Grant Thornton

Consolidated Financial Statements

Island Waste Management Corporation

March 31, 2013

Contents

Independent auditors' report

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To the Board of Directors of

Island Waste Management Corporation

We have audited the accompanying consolidated financial statements of Island Waste Management Corporation, which comprise the consolidated statement of financial position as at March 31, 2013, the consolidated statement of operations and changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements 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 Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Island Waste Management Corporation as at March 31, 2013, and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton LLP

Charlottetown, Prince Edward Island

June 17, 2013

Chartered Accountants

Island Waste Management Corporation
Consolidated statements of operations and changes in net assets

Year ended March 31	**2013**	2012
Revenues		
Household user fees (Page 19)	**$ 13,414,530**	$ 12,971,719
Disposal fees (Page 19)	**3,916,211**	4,321,501
Tires	**872,575**	833,176
Decommissioning and monitoring	**22,791**	23,601
Environmental Industrial Services Inc. (Page 23)	**801,936**	722,279
Other	**269,718**	325,789
	19,297,761	19,198,065
Expenditures		
Administration (Page 20)	**1,401,918**	1,384,135
Advertising, education and public relations (Page 20)	**106,013**	100,865
Operational costs		
Residential collection (Page 20)	**5,051,218**	4,794,321
Disposal (Pages 21-22)	**6,709,650**	6,829,264
Tire collection and disposal (Page 22)	**872,575**	833,176
Decommissioning and monitoring	**22,791**	23,601
Interest on long term debt	**1,494,537**	1,550,128
Depreciation	**2,637,511**	2,613,858
Environmental Industrial Services Inc. (Page 23)	**801,936**	722,279
Other	**113,211**	103,855
	19,211,360	18,955,482
Excess revenues over expenditures before other expenses	**86,401**	242,583
Other expenses	**-**	37,100
Excess of revenues over expenditures	**$ 86,401**	$ 205,483

Net assets, beginning of year	**$ 952,115**	$ 746,632
Excess of revenues over expenditures	**86,401**	205,483
Net assets, end of year	**$ 1,038,516**	$ 952,115

See accompanying notes to the consolidated financial statements.

Island Waste Management Corporation
Consolidated statement of financial position

March 31	**2013**	2012
Assets		
Current		
Cash and cash equivalents	**$ 5,362,493**	$ 4,492,631
Receivables (Note 3)	**874,752**	1,030,446
Prepaids	**102,590**	53,213
	6,339,835	5,576,290
Performance deposits	**200,732**	234,855
Property and equipment (Note 4)	**21,002,245**	22,228,689
	$ 27,542,812	$ 28,039,834
Liabilities		
Current		
Payables and accruals	**$ 1,411,490**	$ 1,348,078
Current portion of long term debt (Note 5)	**962,889**	903,654
Debt due on demand (Note 5)	**168,111**	168,111
	2,542,490	2,419,843
Contractor deposits	**199,000**	231,000
Deferred government assistance	**139,353**	117,399
Long term debt (Note 5)	**21,820,712**	22,783,601
Asset retirement obligation (Note 6)	**1,802,741**	1,535,876
	26,504,296	27,087,719
Net assets	**1,038,516**	952,115
	$ 27,542,812	$ 28,039,834

Commitments (Note 7)

On behalf of the Board

_______________________________ Director _______________________________ Director

See accompanying notes to the consolidated financial statements.

Island Waste Management Corporation
Consolidated statement of cash flows

Year ended March 31	**2013**	2012
Increase in cash and cash equivalents		
Operating		
Cash received from customers	**$ 19,453,455**	$ 19,388,841
Cash payments to suppliers	**(12,326,420)**	(12,387,248)
Cash payments to employees	**(2,508,912)**	(2,472,221)
Interest paid	**(1,502,804)**	(1,557,301)
	3,115,319	2,972,071
Financing		
Proceeds from issuance of long term debt	**-**	216,122
Government assistance received	**25,706**	119,274
Repayment of long term debt	**(903,654)**	(896,074)
	(877,948)	(560,678)
Investing		
Decrease (increase) in performance deposits	**34,123**	(150,183)
Proceeds from disposal of investment held in trust	**-**	200,000
Payments to settle asset retirement obligation	**-**	(945,232)
Proceeds from sale of equipment	**86,000**	-
Purchase of property and equipment	**(1,487,632)**	(656,911)
	(1,367,509)	(1,552,326)
Net increase in cash and cash equivalents	**869,862**	859,067
Cash and cash equivalents		
Beginning of year	**4,492,631**	3,633,564
End of year	**$ 5,362,493**	$ 4,492,631

See accompanying notes to the consolidated financial statements.

1. Nature of operations

The corporation is a Prince Edward Island crown corporation established under the provisions of the *Environmental Protection Act* and therefore is exempt from income taxes under paragraph 149(1)(d) of the Canadian *Income Tax Act*. The corporation's objective is to implement and manage a province-wide waste management system. This includes the collection and disposal of solid waste generated in Prince Edward Island.

Environmental Industrial Services Inc. is a wholly-owned subsidiary of Island Waste Management Corporation. The corporation's objective is to operate water and wastewater facilities.

The Corporation and its wholly owned subsidiary are located at 110 Watts Avenue, Charlottetown, Prince Edward Island.

The financial statements were authorized for issue in accordance with a resolution of the Board of Directors on June 17, 2013.

2. Summary of significant accounting policies

Basis of presentation and adoption of IFRS
The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements of the Island Waste Management Corporation comply, in all material respects, with IFRS as issued by the International Accounting Standards Board (IASB) in effect as at March 31, 2013.

The principal accounting policies applied in the preparation of the financial statement are set out below. These policies have been consistently applied, except where departure from IFRS is explicitly permitted under the transitional provisions for first time application of IFRS or another IFRS.

Basis of measurement
The financial statements of the Corporation have been prepared on a historical cost basis. The Corporation's functional currency is the Canadian dollar, which is the currency of the primary economic environment in which the Corporation operates, which is also the presentation currency of the financial statements.

2. Summary of significant accounting policies (cont'd)

Principals of consolidation
The consolidated financial statements include the accounts of the corporation and its wholly-owned subsidiary, Environmental Industrial Services Inc. Significant intercompany transactions are eliminated upon consolidation.

Cash and cash equivalents
Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts, and highly liquid temporary money market instruments with original maturities of three months or less. Bank borrowings are considered to be financing activities.

Borrowing costs
Borrowing costs directly attributable to the acquisition or construction of property plant and equipment are added to the cost of the assets until they are substantially ready for their intended use.

Revenue recognition
Household user fees are based on an annual assessment applied to the household's property tax assessment. Revenue is recognized evenly on a monthly basis based on the annual assessment rate.

Disposal revenues are recognized when the waste has been delivered to the drop off facilities.

Tire revenues are recognized when the tires have been disposed of at disposal sites.

Revenues and earnings from utility user fees and excess expenditure recoveries are recorded when collection is reasonably assured and all other significant conditions of service are met.

Deferred government assistance
Government grants relating to the acquisition of assets and equipment purchased by Environmental Industrial Services Inc. are recorded as deferred credits. This account is being amortized on the same basis as the related assets are being depreciated and is reflected as a reduction in current depreciation expense.

2. Summary of significant accounting policies (cont'd)

Financial Instruments
The Corporation designates its financial assets as loans and receivables. Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. Financial assets designated as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are comprised of cash, accounts receivable and performance deposits. These are initially measured at fair value and then at amortized cost less impairment. When impaired, the carrying amount is reduced by the impairment loss directly.

Financial liabilities are recognized initially at fair value and are subsequently stated at amortized cost. These liabilities included accounts payable and accrued liabilities, long term debt, debt due on demand and contractor deposits.

Accounting estimates and measurement uncertainty
The preparation of financial statements in conformity with IFRS requires the use of judgements, assumptions, and estimates as at the date of the financial statements that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities and the reported amounts of revenues and expenses during the reporting periods presented.

Measurement uncertainty exists when there is a variance between the recognized amount and another reasonable amount. Some accounting measurements require management's best estimate, based on assumptions as at the financial statement date, that reflect the most probable set of economic conditions and planned courses of action.

Asset retirement obligations, employee future benefits, allowance for doubtful accounts and depreciation are the most significant items that are based on accounting estimates. Actual results could differ from the estimates made by management in these financial statements, and these differences, which may be material, could require adjustment in subsequent reporting periods. See Note 6 for additional details on the asset retirement obligation.

Provisions
Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow or resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position 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.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Corporation from a contract are lower than the unavoidable costs of meeting its obligations under the contract.

2. Summary of significant accounting policies (cont'd)

Specific accounting policies
To facilitate a better understanding of the Corporation's financial statements, significant accounting policies are disclosed in the notes, where applicable, of the related accounting topics. A listing of these notes is as follows:

Future Accounting Standards and Reporting Changes
In December 2010, the International Accounting Standard Board (IASB) issued Phase 1 of a three-phase redrafting of IAS 39 (Financial Instruments: Recognition and Measurement). IFRS 9 Phase 1 (Financial Instruments: Classification and Measurement) requires reporting entities to classify financial assets based on the objective of an entity's business model for managing its financial assets and the characteristics of the contractual cash flows. IFRS 9 permits two classifications for financial assets – fair value through profit or loss (FVTPL) and amortized cost. IFRS 9 is effective for fiscal years beginning on or after January 1, 2015, with early adoption permitted for 2010 through 2013.

The IASB has issued IFRS 13, "Fair Value Measurement" effective for year ends beginning on or after January 1, 2013. The new standard explains how to measure fair value by providing a new definition and introducing a single set of requirements for almost all fair value measurement. The standard also clarifies how to measure fair value when a market becomes less active and improves transparency through additional disclosures. Management does not anticipate that this section will have a material impact on its financial statements.

The IASB has revised IAS 19, "Employee Benefits". The amendments are effective for year ends beginning on or after January 1, 2013. The amended standard will result in immediate recognition of all estimated changes in the cost of providing defined benefits and all changes in the value of plan assets. The various methods which allow deferral of some of the gains or losses under the previous standard have been eliminated. Management does not anticipate that this section will have a material impact on its financial statements.

The IASB has issued IFRS 10, Consolidated Financial Statements which is effective for year ends beginning on or after January 1, 2013. The new standard provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 21. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27, Consolidated and Separate Financial Statements. Management does not anticipate that this section will have a material impact on its financial statements.

The IASB is currently working on revisions to IAS 17 (Leases), and IAS 18 (Revenues). At the current time, the impact of proposed revisions is not determinable.

3. Receivables

	2013	2012
Trade	$ 782,539	$ 919,067
Goods and services tax, net	92,213	111,379
	$ 874,752	$ 1,030,446

4. Property and equipment

Accounting policy

Property and equipment are reported at cost less subsequent depreciation and impairment losses. The cost of property and equipment includes expenditures that are directly attributable to their acquisition or construction, including borrowing costs, and any other cost directly attributable to the installation and decommissioning of the asset. Property and equipment are depreciated over their estimated lives on the diminishing balance basis. When parts of an item of property and equipment have materially different useful lives or patterns of benefit consumption, they are accounted for separately (i.e., as major components). The rates used are as follows:

Buildings	20 yrs,	straight line
Motor vehicles	5 yrs,	straight line
Computer equipment	5 yrs,	straight line
Computer software	5 yrs,	straight line
Leasehold improvements	5 yrs,	straight line
Site equipment	5 and 10 yrs,	straight line
Leachate facility	15, 25 and 30 yrs,	straight line
Compost facility	10, 15, 20 and 25 yrs,	straight line
Waste Watch drop-off centers	15 yrs,	straight line
Waste and compost carts	10 and 20 yrs,	straight line
Waste water infrastructure	40yrs,	straight line

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

IAS 36, Impairment of Assets, requires an entity to test assets for impairment if indications of impairment exist. Based on an analysis of cash flows, the Corporation has established that the appropriate cash generating unit for impairment review is the entire entity. As the Corporation has the power to increase disposal and sewar rates to ensure full funding into the foreseeable future, impairment at the entity level is remote. As at March 31, 2013, management conducted an impairment review at the entity level, which confirmed that there were no significant indicators of impairment which would have a material impact on the Corporation’s ability to generate future economic benefits from its operating non financial assets.

Island Waste Management Corporation
Notes to the consolidated financial statements
March 31, 2013

4. Property and equipment (cont'd)

	Land	Buildings	Landfill cells	Leachate facility	Compost facility	WasteWatch drop-off	Waste carts	Site equipment	Motor vehicles	Office equip	EISI equip	Total
Gross carrying												
Balance Apr 1, 2012	$ 504,420	421,801	7,872,750	1,656,267	21,180,532	1,981,187	6,091,648	1,231,167	555,736	321,197	315,610	$ 42,132,315
Additions	-	169,729	245,443	-	-	241,202	223,773	630,839	40,809	114,943	62,369	1,729,107
Dispositions	-	-	-	-	-	-	(122,295)	(567,301)	(46,256)	-	-	(735,852)
Balance Mar 31, 2013	504,420	591,530	8,118,193	1,656,267	21,180,532	2,222,389	6,193,126	1,294,705	550,289	436,140	377,979	$ 43,125,570
Depreciation and Impairment												
Balance Apr 1, 2012	-	(54,984)	(5,167,236)	(229,051)	(9,050,271)	(899,918)	(2,829,132)	(921,604)	(422,737)	(313,673)	(15,020)	(19,903,626)
Disposals	-	-	-	-	-	-	-	397,110	38,714	-	-	435,824
Depreciation	-	(24,457)	(756,994)	(69,173)	(1,118,796)	(140,119)	(305,877)	(100,910)	(105,977)	(14,588)	(18,632)	(2,655,523)
Balance Mar 31, 2013	-	(79,441)	(5,924,230)	(298,224)	(10,169,067)	(1,040,037)	(3,135,009)	(625,404)	(490,000)	(328,261)	(33,652)	(22,123,325)
Carrying amount	**$ 504,420**	**512,089**	**2,193,963**	**1,358,043**	**11,011,465**	**1,182,352**	**3,058,117**	**669,301**	**60,289**	**107,879**	**344,327**	**$ 21,002,245**
Gross carrying												
Balance Apr 1, 2011	$ 504,420	419,797	7,511,317	1,656,267	21,180,532	1,900,069	5,828,746	1,194,004	553,979	314,305	44,408	$ 41,108,285
Additions	-	2,004	361,433	-	-	81,118	332,529	36,722	1,757	6,892	271,202	1,093,657
Dispositions	-	-		-	-	-	(69,627)	-	-	-	-	(69,627)
Balance Mar 31, 2012	504,420	421,801	7,872,750	1,656,267	21,180,532	1,981,187	6,091,648	1,231,167	555,736	321,197	315,610	42,132,315
Depreciation and Impairment												
Balance Apr 1, 2011	-	(33,943)	(4,443,883)	(159,878)	(7,931,473)	(770,533)	(2,522,846)	(796,442)	(311,766)	(303,547)	(5,231)	(17,279,542)
Disposals	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	-	(21,041)	(723,353)	(69,173)	(1,118,798)	(129,385)	(306,286)	(125,162)	(110,971)	(10,126)	(9,789)	(2,624,084)
Balance Mar 31, 2012	-	(54,984)	(5,167,236)	(229,051)	(9,050,271)	(899,918)	(2,829,132)	(921,604)	(422,737)	(313,673)	(15,020)	(19,903,626)
Carrying amount	**$ 504,420**	**366,817**	**2,705,514**	**1,427,216**	**12,130,261**	**1,081,269**	**3,262,516**	**309,563**	**132,999**	**7,524**	**300,590**	**$ 22,228,689**

5. Long term debt

	2013	2012
6.40% debenture amortized to and maturing in December 2027, payable in quarterly instalments of principal and interest of $599,547. The debenture is unconditionally secured by the Province of Prince Edward Island.	**$ 22,783,601**	$ 23,687,255
Prime plus 3% demand loan. As security for the loan the borrower has provided a promissory note for the full amount of the loan.	**168,111**	168,111
	22,951,712	23,855,366
Less: current portion	**962,889**	903,654
debt due on demand	**168,111**	168,111
	$ 21,820,712	$ 22,783,601

Annual principal repayments in each of the next five years are due as follows: 2014 - $962,889; 2015 - $1,026,006; 2016 - $1,093,261; 2017 - $1,164,925; 2018 - $1,241,287 and beyond 2018 -$17,295,233.

6. Asset retirement obligation

Accounting policy
An asset retirement obligation is recognized as a liability for obligations associated with the closure of the Corporation landfill site and returning such land to its original condition as set by standards of environmental regulations.

Asset retirement obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the date of the statement of financial position. Provisions are determined by discounting the expected future cash flows at a risk free rate. The expected cash flows reflect current market assessments and the risks specific to the liability.

The obligation is reviewed regularly by the Corporation's management based on current regulations, cost, technologies and industry standards. The discounted obligation is initially capitalized as part of the carrying amount of the related landfill and a corresponding liability is recognized. The increase in the landfill site asset is depreciated over the estimated life of the corresponding landfill while the liability is accreted as finance expense in earnings, until settled or sold. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time, changes in the estimated future cash flows underlying the obligation and changes in the risk free rate. Estimated future cash flows are based on estimated current costs adjusted to the future expected closure date by applying an estimate of inflation. The increase in the obligation due to the passage of time is recognized as finance expenses whereas increases and/or decreases due to changes in the estimated

6. Asset retirement obligation (cont'd)

future cash flows or changes in the risk free rate are capitalized. Actual costs incurred upon settlement of the obligation are charged against the obligation to the extent the obligation was established.

Any reduction on the obligation, and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss.

If the change in estimate results in an increase in the obligation, and, therefore, an addition to the carrying value of the asset, the Corporation considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment in accordance with IAS 36. If the revised assets net of obligation exceeds the recoverable value, that portion of the increase is charged directly to expenses.

The following presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation:

	2013	2012
Asset retirement obligation, beginning of year	**$ 1,535,876**	$ 2,081,197
Liabilities settled	**-**	(945,232)
Liabilities incurred	**240,305**	358,766
Accretion expense	**26,560**	41,145
Asset retirement obligation, end of year	**$ 1,802,741**	$ 1,535,876

The key assumptions, on which the carrying amount of the obligation is based, include a risk free rate of 1.76% (2012 - 2.11%) and inflation rate of 2%. The total undiscounted amount of the estimated cash flows required to settle the remaining obligation is $4,173,000 (2012 - $4,173,000). The expected timing of payment of the cash flow required for settling the obligation is 10 years.

7. Commitments

The Corporation conducts a portion of its operations, the compost facility, pursuant to an operating agreement with a third party operator. Effective April 1, 2011, the agreement provides for the payment by the Corporation to the operator of the facility a minimum annual fee plus an excess tonnage fee. The minimum annual fee commitment under the operating agreement is as follows:

2014	$ 1,947,598
2015	$ 1,986,550
2016	$ 2,026,281
2017	$ 2,066,807
2018	$ 2,108,143
2019	$ 2,150,306
2020	$ 2,193,312

7. Commitments (cont'd)

2021	$ 2,237,178
2022	$ 2,281,921
2023	$ 2,327,560
2024	$ 2,374,110

The Corporation has entered into various agreements for the collection of recyclables, waste and compost materials. Minimum payments for the contracts currently in place are as follows:

2014	$ 4,435,135
2015	$ 4,445,484
2016	$ 4,351,404
2017	$ 4,014,543
2018	$ 4,042,993
2019	$ 3,311,251
2020	$ 1,733,947

The Corporation has entered into a long term lease agreement for office space. Annual lease payments are as follows:

2014	$ 16,800
2015	$ 16,800
2016	$ 12,600

The Corporation has entered into a waste processing agreement dated August 8, 1995 to supply PEI Energy Systems with a minimum annual guaranteed amount of 30,617 metric tonnes of waste. The 30 year agreement, expiring in August 2025, provides for the payment by the Corporation of a $45 per metric tonne quarterly fee adjusted for consumer price index fluctuations. Any shortage is the responsibility of the Corporation. Current annual costs for the waste processing are estimated at $2,017,200 (2012 - $1,986,989).

8. Financial risk management

The Corporation's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities, and long term debt.

Financial risk factors
The following sections describe the Corporation's financial risk exposure and related mitigation strategies:

Credit risk
Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Corporation is subject to credit risk through trade receivables. The Corporation mitigates credit risk associated with its trade receivables through establishing credit approval limits and a regular monitoring process. The Corporation generally considers the credit quality of its financial assets that are neither past due or impaired to be solid. Credit risk is mitigated due to the large number of customers. Allowance for doubtful accounts is reviewed at each balance sheet date. The Corporation updates its estimates of allowances for doubtful accounts based on customer history.

8. Financial risk management (cont'd)

Household user fees are collected by the Province of Prince Edward Island through its provincial tax system.

Interest rate risk
Interest rate risk is the potential for financial loss arising from changes in interest rates. Financial instruments that potentially subject the Corporation to interest rate risk include financial liabilities with floating interest rates. The Corporation currently has no financial instruments which are exposed to interest rate risk due to floating rates.

Liquidity risk
Liquidity risk is the risk that the Corporation may not have cash available to satisfy financial liabilities as they come due. The Corporation actively maintains a committed credit facility to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost.

Market risk
The Corporation is subject to market risk related to the price of diesel fuel. The Corporation has entered into various agreements for the collection of recyclables, waste and compost materials. These contracts include a provision that requires the corporation to pay an annual fuel adjustment based on the annual average price of diesel fuel as compared to the base rate per the contract. For the year end March 31, 2013, had the average price of diesel fuel increased or decreased by 10% during the year, the earnings of the corporation would have increased or decreased by approximately $61,000 (2012 - $64,000). The Corporation currently has no strategy in place to mitigate this risk. Management does monitor the current price of fuel on a regular basis.

Fair values
The carrying amounts for cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate fair value due to the short term maturity of these instruments or terms of the instrument. The carrying amount for the long term debt approximated fair value as the interest rate was reflective of rates available for similar debt.

IFRS 7, "Financial Instruments – Disclosures", prescribes the following three-level fair value hierarchy for disclosure purposes based on the transparency of the inputs used to measure the fair values of the asset and liabilities:

a) Level 1 – quoted price (unadjusted) of identical instruments in active markets that the reporting entity has the ability to access at the measurement date.
b) Level 2 – inputs are quoted prices of similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, inputs other than quoted prices used in a valuation model that are observable for that instrument, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
c) Level 3 – one or more significant inputs used in a valuation technique are unobservable for the instruments.

8. Financial risk management (cont'd)

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value

The Corporation's financial instruments measured at fair value are cash and cash equivalents and are recorded based on level 1 measurement.

9. Employee future benefits

Short term benefits

The Corporation's short term benefits for qualified active employees include base salary, compensated absences, group life insurance, dental and medical coverage.

Pension plan

The permanent employees of the Corporation participate in the mutli-employer contributory defined benefit pension plan administered by the Province of Prince Edward Island under the Civil Service Superannuation Act. The Civil Service Superannuation Fund provides pensions to employees of the Provincial Government and certain crown corporations and agencies based on the length of service and average of best three year's salary. Since sufficient information is not readily available to account for the Corporation's participation in the plan using defined benefit pension plan accounting, these financial statements have been prepared using accounting rules for defined contribution pension plans. The current year expense for this pension plan is $145,000 (2012 - $132,000).

At March 31, 2011, the Civil Service Superannuation Fund reported plan deficiencies of $139,987,000 or 87% funded.

Employee benefits risks

The Corporation's defined benefit plan is indirectly exposed to economic risks with respect to measurement risk from assumptions based on economic factors, such as discount rates affected by volatile bond markets. Benefit obligations are exposed to uncertainty of future economic conditions, primarily inflation risk due to uncertainty of the timing of the payments.

Demographic factors affect current and future benefit costs with respect to the amount and time horizon of expected payments due to such factors as workforce average age and earnings levels, attrition and retirement rates.

The Corporation is also exposed to funding risk in the multi employer plans arising from legislative changes affecting eligibility for and amount of pension and related benefits and performance of plan assets affected by investment policies set by the government. Because these plans are governed by legislation rather than contract, there is little flexibility for participants with respect to withdrawal from the plan, plan wind up or amendments, and funding requirements.

10. Related party transactions

Included in these financial statements are transactions with various Prince Edward Island crown corporations, departments, agencies, and boards related to the Corporation by virtue of common influence by the Government of Prince Edward Island. Routine operating transactions in the ordinary course of business with related parties are settled at prevailing market prices under normal trade terms.

The table below presents total compensation of the key management personnel, which includes the Board of Directors and senior executive management. Board of Director honorariums are paid based on standards set and approved by the Treasury Board.

	2013	2012
Short term employee benefits	**$ 198,031**	$ 183,068
Post employment benefits	**22,085**	20,527
	$ 220,116	$ 203,595

11. Rate regulation

The Corporation is subject to rate regulation on the household user fees and disposal fees charged to residents of Prince Edward Island under the *Island Regulatory Appeals Commission Act*. The purpose of this Act, which is administered by the Island Regulatory and Appeal Commission (IRAC), is to regulate the rate the Corporation may charge for collection and disposal of solid waste within Prince Edward Island and to ensure at all times a just and reasonable price for this service. Changes in household user fees and disposal fees can only be implemented with the approval of IRAC.

12. Capital management

The Corporation's objectives when managing capital is to safeguard the Corporation's ability to support the normal operating requirements on an ongoing basis, support any capital expenditures that may be required in the normal operations of the Corporation, and generate sufficient cash flow to manage its existing debt.

The Corporation's capital consists of cash and cash equivalents, long term debt and net assets. The Corporation's primary uses of these funds are to finance capital expenditures, repay debt obligations and fund normal operations. 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. To maintain or obtain additional capital, the Corporation may issue new debt, reduce operating costs, utilize the central banking credit agreement or make a request to IRAC to increase household user and disposal fees.

The Corporation is not subject to externally imposed capital requirements and there have been no changes with respect to the overall capital risk management strategy during the year.

13. Other matters

Costs associated with the closure and decommissioning of provincial dump sites are the responsibility of the Province of Prince Edward Island.

Island Waste Management Corporation
Consolidated schedule of revenues

Year ended March 31

Household user fees

Year ended March 31	2013	2012
Billed by Island Waste Management Corporation	$ 88,671	$ 88,960
Billed through property taxes	13,408,284	12,961,382
Cart revenues	900	2,632
Refunds and adjustments	(83,325)	(81,255)
	$ 13,414,530	$ 12,971,719

Disposal fees

	2013	2012
East Prince Waste Management facility	$ 2,092,421	$ 2,463,931
Energy from Waste	1,183,893	1,180,572
Central Compost facility	360,055	379,804
Brockton	79,836	91,029
Dingwells Mills	69,637	71,592
Murray River	47,655	48,126
New London	81,039	83,622
Other	1,675	2,825
	$ 3,916,211	$ 4,321,501

Island Waste Management Corporation
Consolidated schedule of expenditures

Year ended March 31	2013	2012

Administration

Dues and memberships	**$ 2,352**	$ 3,012
Insurance	**21,025**	19,172
Interest and bank charges	**8,267**	7,173
Miscellaneous	**6,818**	5,736
Office equipment	**1,620**	1,592
Office supplies	**25,988**	21,328
Professional fees	**30,151**	37,157
Rent	**16,800**	16,800
Repairs and maintenance	**13,641**	11,349
Salaries and benefits	**1,164,724**	1,165,749
Supplies	**4,233**	1,130
Telephone	**44,976**	43,792
Travel	**40,554**	30,368
Utilities	**20,769**	19,777
	$ 1,401,918	$ 1,384,135

Advertising, education and public relations

Advertising	**$ 290**	$ 2,168
Education	**56,046**	52,305
Public relations	**8,020**	5,079
Wages and benefits	**41,657**	41,313
	$ 106,013	$ 100,865

Residential collection

Cart purchases and write-offs	**$ 157,303**	$ 96,301
Collection contracts		
Compost and waste	**3,339,591**	3,108,665
Recyclables	**1,213,662**	1,193,387
Operations support technicians		
Wages and benefits	**276,358**	326,275
Vehicle and supplies	**49,991**	45,208
Other	**14,313**	24,485
	$ 5,051,218	$ 4,794,321

Island Waste Management Corporation
Consolidated schedule of expenditures

Year ended March 31	2013	2012

Disposal

East Prince Waste Management facility

	2013	2012
Accretion	$ 26,560	$ 41,145
Equipment rental	23,772	9,991
Gas and oil	73,580	68,074
Household hazardous waste	29,236	44,695
Leachate disposal	42,036	73,143
Office and miscellaneous	13,755	16,735
Repairs and maintenance	124,413	155,412
Salaries, wages, and benefits	401,117	398,984
Security	11,967	11,309
Supplies and materials	112,620	174,817
Telephone	3,289	3,351
Travel and conferences	2,603	367
Utilities	26,671	29,793
	$ 891,619	$ 1,027,816

Queens County Regional Landfill

	2013	2012
Repairs and maintenance	$ -	$ 32
Utilities	1,268	1,150
	$ 1,268	$ 1,182

Energy from Waste

	2013	2012
Fly ash disposal	$ 188,459	$ 199,356
PEI Energy Systems	2,023,776	2,068,472
Repairs and maintenance – scale	1,560	20,285
Scale house supplies	4,065	2,118
Wages and benefits – scale operator and inspector	101,801	94,673
	$ 2,319,661	$ 2,384,904

Central Composting facility

	2013	2012
Contract	$ 1,850,068	$ 1,801,149
Insurance	54,533	52,945
Property tax	194	194
Repairs and maintenance	192,768	92,759
Wages and benefits	129,316	89,856
	$ 2,226,879	$ 2,036,903

Island Waste Management Corporation
Consolidated schedule of expenditures

Year ended March 31	**2013**	2012

Disposal (cont'd)

Waste Watch Drop-Off Centers

Blue bag disposal	**$ 20,000**	$ 20,000
Green Isle Environmental contract	**392,287**	417,405
Household hazardous waste	**142,271**	213,812
Material and supplies	**18,577**	18,393
Miscellaneous and asphalt shingles	**5,597**	1,333
Repairs and maintenance	**167,401**	227,030
Security	**984**	738
Signage	**1,169**	990
Telephone	**5,730**	5,804
Travel	**22,948**	19,083
Utilities	**13,116**	9,479
Wages and benefits	**283,234**	249,627
	$ 1,073,314	$ 1,183,694

Transportation of material

Motor vehicle	**$ 82,120**	$ 85,601
Supplies	**4,084**	3,420
Wages and benefits	**110,705**	105,744
	$ 196,909	$ 194,765
	$ 6,709,650	$ 6,829,264

Tire collection and disposal

Collection	**$ 303,693**	$ 287,865
Disposal	**568,882**	545,311
	$ 872,575	$ 833,176

Island Waste Management Corporation
Consolidated schedule of utility operations
Year ended March 31, 2013

	2013 **Revenues**	**2013 Operating costs**	2012 Revenues	2012 Operating costs
Albany	**$ 285,598**	**$ 285,598**	$ 278,432	$ 278,432
Bloomfield	**18,259**	**18,259**	16,493	16,493
Bloomfield school project	**9,317**	**9,317**	-	-
Brudenell	**116,578**	**116,578**	73,885	73,885
Correctional Services	**12,148**	**12,148**	16,887	16,887
Crowbush	**64,640**	**64,640**	54,405	54,405
Eastern School	**2,300**	**2,300**	2,674	2,674
Georgetown	**109,041**	**109,041**	95,201	95,201
Golf Links	**446**	**446**	742	742
Humpty Dumpty	**2,730**	**2,730**	2,612	2,612
Innovation PEI	**1,980**	**1,980**	4,864	4,864
Mill River	**51,804**	**51,804**	64,376	64,376
Northport - Alberton	**33,941**	**33,941**	33,705	33,705
Parks	**57,767**	**57,767**	63,311	63,311
Western School	**35,387**	**35,387**	14,692	14,692
	$ 801,936	**$ 801,936**	$ 722,279	$ 722,279