50,000</b>	<b>134,709,444</b>
Interest rate sensitivity gap	12,674,617	(5,534,997)	5,936,778	5,898,462	(18,974,860)	-
Cumulative interest rate sensitivity gap	12,674,617	7,139,620	13,076,398	18,974,860	-	-

# Clarification to Note 4 of Financial Statements

LEI  
LENDING AGENCY  
Annual Report 2005-2006

## Appendix E

### **Column 1 – Total**

Represents the total loan/leases divided by economic sector. These balances represent the balance owing at March 31, 2006, before any provision for loss. The “other” category is comprised of loans classified as non-current, wherein interest is no longer being accrued.

### **Column 2 – Impaired**

Represents loans in arrears in excess of 120 days, or where in management’s opinion, there is no longer reasonable assurance as to the timely collection of the full amount of the principal and interest. Management’s assessment is based on the extent of the arrears, the value of collateral security, the cash flow of the borrower and management’s judgement. The impaired loans are included in the total loan/leases in Column 1.

### **Column 3 – Allowance for Possible Losses – General**

A provision for loss based on management’s judgement by sector whereby adverse economic trends suggest losses may occur, but where such losses cannot yet be determined on an item-by-item basis. Management takes into consideration past performance of similar loans, the level of specific provision and the existing economic climate.

### **Column 4 – Allowance for Possible Losses – Specific**

Indicates the provision required to reduce particular assets from their book value to their estimated realizable value. Management takes into account the estimated future cash flow of the borrower and the estimated fair value of the collateral security held of the borrower.

### **Column 5 – Net**

Indicates the total loan/lease (column 1), less the general and specific provisions for loss (columns 3 and 4).



# Application Statistics

## April 1, 2005 to March 31, 2006

### Appendix F

Sector	Total Received		Amount Approved		Declined/Withdrawn	
	No.	Amount	No.	Amount	No.	Amount
Agriculture	38	9,440,850	34	7,915,850	4	1,525,000
Fisheries	59	14,874,600	55	13,891,100	4	983,500
Manufacturing and Processing	12	5,406,000	10	4,031,000	2	1,375,000
Aerospace	1	12,000,000	1	12,000,000	0	0
Information Technology	0	0	0	0	0	0
Small Business	18	3,273,250	14	2,453,250	4	820,000
Tourism	10	5,765,000	8	5,235,000	2	530,000
<b>Total</b>	<b>138</b>	<b>50,759,700</b>	<b>122</b>	<b>45,526,200</b>	<b>16</b>	<b>5,233,500</b>