

PRINCE EDWARD ISLAND ENERGY CORPORATION

ANNUAL REPORT
2022-23



Prince Edward Island Energy Corporation
40th Annual Report
For the Year Ended
March 31, 2023

Our Legislated Objectives

Pursuant to section 6 of the *Energy Corporation Act*, the legislated objectives of the Prince Edward Island Energy Corporation are:

"...to develop and promote the development of energy systems and the generation, production, transmission and distribution of energy in all its forms on an economic and efficient basis, to provide financial assistance for the development, installation and use of energy systems, and to coordinate all government programs in the establishment and application of energy systems in the province."



Our Core Activities

Consistent with our legislated objectives, the Corporation:

- Owns and operates wind farm operations at East Point (30 megawatts (MW)), Hermanville/Clearspring (30 MW) and North Cape (13.56 MW);
- Owns electrical transmission facilities in Prince County that connect its North Cape operations and other renewable energy generators to the Maritime Electric grid;
- Finances energy projects and energy systems, particularly those initiatives that involve renewable development in PEI (e.g. Wind Energy Institute of Canada);
- Develops and implements the elements of the Provincial Energy Strategy;
- Increases electrical energy reliability and capacity through the ownership of the 360-MW Cable Interconnection Upgrade between PEI and the mainland; and
- Provides guidance to Government for the formulation of provincial policy, programs, legislation and agreements that pertain to energy matters.

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Message from the Minister

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

Dear Lieutenant Governor:

In the past year, PEI Energy Corporation made significant strides on the Slemon Park Microgrid Project, including the installation of a 1.5-MWh zinc battery. This leading-edge technology offers significant benefits compared to lithium and lead acid batteries, including being constructed with earth abundant commodities that are fully recyclable. After slight delays due to Hurricane Fiona, Slemon Park Microgrid, which also incorporated 10 MW of solar capacity is scheduled to be completed September 2023.

The Corporation continues to seek issuance of development permits for a 30-MW wind farm through a planning appeal process at the Island Regulatory and Appeals Commission. The Corporation expects a decision on the project to be made in 2023 and will proceed accordingly. As well, planning continues on the 100-kilometre transmission line that will connect further renewable energy projects in western PEI, and work continues on other projects aligned with PEI's Path Towards Net Zero (2040). Groundbreaking at the site of the new Clean Tech Park in Georgetown also took place in late 2022 and Phase 1 of the Park is expected to be completed in summer 2023.

Prince Edward Island, as always, benefits from its excellent wind resources, but those winds can also present challenges. This past year, we saw the impacts of Hurricane Fiona, where peak winds of 169.8 km/h were recorded at the East Point Wind Farm. In spite of that, the wind farms produced more than 155 GWh of renewable electricity for the use of Islanders.

In accordance with subsection 10(1) of the Energy Corporation Act, it is my pleasure to submit to the Legislative Assembly the 40th Annual Report of the Prince Edward Island Energy Corporation, which covers activities and finances for the 2022-23 fiscal year.

Respectfully submitted,



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

Message from the Chief Executive Officer

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

Dear Honourable Minister:

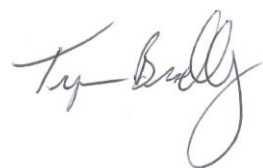
The Corporation continued the development of its 10-megawatt (MW) Slemon Park Microgrid Project which was challenged by the damaging winds from Hurricane Fiona in September 2022. It is now anticipated that the Microgrid Project will be operational by September 2023. The Slemon Park solar farm is forecasted to produce approximately 16.5 gigawatt hours (GWh) of clean renewable energy for Islanders each year. Hermanville/Clearspring struggled with wind energy production in 2022-23 and a full life cycle assessment is currently underway for the farm to bring energy production back to designed levels. The Corporation's other wind farms, at North Cape and Eastern Kings, continued to operate at a high level of availability.

The Corporation continues to seek a development permit for the Eastern Kings Wind Farm Phase II, through a land planning appeal process at the Island Regulatory and Appeals Commission and a decision is anticipated in 2023. Technical studies for the Western Transmission Line Expansion Project have progressed and will allow for an additional 100-MW of future wind farm generation capacity in western PEI.

Islanders continue to benefit from the PEI-NB Cable Interconnection through the Corporation's ownership and low-cost financing. The interconnection has greatly improved the reliability of the PEI grid which this year experienced a new peak load of 393 MW. In addition, the Corporation maintained its ongoing responsibility to finance the debt incurred to refurbish the Point Lepreau Nuclear Generating Station.

On behalf of the Board of Directors of the Prince Edward Island Energy Corporation, it is my pleasure to provide you with this Annual Report which accurately describes the activities and finances of the Corporation during the 2022-23 fiscal year.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Tyson Bradley". The signature is fluid and cursive, with the first name "Tyson" and last name "Bradley" clearly distinguishable.

Tyson Bradley
Chief Executive Officer

Executive Summary

The Prince Edward Island Energy Corporation is a provincial Crown corporation whose form and function is dictated by the *Energy Corporation Act*. Reporting to the Minister responsible for energy matters, the Prince Edward Island Energy Corporation is governed by a Board of Directors that consists of between five and seven members. The day-to-day operations of the Corporation rest with the Chief Executive Officer who is also an *ex-officio* board member.

Through ownership of wind farms at North Cape (10.56 MW), East Point (30 MW), Hermanville/Clearspring (30 MW) and the V-90 prototype (3 MW), the Corporation supplied approximately 155,000 MWh of renewable electricity to Islanders in the 2022-23 fiscal year.

The Corporation reported revenue of \$21.8 million this past fiscal year, which was a 13% decrease from the previous year. All wind

farm revenues decreased compared to the year prior as a result of the impact of Hurricane Fiona, as well as lower availability due to the aging fleet. Total expenses were \$18.3 million, a 4% increase over fiscal year 2021-22, with the largest increase coming in the form of inflation on service and warranty agreements.

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

During this reporting period, the Energy Corporation continued construction of the 10-MW solar field which is a central component of the Slemon Park Microgrid project.



Board of Directors

The affairs of the Prince Edward Island Energy Corporation are under the direction of a Board of Directors that consists of between five and seven members. Directors are appointed, at pleasure, for a three-year term.

As of March 31, 2023, the board members were as follows:

NAME	POSITION HELD
Deputy Minister of Environment, Energy & Climate Action (Brad Colwill)	Chairperson
Minister of Environment, Energy & Climate Action (Steven Myers)	Director
Deputy Minister of Fisheries & Communities (Michele Koughan)	Director
Deputy Minister of Economic Growth, Tourism & Culture (Erin McGrath-Gaudet)	Director
Clerk of Executive Council (Dan Campbell)	Director
Secretary to Treasury Board (Cindy Harris)	Director
Deputy Minister of Transportation and Infrastructure (Bob Creed)	Director

Annual Objectives

The Prince Edward Island Energy Corporation had set the following objectives for the 2022-23 fiscal year:

- ❖ Operate and maintain its wind facilities at a high level of availability;
- ❖ Plan and execute the proposed 30-MW wind farm;
- ❖ Develop the Slemon Park Microgrid Project;
- ❖ Support the construction of a 100-kilometre transmission line to western PEI; and
- ❖ Provide advice to Government on various energy issues, with Government's goal of achieving Net Zero by 2040 being a priority.



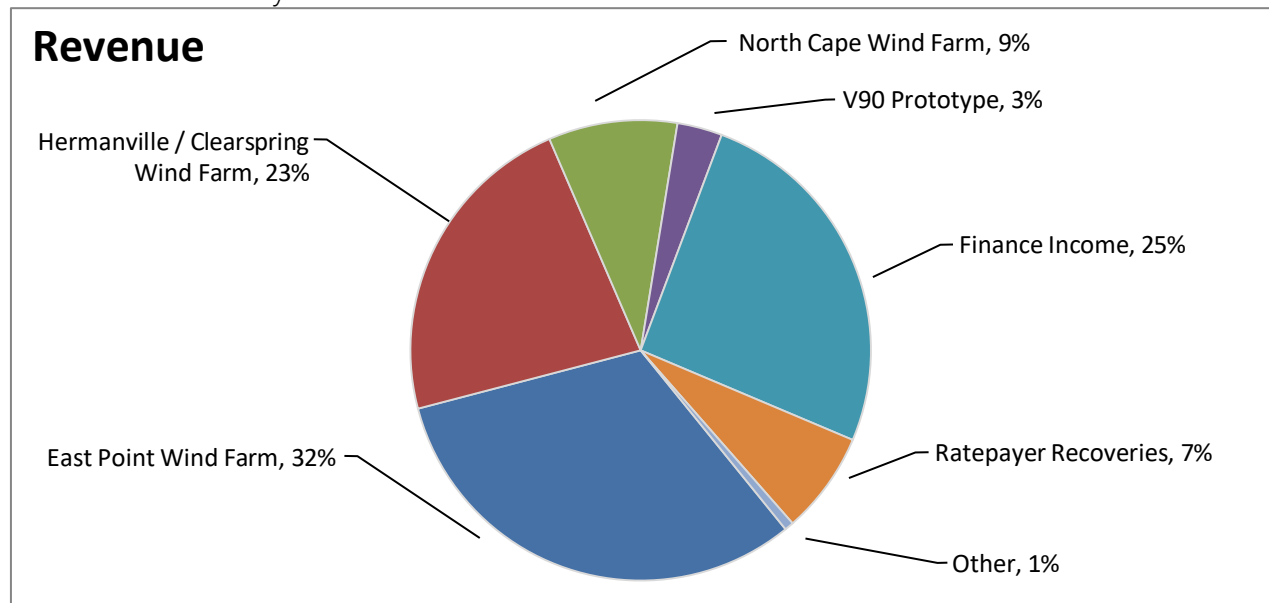
Operational Review for 2022-23

Revenue

The total revenue earned by the Prince Edward Island Energy Corporation during fiscal year 2022-23 was \$21.8 million. The main component of this revenue accrued from the operation of its wind farms and related infrastructure. These revenues included electricity sales to Maritime Electric Company Limited (MECL), marketing and transmission fees from private wind facilities. Other sources of revenue during this reporting period included interest income. The following graph illustrates the sources of revenue during 2022-23.

Overall, revenue decreased by 13% from the prior year. Hurricane Fiona resulted in approximately \$1 million in lost revenue due to extended power outages specifically at Hermanville and East Point. Hermanville had the largest revenue decrease at 40% year over year which can be attributed to a significant increase in main bearing and blade issues. The Corporation is working with an industry expert to perform a life cycle analysis to determine the best path forward for Hermanville.

2022-23 Revenue by Source

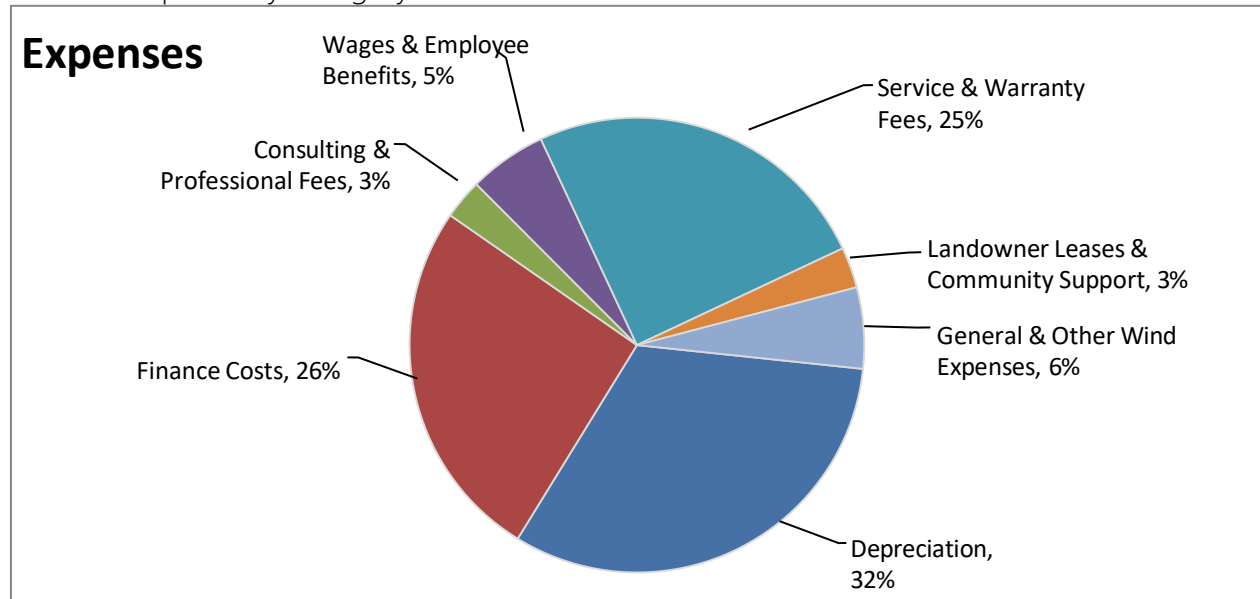


Expenses

Expenses for the Corporation totaled \$18.3 million in 2022-23. This represented a 4% increase compared to the previous year. The Service & Warranty category saw the largest growth increasing by \$0.5 million.

This was a result of long-term maintenance and warranty agreements that are adjusted annually for the Consumer Price Index and in some instances US-Canadian exchange rates.

2022-23 Expense by Category



North Cape Wind Farm

The North Cape Wind Farm was Atlantic Canada's first commercial deployment of wind power. Commissioned in two phases, Phase I in November 2001 and Phase II in November 2003, the project consisted of sixteen (16) Vestas V-47 turbines. With a generating capacity of 660 kW per turbine, the combined generation capacity of this wind facility is 10.56 MW.

During the reporting period, the North Cape Wind Farm generated revenues of \$2 million, which represented a 7% decrease from the previous year. This can be attributed to Hurricane Fiona and the age of the turbines resulting in longer turbine

outages, specifically due to yaw ring and traverse bolt issues. Expenditures totaled \$1.8 million with no significant change from the previous year. Included in the expenses is approximately \$17,250 that was provided to landowners in the vicinity of the wind farm.

The V-47 turbines continued to perform well for an approximately 21-year-old machine, producing over 27 GWh of energy. With warranty and maintenance in place to year 27 of turbine life, the V-47 wind farm continues to be a reliable source of clean energy for Islanders.

North Cape Performance		
Fiscal Year	Electricity Production (MWh)	Capacity Factor (%)
2013/14	32,619	35.3%
2014/15	30,983	33.5%
2015/16	32,789	35.3%
2016/17	30,521	33.0%
2017/18	30,953	33.5%
2018/19	32,398	35.0%
2019/20	31,039	33.5%
2020/21	30,584	33.1%
2021/22	29,188	31.5%
2022/23	27,494	29.6%
Average	30,857	33.7%

North Cape Financial					
	Revenue		Expenses		Profit/Surplus
Fiscal Year	Annual \$	Cents/kWh	Annual \$	Cents/kWh	Annual \$
2013/14	\$2,435,174	7.5	\$1,738,513	5.3	\$696,661
2014/15	\$2,399,879	7.7	\$1,931,019	6.2	\$468,860
2015/16	\$2,480,954	7.6	\$1,731,429	5.3	\$749,525
2016/17	\$2,336,480	7.7	\$1,521,668	5.0	\$814,812
2017/18	\$2,367,124	7.6	\$1,678,650	5.4	\$688,474
2018/19	\$2,432,779	7.5	\$1,417,686	4.4	\$1,015,093
2019/20	\$2,185,982	7.0	\$1,482,497	4.8	\$703,485
2020/21	\$2,181,412	7.1	\$1,578,017	5.2	\$603,395
2021/22	\$2,118,968	7.3	\$1,804,682	6.2	\$314,286
2022/23	\$2,001,469.4	7.2	\$1,828,701	6.7	\$172,768
Average	\$2,294,002	7.4	\$1,653,796	5.4	\$622,736



East Point Wind Farm

Located in Elmira, along Highway 16A, the East Point Wind Farm consists of ten Vestas V-90 turbines (30 MW), a substation, an overhead collection system and 2.5 kilometers of service roads. The farm was commissioned in 2007 and has been a very reliable wind farm approaching 16 years of service. An extended power outage after Hurricane Fiona had a significant impact on production and saw the total energy production drop to 79.2 GWh. Yaw ring damage on T10 also led to significant downtime for that turbine and was the major contributor to lower than average availability at 92.4%, which is satisfactory considering the age of the wind farm.



East Point Performance			
Fiscal Year	Availability* (%)	Electricity Production (MWh)	Capacity Factor (%)
2013/14	96.6%	86,427	32.9%
2014/15	94.4%	87,060	33.1%
2015/16	97.8%	96,043	36.4%
2016/17	96.3%	90,972	34.6%
2017/18	95.3%	90,957	34.6%
2018/19	94.4%	91,737	34.9%
2019/20	96.0%	91,998	34.9%
2020/21	94.7%	92,788	35.3%
2021/22	94.5%	90,139	34.3%
2022/23	92.4%	79,264	30.2%
Average	95.2%	89,739	34.1%

*As per the Operation and Service Agreement with Vestas, the machine availability is guaranteed to be 94%. Liquidated damages are assessed for availability below 94% and availability incentives are provided above it.

All the turbines at the East Point Wind Farm are located on private lands. Under a three-tier compensation system, a portion of the gross revenue from the wind farm is allocated to landowners who have turbines on their property as well as those who have property in proximity to a turbine. Approximately \$162,500 was paid to landowners during 2022-23; additionally, municipal taxes were paid to the Rural Municipality of Eastern Kings.

Revenues were \$6.9 million for the year, 8% lower than the prior year. A lower depreciation level resulted in expenses decreasing by \$0.6 million to \$3.1 million. Wind farm profit was near the average at around \$3.8 million. The following chart illustrates the annual revenues and expenditures of the East Point Wind Farm for the last ten fiscal years.

East Point Financial					
	<i>Revenue</i>		<i>Expenses</i>		<i>Profit/Surplus</i>
Fiscal Year	Annual \$	Cents/kWh	Annual \$	Cents/kWh	Annual \$
2013/14	\$7,736,910	9.0	\$5,648,017	6.5	\$2,088,893
2014/15	\$7,823,478	9.0	\$4,821,451	5.5	\$3,002,027
2015/16	\$8,750,605	9.1	\$3,488,453	3.6	\$5,262,152
2016/17	\$8,214,694	9.0	\$3,665,606	4.0	\$4,549,088
2017/18	\$7,380,113	8.1	\$3,385,481	3.7	\$3,994,632
2018/19	\$7,649,298	8.3	\$3,507,191	3.8	\$4,142,107
2019/20	\$7,502,198	8.2	\$3,509,819	3.8	\$3,992,379
2020/21	\$7,714,719	8.3	\$3,447,120	3.7	\$4,267,599
2021/22	\$7,540,463	8.4	\$3,695,799	4.1	\$3,844,664
2022/23	\$6,899,624	8.7	\$3,144,050	3.9	\$3,755,574
Average	\$7,721,210	8.6	\$3,831,299	4.3	\$3,899,912

V-90 Prototype Turbine

The Corporation took ownership of the 3-MW Vestas V-90 wind turbine at Norway in 2013 from Aeolus Wind PEI Ltd., a subsidiary of Vestas-Canadian Wind Technologies. The Prototype was originally

installed in 2003 and served as a demonstration prototype. Reductions in the depreciation amounts helped the Prototype turbine have higher than average profit at \$0.4 million for the one turbine.

V-90 Prototype Performance			
Fiscal Year	Availability (%)	Electricity Production (MWh)	Capacity Factor (%)
2014/15	95.0%	10,060	38.3%
2015/16	97.2%	10,335	39.2%
2016/17	97.5%	9,814	37.3%
2017/18	97.2%	9,890	37.6%
2018/19	95.9%	9,543	36.3%
2019/20	96.2%	9,628	36.5%
2020/21	98.2%	10,252	39.0%
2021/22	94.6%	9,741	37.1%
2022/23	95.5%	9,089	34.6%
Average	96.4%	9,817	37.3%

V-90 Prototype Financial					
	Revenue		Expenses		Profit/Surplus
Fiscal Year	Annual \$	Cents/kWh	Annual \$	Cents/kWh	Annual \$
2014/15	\$752,863	7.5	\$453,733	4.5	\$299,130
2015/16	\$802,603	7.8	\$438,187	4.2	\$364,416
2016/17	\$770,660	7.9	\$435,771	4.4	\$334,889
2017/18	\$793,984	8.0	\$435,816	4.4	\$358,168
2018/19	\$770,958	8.1	\$468,110	4.9	\$302,848
2019/20	\$707,080	7.3	\$424,405	4.4	\$282,675
2020/21	\$769,197	7.5	\$432,113	4.2	\$337,084
2021/22	\$743,028	7.6	\$466,888	4.8	\$276,140
2022/23	\$688,732	7.6	\$244,582	2.7	\$444,150
Average	\$755,456	\$8.0	\$422,178	\$4.0	\$333,278

Hermanville/Clearspring Wind Farm

The Hermanville/Clearspring Wind Farm was operational for its ninth full year after being commissioned in January 2014. This wind farm marks the first commercial installation of Acciona's AW 3.0-116 turbine. In 2016, Acciona was acquired by Nordex USA, Inc.

The Hermanville/Clearspring wind farm not only provides clean electricity at a competitive price to Islanders, but also provides highly technical jobs in a rural area of PEI for the technicians who maintain the ten turbines.

Energy production and revenue at Hermanville/Clearspring were both down significantly for 2022-23. During the year, the Corporation sought a complete turbine status report from a qualified engineering

firm determine whether the state of the turbines was in accordance with industry standards and to identify the relevant deficiencies. During this analysis, one main shaft/bearing failed, and four others were paused and later de-rated to half power affecting half of the farm. Throughout 2022-23, the Corporation continued discussions with Nordex regarding responsibility for major repairs and a proposed work plan for returning Hermanville to full production. After further review, the Corporation is undertaking a complete life cycle assessment with an expert consultant. Upon completion of this assessment, the Corporation will consider its options, including whether to refurbish the existing platform or repower. This work is projected to start in the summer maintenance cycle of 2023.

Hermanville/Clearspring Performance			
Fiscal Year	Availability (%)*	Electricity Production (MWh)	Capacity Factor (%)
2014/15	97.2%	110,153	41.9%
2015/16	96.6%	110,223	41.8%
2016/17	92.3%	91,423	34.8%
2017/18	95.7%	100,421	38.2%
2018/19	93.1%	100,767	38.3%
2019/20	92.4%	97,837	37.1%
2020/21	89.4%	98,783	37.6%
2021/22	80.5%	81,686	31.1%
2022/23	58.2%	39,750	15.1%
Average	88.4%	92,338	35.1%

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

In 2012, the Corporation and Acciona signed a fifteen-year service and warranty agreement that guarantees a machine availability of 97% through to 2028-29. Until 2020-21, liquidated damages as part of the contractual obligations covered financial losses from turbine downtime. In 2021-22, the limit for liquidated damages was breached by approximately \$0.1 million. In 2022-23, the liquidated damages cap was exceeded by approximately \$1.5 million. Additionally, by 2024-25 the overall liquidated damages cap for the service agreement will be reached and all turbine downtime will have financial impacts for the Corporation.

Recognizing the turbines on site still impact landowners in the area, the Corporation has continued to compensate all landowners at original energy production levels.

The compensation provided is relative to how close the turbine is to the respective property. The region surrounding Hermanville and Clearspring also receives additional compensation through the Northside Windmill Enhancement Fund, whereby community projects are partially funded through a formal application process. In total, approximately \$350,000 was distributed in 2022-23 to landowners and the community.

Hermanville/Clearspring Financial					
	Revenue		Expenditures		Profit/Surplus
Fiscal Year	Annual \$	Cents/kWh	Annual \$	Cents/kWh	Annual \$
2014/15	\$8,775,104	8.0	\$5,708,867	5.2	\$3,066,237
2015/16	\$8,760,174	7.9	\$5,697,449	5.2	\$3,062,725
2016/17	\$7,727,229	8.5	\$5,703,074	6.2	\$2,024,155
2017/18	\$8,107,256	8.1	\$5,643,631	5.6	\$2,463,625
2018/19	\$8,702,848	8.6	\$5,438,142	5.4	\$3,264,706
2019/20	\$8,477,588	8.7	\$5,245,353	5.4	\$3,232,235
2020/21	\$8,919,453	9.0	\$5,216,403	5.3	\$3,703,050
2021/22	\$8,274,143	10.1*	\$5,112,620	6.3	\$3,161,523
2022/23	\$4,924,080	12.4*	\$5,607,137	14.1	(\$683,057)
Average	\$8,467,974	8.6	\$5,470,692	6.5	\$2,997,282

*The Revenue in cents/kWh is above normal due to a low availability number, and Nordex owing PEI Energy Corporation a significant amount of liquidated damages. Overall production was down due to low availability, but Nordex compensated PEI Energy Corporation for a portion of these losses bringing the revenue up and increasing the overall cents/kWh.

Slemon Park Microgrid

Project Overview

A 10-MW AC solar photovoltaic microgrid is under construction in Slemon Park. Slemon Park is an ideal candidate to implement a microgrid system because the community consists of residential, commercial, and industrial residents. The microgrid will also incorporate long duration battery storage, behind-the-meter battery storage located in Hangar 8, and residential battery storage technology. The industrial tenants of Hangar 8 will be able to recognize cost savings by discharging the batteries during periods of peak energy demand, as well as backing up critical loads during power outages.

The project has experienced delays due to solar site damage caused by Hurricane Fiona. The high wind speeds damaged the racking system and PV modules. Fortunately, the damage was not site wide and only set back commissioning timeline by five months. Through an investigation completed by a third-party engineering consulting firm, the cause of failure has been identified and the system redesigned to improve system resilience. The redesigned racking system will be rebuilt throughout the months of May and June, with an expected commercial operation September 2023.

GHG Projections

The greenhouse gas (GHG) baseline emission reduction created by the microgrid project is estimated to be 4,500 tCO₂/year over the 30-year lifespan of the project.

Energy Projections

The project will deploy 10-MW AC of primarily fixed-tilt solar modules; however, a small portion of single-axis trackers are installed. The single-axis trackers can track the sun's movement to increase energy production. The combined energy yield is projected to be 16.5 GWh/year.



Other Energy Initiatives

30-MW Wind Farm Development

During 2022-2023, the Corporation continued with the development of a new 30-megawatt wind farm. A site near the Corporation's existing wind farm in East Point had been identified as the preferred location due to its excellent wind resources and existing transmission infrastructure. Environmental Approvals were granted for the project on September 2nd, 2020 by the Department of Environment, Water and Climate Change. The Corporation continues to seek issuance of development Permits, through a land planning appeal process at the Island Regulatory and Appeals Commission. The Corporation expects a decision on the project to be made in 2023 and will proceed accordingly.

Western PEI Transmission Line

Technical and feasibility studies for the 100-kilometre transmission line to western PEI are being spearheaded by the PEI Energy Corporation and the local utility. The \$44 million investment by PEI and the Federal government is a significant investment in the energy future of western PEI. An Owner's Engineer is now under contract to update project scope and cost estimates as the first phase of the project. Pending approvals, the project will proceed with issuance of major project tenders with an anticipated substantial completion by 2026.

PEI Energy Strategy

The PEI Energy Corporation on behalf of the Department of Environment, Energy and Climate Action has been facilitating the

development of the PEI Energy Blueprint Project, which will primarily unfold in the 2023-24 fiscal year.

Through internal analysis and extensive public and stakeholder engagement, the project will review the Island's energy policy, legislative and regulatory framework and propose changes where necessary to reflect present-day and future priorities. The Energy Blueprint Project will provide both a long-term vision and a short-term implementation plan that will replace the current Provincial Energy Strategy which was completed by the PEI Energy Corporation and released in 2016/17.

Pathway to Net Zero Energy (2030)

The province has outlined a plan to make PEI's energy sector Net Zero by 2030. As the plan moves forward, the PEI Energy Corporation will have a role to play in its success – by installing and managing new non-emitting generating sources like wind, solar, and emerging renewable energy systems, all guided by the Energy Blueprint upon its completion.

Sustainable Communities

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

opportunities. Programming is under development to support community-based renewable energy projects.

Clean Tech Park/Academy

The PEI Clean Tech Park, to be located in Georgetown PEI, will be a central hub where industry, academia and government can come together to contribute to a clean growth future. The Corporation is partnering with Finance PEI and Innovation PEI to develop the park. Also located within the Clean Tech Park will be the Clean Tech

Innovation Centre. The Centre will be home to the PEI Cleantech Academy an initiative of both UPEI and Holland College. The Academy will offer a certificate program and a master's degree in Cleantech Leadership. Businesses that join the park will have the opportunity to partner with students to research new ideas and determine solutions. The preliminary civil work for Phase 1 of the Clean Tech Park is underway, while design and planning for the Clean Tech Innovation Centre continues.



Appendix A – Audited Financial Statements

Prince Edward Island Energy Corporation

Financial Statements

Year ended March 31, 2023

(Canadian Dollars)

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Independent auditor's report

To the Directors of Prince Edward Island Energy Corporation

Opinion

We have audited the financial statements of Prince Edward Island Energy Corporation (“the Company”), which comprise the statement of financial position as at March 31, 2023, and the statement of profit, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Prince Edward Island Energy Corporation as at March 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Charlottetown, Canada
June 29, 2023

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

Chartered Professional Accountants

Prince Edward Island Energy Corporation

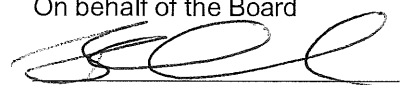
Statement of Financial Position

As at

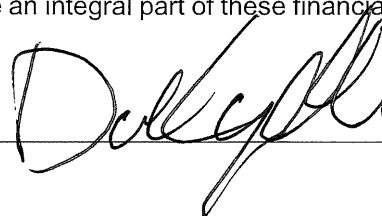
	March 31, 2023	March 31, 2022
Assets		
Current assets:		
Unrestricted cash (Note 4)	\$ 42,506,384	\$ 43,253,221
Trade receivables, net (Note 5)	4,603,918	6,869,533
Current portion of other financial assets (Note 6)	3,819,054	3,865,486
Prepaid expenses	881,551	569,748
	<u>51,810,907</u>	<u>54,557,988</u>
Noncurrent assets:		
Restricted cash (Note 4)	2,715,001	4,113,497
Noncurrent other financial assets (Note 6)	76,243,748	79,997,831
Derivative financial instruments	15,012,874	9,231,495
Property, plant and equipment (Note 7)	119,544,553	121,784,309
Total Assets	\$ 265,327,083	\$269,685,120
Liabilities and Equity		
Current liabilities:		
Trade payables and accrued liabilities (Note 9)	\$ 5,634,270	\$ 6,705,467
Current indebtedness (Note 12)	6,424,201	9,376,195
Contract liabilities (Note 10)	1,110,230	1,566,423
	<u>13,168,701</u>	<u>17,648,085</u>
Noncurrent liabilities:		
Derivative financial instruments		156,510
Provisions (Note 11)	3,369,923	3,398,028
Long-term indebtedness (Note 12)	141,923,434	151,057,920
Total Liabilities	<u>158,462,057</u>	<u>172,260,543</u>
Equity:		
Cash flow hedge reserve	15,012,874	9,074,985
Retained earnings	91,852,152	88,349,592
Total Equity	<u>106,865,026</u>	<u>97,424,577</u>
Total Liabilities and Equity	\$ 265,327,083	\$269,685,120

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

On behalf of the Board



, Director



, Director

Prince Edward Island Energy Corporation

Statement of Profit

For the years ended March 31,

	2023	2022
Revenue from Contracts with Customers		
Wind energy sales	\$ 13,264,847	\$ 17,521,203
Ratepayer recoveries	1,562,575	1,562,575
Grants	-	115,000
Total Revenue from Contracts with Customers	14,827,422	19,198,778
Other Revenue		
Other wind revenue	1,380,717	1,405,729
Finance income	5,587,853	4,544,306
Total Other Revenue	6,968,570	5,950,035
Total Revenue	21,795,992	25,148,813
Operating Expenses		
Consultants	79,536	7,560
Depreciation (Note 7)	5,876,011	6,786,293
Electricity	221,269	210,596
Grants	166,020	180,257
Insurance	521,916	471,940
Finance costs	4,734,967	4,753,306
Land owner fees and community support	530,004	482,330
Net (gain) loss on disposal of assets	11,515	(414,975)
Repairs and maintenance	214,588	304,490
Service and warranty fees	4,350,089	3,797,077
Other wind expenses	30,464	35,055
Total Operating Expenses	16,736,380	16,613,929
Operating Profit	5,059,612	8,534,884
General and Administrative Expenses		
Consulting and professional services	440,798	230,533
Wages and employee benefits	1,013,565	616,348
Other general expenses	102,690	85,486
Total General and Administrative Expenses	1,557,053	932,367
Total Profit for the Year	\$ 3,502,559	\$ 7,602,517

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

Prince Edward Island Energy Corporation

Statement of Comprehensive Income

For the years ended March 31,

	2023	2022
Profit for the Period	\$ 3,502,559	\$ 7,602,517
Other Comprehensive Income		
<i>Items that may be reclassified to profit or loss</i>		
Net gain (loss) on cash flow hedges	5,937,889	9,171,133
Total Other Comprehensive Income for the Year	5,937,889	9,171,133
Total Comprehensive Income for the Year	\$ 9,440,448	\$ 16,773,650

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

Prince Edward Island Energy Corporation

Statement of Changes in Equity

For the years ended March 31,

	Cash flow hedge reserve	Retained Earnings	Total Equity
Balance at April 1, 2021	\$(96,148)	\$ 80,747,075	\$ 80,650,927
Total Comprehensive Income for the Year			
Profit for the year	\$ -	\$ 7,602,517	\$ 7,602,517
Other comprehensive income	9,171,133	-	9,171,133
Total Comprehensive Income for the Year	9,171,133	7,602,517	16,773,650
Balance at March 31, 2022	\$ 9,074,985	\$ 88,349,592	\$ 97,424,577
Total Comprehensive Income for the Year			
Profit for the year	\$ -	\$ 3,502,559	\$ 3,502,559
Other comprehensive income	5,937,889	-	5,937,889
Total Comprehensive Income for the Year	5,937,889	3,502,559	9,440,448
Balance at March 31, 2023	\$ 15,012,874	\$ 91,852,151	\$ 106,865,025

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

Prince Edward Island Energy Corporation

Statement of Cash Flows

For the years ended March 31,

	2023	2022
Cash flows from operating activities:		
Cash receipts from customers and other	\$ 21,335,963	\$ 25,674,763
Cash paid to suppliers and employees	(9,610,401)	(12,369,357)
	11,725,562	13,305,406
Cash flows from investing activities:		
Decrease (increase) in investments	-	5,600,000
Decrease in other financial assets	3,800,515	6,568,366
Increase in property, plant and equipment	(8,410,091)	(9,774,317)
Interest received	5,587,853	4,551,179
	978,276	6,945,228
Cash flows from financing activities:		
Repayment of debt and lease liabilities	(12,086,480)	(7,014,932)
Receipt of government grants	1,836,029	3,284,629
Interest paid	(4,598,720)	(4,674,258)
	(14,849,170)	(8,404,561)
Net increase (decrease) in cash	(2,145,333)	11,846,073
Cash, beginning of year	47,366,718	35,520,645
Cash, end of year (Note 4)	\$ 45,221,385	\$ 47,366,718

Prince Edward Island Energy Corporation

Notes to the Financial Statements

For the year ended March 31, 2023

1. Corporate Information and Nature of Operations

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

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

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

These Financial Statements were authorized for issue by the Corporation's Board of Directors on June 29, 2023.

2. Significant Accounting Policies

Statement of Compliance

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

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

Revenue from Contracts with Customers

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

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

Sale of wind energy:

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

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

Prince Edward Island Energy Corporation

Notes to the Financial Statements

For the year ended March 31, 2023

2. Significant Accounting Policies (continued)

Ratepayer recoveries:

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

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

Sale of Renewable Energy Certificates (RECs):

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

Other Wind Revenue

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

Liquidated damages:

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

Rent revenue:

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

Leases

The Corporation as lessee

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

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

Prince Edward Island Energy Corporation

Notes to the Financial Statements
For the year ended March 31, 2023

2. Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

The right-of-use assets are included within property, plant and equipment in the Statement of Financial Position.

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

Prince Edward Island Energy Corporation

Notes to the Financial Statements

For the year ended March 31, 2023

2. Significant Accounting Policies (continued)

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

(b) The Corporation as lessor

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

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

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

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

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

Cash

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

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

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

Financial Instruments

Trade Receivables:

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

Financial Assets:

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

Prince Edward Island Energy Corporation

Notes to the Financial Statements

For the year ended March 31, 2023

2. Significant Accounting Policies (continued)

Financial Assets: (continued)

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

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

Impairment of Financial Assets:

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

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

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

Debt Instruments:

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

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

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

Derivative Financial Instruments and Hedge Accounting:

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

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

Prince Edward Island Energy Corporation

Notes to the Financial Statements

For the year ended March 31, 2023

2. Significant Accounting Policies (continued)

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

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

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

Cash flow hedges

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

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

Fair values

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

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

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

Level 3: unobservable inputs for the asset or liability.

Prince Edward Island Energy Corporation

Notes to the Financial Statements

For the year ended March 31, 2023

2. Significant Accounting Policies (continued)

Property, Plant and Equipment

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

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

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

Assets under Development

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

Impairment of Long-Lived Assets

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

Government Grants

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

Provisions

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

Prince Edward Island Energy Corporation

Notes to the Financial Statements

For the year ended March 31, 2023

2. Significant Accounting Policies (continued)

Provisions (continued)

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

Decommissioning provisions

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

Pension Liabilities

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

3. Critical Accounting Estimates, Judgments and Errors

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

Revenue from Contracts with Customers

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

Determining the timing of satisfaction of access to electricity grid infrastructure

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

Principal versus agent considerations

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

Prince Edward Island Energy Corporation

Notes to the Financial Statements

For the year ended March 31, 2023

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

Decommissioning Provisions

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

Asset Lives

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

4. Cash

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

	2023	2022
Unrestricted cash	\$ 42,506,384	\$ 43,253,221
Restricted cash	2,715,001	4,113,497
	\$ 45,221,385	\$ 47,366,718

5. Trade Receivables

	2023	2022
Trade receivables from contracts with customers	\$ 1,967,834	\$ 2,683,160
Other trade receivables	2,636,085	4,186,373
	\$ 4,603,919	\$ 6,869,553

Trade receivables are non-interest bearing and are generally on 30-day payment terms. Included in trade receivables are past due amounts totaling \$2,995 (2022 - \$95,224). No loss allowance was recognized for the year ended March 31, 2023 as historical experience and factors specific to the debtor indicate that the receivables are recoverable. Included in trade receivables is \$nil (2022 - \$1,985,218) due from Provincial Government controlled entities.

Prince Edward Island Energy Corporation

Notes to the Financial Statements

For the year ended March 31, 2023

6. Other Financial Assets

	2023	2022
Customers of a local utility provider (Point Lepreau financing), 3.41%, receivable in monthly installments of principal and interest of \$329,418 through March 2024, and \$346,861 thereafter, due March 2038.	\$ 48,490,261	\$ 48,736,659
Customers of a local utility provider (Point Lepreau financing), 2.81%, receivable in monthly installments of principal and interest of \$102,456 through March 2024, and \$107,881 thereafter, due March 2038.	13,025,659	15,838,160
Customers of a local utility provider (NB Interconnection Transmission prorated share of PEI-NB Cable Interconnection financing), 2.51%, receivable in monthly installments of principal and interest of approximately \$37,000, due February 2046.	9,909,772	10,115,789
Wind Energy Institute of Canada, 4.02%, receivable in quarterly installments of principal and interest of \$224,084, due June 2035, secured by first charge on materials, buildings and equipment and site specific general security.	8,637,110	9,172,709
Accrued interest receivable	-	-
	80,062,802	83,863,317
Less: current portion	(3,819,054)	(3,865,486)
	\$ 76,243,748	\$ 79,997,831

Point Lepreau

Under the 2011 Prince Edward Island Energy Accord, the Corporation assumed certain financing responsibilities for costs associated with the refurbishment of the Point Lepreau Nuclear Generating Station Facility. These costs are being recovered from the customers of a local utility provider as part of the cost of electricity.

PEI-NB Cable Interconnection Project

The Corporation constructed and financed the upgrade of the interconnection between the electrical systems of Prince Edward Island and mainland Canada that became operational in 2017. The related costs are being recovered from customers of a local utility provider. A key component of the PEI-NB Cable Interconnection Project was the construction of transmission facilities in New Brunswick ("NB Interconnection Transmission"). Ownership of this transmission must remain with NB Power in accordance with the provisions of the New Brunswick Electricity Act. A receivable from the customers of the local utility provider has been recorded for the NB Interconnection Transmission costs. The remainder of the PEI-NB Cable Interconnection Project has been accounted for as property, plant and equipment.

Prince Edward Island Energy Corporation

Notes to the Financial Statements

For the year ended March 31, 2023

7. Property, Plant and Equipment, Net

	Wind Turbines and Towers	Transmission and Distribution	Land and Buildings	Roads	Equipment	Assets under Development	Total
Gross Amount							
At March 31, 2021	98,960,894	77,949,211	1,214,738	2,243,455	579,801	3,284,860	184,232,959
Acquisitions	735,962	-	16,011	-	-	7,869,501	8,621,474
Disposals	(441,379)	-	-	-	-	-	(441,379)
At March 31, 2022	99,255,477	77,949,211	1,230,749	2,243,455	579,801	11,154,361	192,413,054
Acquisitions	284,653	-	-	-	-	3,575,384	3,860,037
Disposals	-	(164,355)	-	-	-	-	(164,355)
At March 31, 2023	99,540,130	77,784,856	1,230,749	2,243,455	579,801	14,729,745	196,108,736
Accumulated Depreciation							
At March 31, 2021	51,004,924	12,211,108	344,802	526,904	96,834	15,255	64,199,827
Depreciation	4,390,260	2,042,299	32,105	56,332	58,139	16,641	6,595,776
Impairment	-	250,000	-	-	-	-	250,000
Disposals	(416,858)	-	-	-	-	-	(416,858)
At March 31, 2022	54,978,326	14,503,407	376,907	583,236	154,973	31,896	70,628,745
Depreciation	3,479,874	2,042,299	32,209	56,332	58,139	16,586	5,685,439
Impairment	-	250,000	-	-	-	-	250,000
Disposals	-	-	-	-	-	-	-
At March 31, 2023	58,458,200	16,795,706	409,117	639,568	213,112	48,482	76,564,185
Carrying Amount							
At March 31, 2022	44,277,151	63,445,804	853,842	1,660,219	424,828	11,122,465	121,784,309
At March 31, 2023	41,081,932	60,989,150	821,632	1,603,887	366,688	14,681,264	119,544,553

Included within Assets under Development is a right-of-use asset in respect of a land lease associated with the development of an electrical smart grid. Additional information regarding this right-of-use asset is provided in Note 8.

Interest capitalized during the year totaled \$57,544 (2022 – \$25,987).

Included in Transmission and Distribution is a 100MW transmission line which is not available for use in its current state. In accordance with the October 2008 agreement between the Corporation and Maritime Electric Company Limited governing the construction of the transmission line, the amount for which the asset can be sold to a third party equals cost less depreciation at a rate of 0% for the first seven years after construction and 5% per annum thereafter. The seven-year period expired December 31, 2015. During the year, an impairment loss of \$250,000 (2022 - \$250,000) was recognized in depreciation in the Statement of Profit or Loss to write down the asset to its recoverable amount. At March 31, 2023, the recoverable amount, based on fair value less costs of disposal, was \$3,187,500 (2022 - \$3,437,500). Since the estimate of fair value based on the terms of the October 2008 agreement is a significant unobservable input, the fair value of the transmission line is classified as a level 3 fair value.

Prince Edward Island Energy Corporation

Notes to the Financial Statements
For the year ended March 31, 2023

8. Leases

Right-of-use assets

Right-of-use assets included within property, plant and equipment in the Statement of Financial Position are as follows:

	Assets under Development
Gross Amount	
At March 31, 2021	449,315
Acquisitions	-
Disposals	-
At March 31, 2022	449,315
Acquisitions	-
Disposals	-
At March 31, 2023	449,315
Accumulated Depreciation	
At March 31, 2021	15,255
Depreciation	16,641
Disposals	-
At March 31, 2022	31,896
Depreciation	16,586
Disposals	-
At March 31, 2023	48,482
Carrying Amount	
At March 31, 2022	417,419
At March 31, 2023	400,833

Lease liabilities

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

	2023	2022
Current	\$ 11,871	\$ 12,243
Non-current	403,268	414,474
	\$ 415,139	\$ 426,717

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

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

Prince Edward Island Energy Corporation

Notes to the Financial Statements
For the year ended March 31, 2023

8. Leases (continued)

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

Right-of-use asset	No. of right-of-use assets leased	Remaining lease term	No. of leases with extension options	No. of leases with options to purchase	No. of leases with variable payments linked to an index	No. of leases with termination options
Land	1	25 years	1	0	1	0

Future minimum lease payments are as follows:

	Minimum lease payments due						Total
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	
At March 31, 2023							
Lease payments	24,278	24,278	24,278	24,278	24,278	487,586	608,977
Finance charges	12,407	12,040	11,663	11,273	10,872	352,004	193,838
Net present values	11,871	12,238	12,615	13,005	13,406	135,582	415,139
At March 31, 2022							
Lease payments	23,100	23,100	23,100	23,100	23,100	463,925	579,425
Finance charges	10,857	10,537	10,207	9,869	9,523	101,715	152,708
Net present values	12,243	12,563	12,893	13,231	13,577	362,210	426,717

Lease payments not recognized as a liability

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

	2023	2022
Variable lease payments	\$ 355,991	\$ 363,255

Interest on lease liabilities for the year ended March 31, 2023 was \$12,602 (2022 - \$11,170), all of which was capitalized in accordance with IAS 23. Total cash outflow for leases for the year ended March 31, 2023 was \$372,158 (2022 - \$374,705).

9. Trade Payables and Accrued Liabilities

	2023	2022
Trade Payables	\$ 1,126,363	\$ 3,838,003
Holdbacks Payable	2,917,196	1,906,683
HST	336,845	158,004
Accrued Liabilities	1,253,865	802,777
	\$ 5,634,270	\$ 6,705,467

Trade payables are non-interest bearing and normally settled within 30 days. Included in trade payables is \$380,191 (2022 - \$809,068) due to Provincial Government controlled departments and agencies.

Prince Edward Island Energy Corporation

Notes to the Financial Statements

For the year ended March 31, 2023

10. Contract Liabilities

	2023	2022
Balance, beginning of year	\$ 1,566,423	\$ 1,623,717
Amounts received	5,096,051	4,871,067
Debt collections allocated to repayment of NB Interconnection Transmission	(435,113)	(568,701)
Debt collections allocated to interest revenue	(1,230,315)	(1,354,576)
Debt collection revenue recognized	(1,562,575)	(1,562,575)
Government grants recognized	(2,582,490)	(1,646,049)
Government grants receivable	258,249	203,540
Balance, end of year	\$ 1,110,230	\$ 1,566,423

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

11. Provisions

	2023	2022
Balance, beginning of year	\$ 3,398,028	\$ 3,603,361
Unwinding of discount	136,248	79,704
Adjustment for change in discount rate	(164,353)	(285,037)
Balance, end of year	\$ 3,369,923	\$ 3,398,028

These amounts relate to decommissioning provisions. All end of year balances are noncurrent.

The key assumptions, on which the carrying amount of the provision is based, includes risk free rates ranging from 3.84 – 4.82% (2022 - 3.84 – 4.29%) and inflation rate of 2.34%. The total undiscounted amount of the estimated cash flows required to settle the remaining obligation is \$3,744,696.

Prince Edward Island Energy Corporation

Notes to the Financial Statements
For the year ended March 31, 2023

12. Long-term indebtedness

	2023	2022
Toronto Dominion term loan, bearing interest at variable rates based on 30-day Bankers' Acceptances, hedged by a floating to fixed interest rate swap bearing interest at 2.51%, payable in monthly payments of principal and interest of \$235,399, due February 2046.	\$ 63,220,774	\$ 64,440,790
Toronto Dominion term loan, bearing interest at variable rates based on 30-day Bankers' Acceptances, hedged by a floating to fixed interest rate swap bearing interest at 3.41%, payable in monthly payments of principal and interest of \$346,861, due March 2038.	48,834,764	51,288,287
Toronto Dominion term loan, bearing interest at variable rates based on 30-day Bankers' Acceptances, hedged by a floating to fixed interest rate swap bearing interest at 2.99%, payable in monthly payments of principal and interest of \$213,564, due July 2033.	22,757,481	24,609,671
Toronto Dominion term loan, bearing interest at variable rates based on 30-day Bankers' Acceptances, hedged by a floating to fixed interest rate swap bearing interest at 2.81%, payable in monthly payments of principal and interest of \$107,881, due March 2038.	13,118,201	16,667,374
Province of PEI loan, bearing interest at the 30-day treasury bill rate plus 0.25%, no set terms of repayment	-	3,000,000
Other indebtedness and accrued interest payable	1,276	1,276
Lease liabilities	415,139	426,717
	148,347,635	160,434,115
Less: current portion	(6,424,201)	(9,376,195)
	\$ 141,923,434	\$ 151,057,920

The aggregate maturities of long-term indebtedness, including accrued interest, subsequent to March 31, 2023 are as follows:

	2024	2025	2026	2027	2028	Thereafter
Aggregate maturities	6,424,201	6,621,055	6,825,371	7,036,076	7,253,362	114,187,569

The above aggregate maturities include those in respect of a lease liability for land leased for the development of an electrical smart grid. Additional information regarding lease liabilities is provided in Note 8.

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

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

Prince Edward Island Energy Corporation

Notes to the Financial Statements
For the year ended March 31, 2023

13. Financial Instruments

	Fair Value through Earnings	Amortized Cost	Derivatives designated as hedging instruments	Total
March 31, 2023				
Cash, including restricted cash	-	45,221,385	-	45,221,385
Trade receivables, net	-	4,603,919	-	4,603,919
Other financial assets, including current	-	80,062,802	-	80,062,802
Derivative financial instruments, assets	-	-	15,012,874	15,012,874
Trade payables and accrued liabilities	-	(5,634,270)	-	(5,634,270)
Long-term indebtedness, including current	-	(148,347,635)	-	(148,347,635)
	-	(24,093,799)	15,012,874	(9,080,925)
March 31, 2022				
Cash, including restricted cash	-	47,366,718	-	47,366,718
Trade receivables, net	-	6,869,533	-	6,869,533
Other financial assets, including current	-	83,863,317	-	83,863,317
Derivative financial instruments, assets	-	-	9,231,495	9,231,495
Trade payables and accrued liabilities	-	(6,705,467)	-	(6,705,467)
Derivative financial instruments, liabilities	-	-	(156,510)	(156,510)
Long-term indebtedness, including current	-	(160,434,115)	-	(160,434,115)
	-	(29,040,014)	9,074,985	(19,965,029)

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

	2023	2022
Derivatives designated as hedging instruments	5,937,889	9,171,133

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

	2023	2022
Hedging gains (losses) recognized in other comprehensive income	5,937,889	9,171,133

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

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

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

Prince Edward Island Energy Corporation

Notes to the Financial Statements

For the year ended March 31, 2023

13. Financial Instruments (continued)

If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Corporation uses the hypothetical derivative method to assess effectiveness. Hedge ineffectiveness for interest rate swaps may arise if there is a credit value/debit value adjustment on an interest rate swap which is not matched by the corresponding loan, or if there are differences in critical terms between the interest rate swaps and loans. There was no ineffectiveness during the years ended March 31, 2023 and 2022 in relation to the interest rate swaps.

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

The fair value of other financial assets and long-term debt is calculated by discounting the future cash flow of each instrument at the estimated yield to maturity for the same or similar issues at the balance sheet date, or by using quoted market prices when available. The fair value of the Corporation's other financial assets and long-term debt is determined using the provincial Crown borrowing rate for similar terms. The estimated fair value of other financial assets is \$76,683,508 (2022 – \$84,143,505). The estimated fair value of long-term indebtedness is \$132,120,630 (2022 - \$149,341,409).

14. Government Grants

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

	2023	2022
Government grants deducted from related expense	18,036	15,385
Government grants deducted from carrying amount of related asset	4,679,184	5,480,009
Government grants recognized as income	-	115,000
	4,697,220	5,610,394

Government grants have been received in relation to the development of a 30-megawatt wind farm, an electrical smart-grid project, electricity transmission infrastructure and to compensate the Corporation for selling renewable energy certificate's on behalf of the Province of PEI. Contract liabilities have been recorded for grants received in advance and are included in Note 10.

15. Risk Management

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

Market Risk Risk that the fair value of future cash flows of a financial instrument held by the Corporation will fluctuate because of changes in market prices (i.e. commodity price risk, interest rate risk and currency risk).

Credit Risk Risk of loss due to the failure of the borrower or counterparty to fulfill its contractual obligations.

Liquidity Risk Risk that the Corporation cannot meet a demand for cash or fund an obligation when it is due.

Prince Edward Island Energy Corporation

Notes to the Financial Statements
For the year ended March 31, 2023

15. Risk Management (continued)

Market Risk

Commodity price risk is defined as the risk that the fair value of future cash flows will fluctuate because of changes in the price of electricity. The Corporation manages this risk by entering into long-term PPA's. These PPA's provide price assurance. Currently 100% of the Corporation's electricity production is contracted under long-term PPA's which expire between 2023 and 2033.

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

The Corporation manages its interest rate risk by entering into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At March 31, 2023, after taking into account the effect of interest rate swaps, 100% of the Corporation's borrowings are at a fixed rate of interest (2022 – 98%). The fixed interest rates of the swaps range between 2.51% and 3.41% (2022 – 2.51% and 3.41%). The swap contracts require settlement of net interest receivable or payable on a monthly basis. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

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

	2023	2022
Carrying amount – derivative financial instruments (assets)	15,012,874	9,231,495
Carrying amount – derivative financial instruments (liabilities)	-	156,510
Notional amount	147,004,846	157,006,122
Maturity date	2023	2022
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments since beginning of year	5,937,889	9,171,133
Change in value of hedged item used to determine hedge effectiveness	5,937,889	9,171,133
Balance in cash flows hedge reserve for continuing hedges	15,012,874	9,074,985
Weighted average hedged rate for the year	2.91%	2.91%

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

Currency risk is defined as the risk that the fair value of future cash flows will fluctuate because of changes in foreign exchange rates. The Corporation currently incurs almost all of its revenues and expenditures in Canadian dollars but does have some expenses related to its turbine supply and maintenance agreements that are denominated in US dollars. To mitigate these risks, the Corporation monitors the risks associated with foreign exchange rate fluctuations and, from time to time, may enter into forward foreign exchange contracts. As at March 31, 2023, the Corporation did not hold any foreign exchange contracts.

Credit Risk

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

Prince Edward Island Energy Corporation

Notes to the Financial Statements

For the year ended March 31, 2023

15. Risk Management (continued)

The Corporation has minimal credit risk with respect to cash as it is held at high-credit quality financial institutions. Trade receivable risk is managed through the PPA process whereby the counterparty to the PPA is a utility subject to government regulation and legislation and is a subsidiary of a highly rated public company. Of the trade receivables balance at the end of the year, \$1,856,157 (2022 - \$2,518,903) is due from the utility, the Corporation's largest customer, \$203,540 (2022 - \$203,540) is due from the Federal Government and \$nil (2022 - \$1,985,218) is due from the Province of PEI in respect of Federal Government grants. Apart from this, the Corporation does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. All other financial assets are categorized as performing as counterparties have a low risk of default and all contractual cash flows have been met. No expected credit loss provisions have been recognized.

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

Liquidity Risk

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

16. Capital Management

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

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

17. Commitments and Financial Guarantees

Commitments

Committed amounts over the next five years and beyond are as follows:

	2024	2025	2026	2027	2028	Thereafter
Turbine service and warranty	2,415,655	2,415,655	2,415,655	2,415,655	2,352,643	2,811,580
Development	24,898,500	-	-	-	-	-
	27,314,155	2,415,655	2,415,655	2,415,655	2,352,643	2,811,580

Prince Edward Island Energy Corporation

Notes to the Financial Statements

For the year ended March 31, 2023

17. Commitments and Financial Guarantees (continued)

Turbine service and warranty agreements:

The Corporation enters into service and warranty agreements in the ordinary course of business. Certain agreements are denominated in US dollars and have been converted to Canadian dollars using the exchange rate in effect at March 31, 2023. The contracts provide for scheduled and unscheduled maintenance and require annual minimum payments, subject to inflationary increases, as applicable.

Development:

At March 31, 2023, the Corporation had outstanding contractual commitments with respect to the development of a 30-megawatt wind farm, an electrical smart-grid project, and electricity transmission infrastructure. Funding for all three of these projects has been arranged through the Government of Canada's Investing in Canada Infrastructure Plan, which provides funding through the Province of PEI. In addition, funding for the electrical smart-grid project is also being provided by the Government of Canada – Department of Natural Resources (NRCan).

Contractual rights in respect of funding agreements are as follows:

	2024	2025
Contractual rights	35,092,600	5,952,130

Power Purchase Agreements (PPAs):

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

Land lease payments:

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

The Corporation has also entered into a lease agreement for the use of land in connection with the development of an electrical smart grid. The associated future minimum lease payments are disclosed in Note 8.

Prince Edward Island Energy Corporation

Notes to the Financial Statements

For the year ended March 31, 2023

18. Related Party Transactions

	2023	2022
Grants from the Province of PEI for		
The Government of Canada's Investing in Canada Infrastructure Plan	2,116,734	3,849,346
Selling Renewable Energy Certificates	-	115,000
Expenses to the Province of PEI for		
Corporation employee payroll	1,047,708	640,627
A community support program	174,013	119,076

Key Management Compensation

Key management includes the CEO. Salary and short-term benefits paid to the CEO totaled \$177,191 (2022 – \$175,560).

19. Events After the Reporting Date

Subsequent to March 31, 2023, equipment failures across multiple turbines have occurred at one of the Corporation's wind farms. A reliable estimate of the financial impact of these issues cannot yet be made, but the Corporation anticipates that lost electricity production during the completion of diagnostic and repair work will result in a material decrease in revenue in 2023-24.