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MOODY'S RATINGS

Rating Action: Moody's Ratings changes Province of Prince Edward Island's outlook to negative, affirms ratings

11 May 2026

Toronto, May 11, 2026 -- Moody's Ratings (Moody's) today affirmed the a1 baseline credit assessment (BCA) and Aa2 long-term senior unsecured debt ratings of the Province of Prince Edward Island (PEI) and changed the outlook to negative from stable.

RATINGS RATIONALE

RATIONALE FOR THE NEGATIVE OUTLOOK

The change in outlook to negative from stable reflects the downward risk facing PEI's fiscal and debt burden trajectories given budgetary challenges including household affordability concerns and global macroeconomic pressures including the ongoing trade uncertainty with the US.

The province's 2026 budget and fiscal plan, which forecasts sizeable deficits through to 2028-29 and implies a rise in interest expense, highlights some of the challenges the province is facing. We see further downside risks to the fiscal outlook as the province's plans assume an annual 5% reduction in total expenditures starting in fiscal 2027-28 which is likely to be difficult to achieve.

Large and persistent deficits also reduce shock absorption capacity should the economic environment prove less favourable than currently assumed.

The negative outlook also reflects the deteriorating track record of declining budgetary outcomes following strong upward surprises in 2021-22. Should this trend continue, it may lead to our re-assessment of the province's fiscal management which would add further negative pressure to the rating.

RATIONALE FOR AFFIRMATION OF BCA AND RATINGS

The affirmation of the a1 BCA and Aa2 long-term debt ratings reflects our base line scenario that the province will limit the period of weak operating margins, and as consolidated deficits narrow and capital spending declines, upward pressure on the debt burden will ease. The affirmation also reflects the institutional framework which provides considerable budget flexibility for Canadian provinces and strong debt management.

As with all Canadian provinces, PEI enjoys unfettered access to adjust revenue and spending measures to meet budget targets. This institutional strength helps provinces manage economic downturns effectively. This budget flexibility will support the province's efforts to align its spending needs, particularly its efforts under the Comprehensive Expenditure Review Target to achieve 5% reductions starting in 2027-28, to long-term revenue growth prospects.

Prince Edward Island benefits significantly from federal fiscal transfers designed to reduce disparities nationwide and to help ensure key services are comparable across all provinces. These transfers make up about 40% of PEI's revenues, helping to compensate for its limited tax base. The reliability of these transfers minimizes the impact own-source revenue volatility may have and therefore supports PEI's budget planning.

The affirmation also captures our forecast that the province will record a material deficit in 2026-27 (12.1%

of revenue) and continued deficits until at least 2029-30. Our forecasted path of fiscal deficits incorporates the assumption that PEI will implement some savings, but not achieve the full 5% saving target. To finance these deficits, we forecast that the province's borrowing requirements will raise PEI's debt burden, measured by net direct and indirect debt relative to revenue, to approximately 180% by March 2029. Interest expense will also rise but should remain below the province's policy limit of 7.5% of revenue.

PEI's economy has shown sustained strength in recent years relative to historical levels which will help with revenue generation and the province's efforts at narrowing the deficits. The province expects its real GDP growth to be among the strongest in Canada in 2026, which will support tax revenue. PEI is sheltered relative to other Canadian provinces from the ongoing US trade uncertainty which also supports economic prospects. Nonetheless, household wealth metrics are lower than the national average which constrains PEI's revenue generation capacity and the economy has material concentration in agriculture, food manufacturing, fishing and tourism, which leaves the economy vulnerable to weather-related events.

The Aa2 ratings of the province incorporate the a1 BCA and our assumption of a high likelihood that the Government of Canada (Aaa stable) would intervene in a timely manner to prevent a default.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

The Province of Prince Edward Island's CIS-2 Credit Impact Score reflects that despite some exposure to environmental risks, ESG considerations do not materially impact the province's rating.

PEI's E-3 environmental issuer profile score (IPS) reflects the risk facing the province from physical climate and natural capital factors. As a low-lying island in the Gulf of the St. Lawrence, PEI faces risks stemming from rising sea levels and changes to sea temperature which could impact the stocks of its fishery sector. PEI also faces risk over its management of its fertile land which supports an important agricultural sector.

The S-2 social IPS reflects the immaterial exposure to most social considerations, with the exception of slightly more exposure related to labour and income which tend to be weaker than the national average and therefore reduce PEI's revenue generating capacity.

The G-2 governance IPS reflects the absence of material risk stemming from governance considerations.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given the negative outlook an upgrade of Prince Edward Island's rating is unlikely. The outlook could be stabilized if the province demonstrates a capacity to limit the size of deficits and presents a clear, credible plan that identifies achievable savings from the Comprehensive Expenditure Review Target which will lead to a lower debt burden than currently forecasted.

Downward rating pressure could arise if the province fails to execute spending restraint plans to align with its revenue capacity or presents a lengthy timeframe to return to balance. An inability to maintain a debt burden below 200% of revenue would also add to downward pressure. In addition to amplifying the intrinsic credit challenges facing the province, these outcomes could lead to our reassessment of the governance strength of the province.

The principal methodology used in these ratings was Regional and Local Governments published in May 2024 and available at <https://ratings.moodys.com/rmc-documents/421891>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1462204.

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