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**Provincial Holdings Ltd**  
**Annual Report**  
**March 31, 2014**

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**Provincial Holdings Ltd  
Chancery Place  
Fredericton, New Brunswick  
Canada E3B 5H1**

**DIRECTORS**

The Honorable Bruce Fitch, Chair  
The Honorable Bruce Northrup  
The Honorable Danny Soucy  
The Honorable Blaine Higgs  
Mr. Denis Caron, President  
Mr. Eric Beaulieu, Vice President  
Mr. Byron James  
Mr. Robert Rioux

**OFFICERS**

The Honorable Bruce Fitch, Chair  
Mr. Denis Caron, President  
Mr. Eric Beaulieu, Vice President  
Mr. Edward Kinley, Secretary-Treasurer

**AUDITOR**

Teed Saunders Doyle & Co.

**LEGAL COUNSEL**

Office of the Attorney General  
Province of New Brunswick

## Provincial Holdings Ltd.

2014

Provincial Holdings Ltd enables the Government of New Brunswick to implement strategic investments that compliment social and economic development activities of the Province.

In the year PHL successfully completed a large project to renovate an office building and site for a National Payroll Center in Miramichi. The building was occupied in the summer of 2013. Completion of this project has provided hundreds of new jobs in Miramichi. The engineering and project management activities associated with this work differed significantly from other projects in PHL's investment portfolio and again highlighted PHL's activities for the year.

Work at this Miramichi site was also impacted by the need to remediate some environmental issues associated with properties located adjacent to this site. Understanding and defining this environmental work started in 2013. A plan has been developed and it is expected that this remediation work will continue for the next few years. During the year initial work was undertaken to start remediation.

PHL's financial statements and associated portfolio of investments are included in this report.

Sincerely,

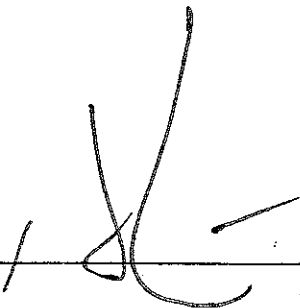
A handwritten signature in black ink, appearing to read 'Victor Boudreau', written in a cursive style.

Victor Boudreau  
Minister responsible for Provincial Holdings Ltd.

Financial Statements of

# Provincial Holdings Ltd.

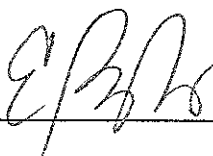
March 31, 2014



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Approved by the Board

Director



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Director

Suite 102  
Priestman Centre  
565 Priestman Street  
Fredericton  
New Brunswick  
E3B 5X8

Tel (506) 458-8727  
Fax (506) 450-3777  
E-mail tsdfr@tsdca.com

**TEED  
SAUNDERS  
DOYLE & CO.**  
**Chartered Accountants**

An Independent Member of  
DFK Canada Inc. and DFK International

**INDEPENDENT AUDITOR'S REPORT**

To the Chairperson and Board of Directors of Provincial Holdings Ltd.

We have audited the accompanying financial statements of Provincial Holdings Ltd., which comprise the statement of financial position as at March 31, 2014 and the statements of operations, changes in net debt, change in accumulated surplus and 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 financial statements in accordance with Canadian public sector accounting 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 entity's preparation and fair presentation of the 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 entity'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 financial statements.

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Provincial Holdings Ltd. as at March 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*Teed Saunders Doyle & Co.*

Fredericton, New Brunswick  
December 9, 2014

CHARTERED PROFESSIONAL ACCOUNTANTS

Fredericton Partners  
Brian J. Saunders      Jeffrey E. Saunders  
John H. Landry        Kenneth H. Kyle  
T.J. Smith



Saint John Partners  
Andrew P. Logan      Peter L. Logan  
Jean-Marc Poirier

Provincial Holdings Ltd.  
Statement of Financial Position  
As at March 31, 2014

	<u>2014</u>	<u>2013</u>
<b>Financial Assets</b>		
Cash and cash equivalents	\$ 336,755	\$ 512,732
Accounts receivable	364,185	178,191
HST receivable	-	75,123
Industrial development projects (Note 3)		
Loans to client companies	4,244,823	4,650,126
Equity investment	2,450,433	2,450,433
Less: provision for loss	(2,841,895)	(2,468,433)
<b>Total Financial Assets</b>	<b>\$ 4,554,301</b>	<b>\$ 5,398,172</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	84,414	1,419,048
HST payable	2,627	-
Environmental liabilities (Note 4)	6,450,000	1,600,000
Due to Province of New Brunswick (Note 5)	11,918,205	9,833,334
<b>Total Liabilities</b>	<b>\$ 18,455,246</b>	<b>\$ 12,852,382</b>
<b>Net Debt</b>	<b>\$ (13,900,945)</b>	<b>\$ (7,454,210)</b>
<b>Equity</b>		
Authorized		
599 Common shares par value of \$10 each		
Issued		
500 Common shares	5,000	5,000
<b>Non Financial Assets</b>		
Tangible capital assets (Note 6)	4,605,834	4,518,965
Prepaid expenses	1,049	11,425
	<b>\$ 4,606,883</b>	<b>\$ 4,530,390</b>
<b>Accumulated Deficit</b>	<b>\$ (9,299,062)</b>	<b>\$ (2,928,820)</b>

Contingent liabilities (Note 7)

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

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Provincial Holdings Ltd.  
Statement of Operations  
For the year ended March 31, 2014

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Revenues	<u>2014</u>	<u>2013</u>
Provincial contributions	\$ 1,373,462	\$ 1,178,250
Guarantee fees	154,953	168,750
Miscellaneous revenue (Note 8)	178,110	711,169
Rental income	1,049,123	12,000
Interest income	137,664	71,379
	<hr/>	<hr/>
	\$ 2,893,312	\$ 2,141,548
<b>Expenses</b>		
Development grants	\$ 1,000,000	\$ 1,178,250
Miscellaneous expenses (Note 8)	117,860	811,039
Operating expenses (Note 9)	665,976	630,736
Building and land write down	2,133,200	2,920,648
Concessionary interest	-	271,301
Environmental remediation	4,850,000	-
Bad debts	373,462	-
Amortization	103,000	-
Professional fees	7,500	5,000
Other	12,556	3,935
	<hr/>	<hr/>
	\$ 9,263,554	\$ 5,820,909
<b>Annual Deficit</b>	<b>\$ (6,370,242)</b>	<b>\$ (3,679,361)</b>

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

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**Provincial Holdings Ltd.**  
**Statement of Change in Net Debt**  
**For the year ended March 31, 2014**

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	<u>2014</u>	<u>2013</u>
Net Debt - Beginning of Year	\$ (7,454,210)	\$ (5,624,459)
Annual deficit	(6,370,242)	(3,679,361)
Acquisition of tangible capital assets	(2,327,669)	(1,737,289)
Disposal of tangible capital assets	4,600	277,675
Disposal of inventory	-	400,000
Amortization of tangible capital assets	103,000	-
Building and land write down	2,133,200	2,920,649
Net changes in prepaid expenses	10,376	(11,425)
<b>Increase in Net Debt</b>	<u>(6,446,735)</u>	<u>(1,829,751)</u>
<b>Net Debt - End of Year</b>	<b>\$ (13,900,945)</b>	<b>\$ (7,454,210)</b>

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

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**Provincial Holdings Ltd.**  
**Statement of Change in Accumulated Surplus/(Deficit)**  
**For the year ended March 31, 2014**

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	<u>2014</u>	<u>2013</u>
Accumulated (Deficit)/Surplus – Beginning of Year	\$ (2,928,820)	\$ 750,541
Annual Deficit	<u>(6,370,242)</u>	<u>(3,679,361)</u>
<b>Accumulated Deficit – End of Year</b>	<b>\$ (9,299,062)</b>	<b>\$ (2,928,820)</b>

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



Provincial Holdings Ltd.  
Statement of Cash Flows  
For the year ended March 31, 2014

	<u>2014</u>	<u>2013</u>
<b>Operating Activities</b>		
Annual deficit	\$ (6,370,242)	\$ (3,679,361)
Items not requiring an outlay of cash		
Concessionary interest revenue	(136,364)	(70,093)
Concessionary interest expense	-	271,301
(Decrease)/Increase in provision for loss	373,462	(36,566)
Loss on sale of capital assets	-	102,054
Building and land write down	2,133,200	2,920,648
Amortization of tangible capital assets	103,000	-
Changes in non-cash working capital (Note 10)	3,417,498	1,902,842
	<b>\$ (479,446)</b>	<b>\$ 1,410,825</b>
<b>Investing Activities</b>		
Issuance of loans	-	(5,000,000)
Loan repayment	541,667	203,233
	<b>\$ 541,667</b>	<b>\$ (4,796,767)</b>
<b>Capital Activities</b>		
Proceeds from sale of assets	4,600	575,621
Acquisition of capital assets	(2,327,669)	(1,737,289)
	<b>\$ (2,323,069)</b>	<b>\$ (1,161,668)</b>
<b>Financing Activities</b>		
Increase in due to Province of New Brunswick	2,084,871	4,833,334
	<b>\$ 2,084,871</b>	<b>\$ 4,833,334</b>
Net increase/(decrease) in cash	(175,977)	285,724
Cash balance - beginning of year	512,732	227,008
<b>Cash balance - End of Year</b>	<b>\$ 336,755</b>	<b>\$ 512,732</b>

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

# Provincial Holdings Ltd.

## Notes to the financial statements

March 31, 2014

### 1. Description of operations

Provincial Holdings Ltd. (the company "PHL") was established in 1973 under the Companies Act of the Province of New Brunswick and has subsequently registered under the Business Corporations Act. The Company is wholly owned by the Province of New Brunswick (the "Province") and is responsible for administering industrial development project investments. The Province provides funding for approved projects and is ultimately responsible for settlement of any guarantees. The administration of the Company's affairs is carried out by employees of the Province under the direction of the Company's Board of Directors. All costs associated with these employees are paid by the Province and are not recognized within these financial statements. The Company is exempt from income taxes under Subsection 149(1)(d) of the Canadian Income Tax Act.

### 2. Summary of significant accounting policies

The financial statements are prepared by management in accordance with the Canadian public sector accounting standards (PSAS). Outlined below are the significant accounting policies followed.

#### *Asset classification*

Assets are classified as either financial or non-financial. Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not to be consumed in the normal course of operations. Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities but instead are employed to deliver government services, may be consumed in normal course of operations and are not for resale. Non-financial assets include prepaid expenses, inventory and tangible capital assets.

#### *Cash and cash equivalents*

Cash and cash equivalents include cash on hand held at a financial institution.

#### *Industrial development projects – loans to client companies*

Loans to client companies are initially carried at cost, and reported at the lower of cost and net recoverable value through a valuation allowance. The foregone interest on the loans issued by the Company is expensed in the year the loans are issued and amortized into revenue over the life of the loans.

#### *Industrial development projects – equity investment*

The Company's equity investment is recorded at cost. Where there has been a loss in the value of an investment that is other than a temporary decline, the investment is written down to recognize this loss. If there is a subsequent increase in value of the investment, a write down is not reversed.

The Company maintains a provision for loss against its investment to recognize potential losses relating to industrial development project investments whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Pursuant to Treasury Board Minute 74-57, any losses arising from investments funded by advances from the Province will be borne by the Province through a corresponding reduction in the long-term debt of the Company. As a result of this undertaking by the Province, any losses recorded as an expense by the Company are offset by a recovery from the Province.

# Provincial Holdings Ltd.

## Notes to the financial statements

March 31, 2014

### *Development Grants*

Development grants are charged to operations and recovered from the Province.

### *Tangible capital assets*

Tangible capital assets, while being evaluated for final use, are carried at cost less accumulated depreciation. Tangible capital assets are written down when conditions indicate that they no longer contribute to the Company's ability to provide services, or when the value of future economic benefits associated with such assets are less than their net book value. Any write-downs are accounted for as expenses in the statement of operations.

Tangible capital assets are reported at cost and amortized on a straight line basis over their estimated useful lives.

### *Accrual accounting*

Revenues and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the fiscal period that the events giving rise to the revenues occur and they are earned and measurable; expenses are recognized in the fiscal period that the events giving rise to the expenses are incurred, resources are consumed and measurable.

### *Provincial contributions and revenue*

Provincial contributions and guarantee fees are recorded when earned. Interest income is recorded on the accrual basis. Contribution recoveries are recorded when realized.

### *Measurement uncertainty*

The preparation of financial statements in conformity with Canadian public sector accounting standards requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. The most significant area of estimation is the valuation of the loans and shares in client companies, the fair value of the net assets acquired in business combinations and the environmental liabilities. Actual results could differ from management's best estimates as additional information becomes available in the future.

### *Government transfers*

Government transfers are transfers of money, such as grants, to an organization for which PHL does not receive any goods or services directly in return.

Government transfers are recognized in PHL's financial statements as expenses in the period the events underlying the transfer occur, as long as the transfer is authorized and eligibility criteria have been met.

# Provincial Holdings Ltd.

## Notes to the financial statements

March 31, 2014

### 3. Industrial development projects – loans and shares

	Loans	Shares	2014	2013
Loans and investments	\$ 4,244,823	\$ 2,450,433	\$ 6,695,256	\$ 7,100,559
Less: Provision for loss	391,462	2,450,433	2,841,895	2,468,433
	<u>\$ 3,853,361</u>	<u>\$ -</u>	<u>3,853,361</u>	<u>\$ 4,632,126</u>

The loans are represented by a loan of \$4,226,823 and a forgivable advance in the amount of \$18,000. The shares represent a 15.75% investment in the common shares of a private investee corporation. Provision for losses on the industrial development project loans are recorded once the respective loan receivable is deemed uncollectable. In addition, a general provision was assigned to non-provided accounts under the assumption that risk elements may actually be present, but not known to management until a future period. Provisions for losses on long term investments are recorded once there is a permanent decline in value of the investment.

### 4. Environmental liability

There are a number of sites on PHL properties in the Miramichi and surrounding areas that have environmental remediation issues. The environmental issues at these sites relate to the operation of industrial sites, lagoons and landfills. All of these sites are at various points in processes necessary for environmental closure of the environment issues. The accumulated estimate of \$6,450,000 for remediation costs has been prepared by a committee of engineers and professionals in government that are working with these remediation projects. The engineering committee working on the site is continuing its work and has issued proposal calls for the first stages of this work to clean these sites.

### 5. Due to Province of New Brunswick

Due to Province of New Brunswick represents interest-free advances from the Province of New Brunswick to be repaid from recoveries of amounts invested in industrial development projects. Any losses on investments funded by this debt reduce the amount to be repaid. Provision for losses on the industrial development projects are recorded once the respective loan receivable is deemed uncollectable, and therefore the provision on the Due to Province of New Brunswick is also updated.

	2014	2013
Opening balance	\$ 12,323,765	\$ 7,526,999
Increase	3,000,000	5,000,000
Repayment	(541,667)	(203,234)
Debt forgiveness	(72,000)	-
Closing balance	<u>\$ 14,710,098</u>	<u>\$ 12,323,765</u>

Details of the provision for loss on industrial development project are as follows:

	2014	2013
Balance, beginning of year	\$ 2,490,431	\$ 2,526,999
Increase (Decrease) during the year	<u>301,462</u>	<u>(36,568)</u>
	<u>\$ 2,791,893</u>	<u>\$ 2,490,431</u>
Net	\$ 11,918,205	\$ 9,833,334

# Provincial Holdings Ltd.

Notes to the financial statements

March 31, 2014

## 6. Tangible capital assets

	Land	Buildings	Building Rental	Equipment	2014 Total	2013 Total
<b>Cost</b>						
Opening balance	\$972,200	\$1,750,000	\$1,792,165	\$4,600	\$4,518,965	\$5,980,000
Additions	-	-	2,327,669	-	2,327,669	1,737,289
Disposals	-	-	-	(4,600)	(4,600)	(277,675)
Impairment/Write down	(633,200)	(1,500,000)	-	-	(2,133,200)	(2,920,649)
Closing balance	\$339,000	\$ 250,000	\$ 4,119,834	\$ -	\$4,708,834	\$4,518,965
Less: Accumulated amortization	-	-	103,000	-	103,000	-
<b>Net Book Value</b>	<b>\$339,000</b>	<b>\$250,000</b>	<b>\$4,016,834</b>	<b>\$ -</b>	<b>\$4,605,834</b>	<b>\$4,518,965</b>

An appraisal of a building and land was performed where a write down of \$2,133,200 was recorded in these financial statements as a reduction of the tangible capital asset amount.

During the year, PHL expensed \$701,940 for leasehold improvements. Such expenses were reimbursed by the Federal Government.

Rental buildings are amortized on a straight-line basis over 20 years.

## 7. Contingent liabilities

As at March 31, 2014 the Company had one loan guarantee outstanding. Under the agreement, the amount guaranteed shall not exceed the lesser of \$15,000,000 or 75% of the balance of the loan. The contingent liability in respect of this guarantee was \$9,976,410 at March 31, 2014 (2013 - \$11,250,000). Any resulting losses will be borne by the Province of New Brunswick.

The Company may be subject to litigation in the course of its operations. In management's judgement, no material exposure exists at this time and accordingly management has not recorded a provision for loss in the financial statements.

## 8. Miscellaneous revenue and expenses

	<u>2014 Revenue</u>	<u>2014 Expenses</u>
Revenue from oil sales	\$ 12,620	\$ (18,726)
Sale of furniture & supplies	95,473	-
Other	70,017	136,586
	<u>\$ 178,110</u>	<u>\$ 117,860</u>

# Provincial Holdings Ltd.

Notes to the financial statements

March 31, 2014

## 9. Operating expenses

	<u>2014</u>	<u>2013</u>
Security	\$ 110,665	\$ 138,988
Property taxes	215,174	292,318
Utilities	141,579	77,447
Management services	73,017	84,092
Repairs and maintenance	111,888	37,891
Insurance	9,408	-
Environmental fees	4,245	-
	<hr/> \$ 665,976	<hr/> \$ 630,736

## 10. Changes in non-cash working capital

	<u>2014</u>	<u>2013</u>
Accounts receivable	\$ (110,871)	\$ (22,680)
Due from Province of New Brunswick	-	700,000
Prepays	10,376	(11,425)
Accounts payable and accrued liabilities	(1,332,007)	1,236,947
Environmental liabilities	<u>4,850,000</u>	<u>-</u>
	\$ 3,417,498	\$ 1,902,842

## 11. Financial instruments

Financial instruments consist of cash and cash equivalents, accounts receivable, HST receivable, loans to client companies, equity investment, amounts due from Province of New Brunswick, accounts payable and accrued liabilities and amounts due to Province of New Brunswick.

Financial instruments are recognized when the Company becomes a party to the contractual rights and obligations of the financial instrument.

Financial instruments are derecognized when the contractual rights to the cash flows from the financial asset have expired or have been transferred, and the Company has transferred substantially all risks and rewards of ownership, or are derecognized when the contractual obligation has been discharged, cancelled, or has expired.

The Company designates its financial instruments as follows:

- a) Cash and cash equivalents are measured at fair value. Fair value is assumed to represent the carrying value, which is at historical cost.
- b) Accounts receivable, HST receivable, loans to client companies, equity investment, due from Province of New Brunswick, accounts payable and accrued liabilities and due to Province of New Brunswick are measured at cost.

It is management's opinion that the Corporation is not exposed to significant interest or currency risks arising from these financial instruments.

Credit Risk is the risk that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation. The Company manages this exposure through credit approval procedures for industrial development loans and monitoring of payments from

# Provincial Holdings Ltd.

## Notes to the financial statements

March 31, 2014

debtors. The Company's maximum exposure to credit risk at March 31, 2014 is equal to the industrial development project - loans to client companies' balance of \$ 4,244,823.

Due to the short term nature of cash and cash equivalents, accounts receivable, HST receivable, and accounts payable and accrued liabilities, fair value is assumed to represent the carrying value, which is historical cost.

### 12. Economic dependence

The Company is economically dependent on the Province of New Brunswick for the funding of approved projects and settlement of guarantees. During the period the Company received contributions of \$1,000,000 for development projects from the Province of New Brunswick.

Certain services are provided to the Company by departments within the Province of New Brunswick in the normal course of operations and are recorded in these financial statements. The most significant services provided relate to expenses of \$866,295 incurred for building renovations completed by the Department of Transportation and Infrastructure. These expenses have been recorded at the exchange amount.

### 13. Subsequent event

In the May 27<sup>th</sup> meeting of the Company's Board, a motion was approved to provide assistance to an applicant for the next 2 years at a \$1,000,000 per year. The second year will not be paid until certain conditions are met.

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**INVESTMENTS**  
**PROVINCIAL HOLDINGS LTD.**  
**March 31, 2014**

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**Provincial Holdings Ltd**  
**Portfolio of Investments and Commitments**  
**March 31, 2014**

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Investments</b>		
<b>Industrial Development Projects</b>		
Connors Bros. Loan	4,226,823	4,632,126
Forgivable Loan to Maritime Cold Storage Limited	18,000	18,000
<b>Other</b>		
Loan Guarantee to Co-op Atlantic	9,976,410	11,250,000
Shares in ACF Equity Atlantic Inc.	2,450,433	2,450,433
<b>Capital Assets</b>		
Buildings	4,266,834	3,542,165
Land	339,000	972,200
Equipment	-	4,600
	<hr/> 4,605,834	<hr/> 4,518,965
<b>Total Investments</b>	<hr/> <b>21,277,500</b>	<hr/> <b>22,869,524</b>
<b>Commitments</b>		
Bay Ferries Limited	2,000,000	1,000,000
<b>Total Commitments</b>	<hr/> <b>2,000,000</b>	<hr/> <b>1,000,000</b>