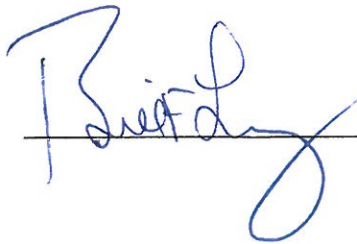


PROVINCIAL HOLDINGS LTD.

Financial Statements

Year Ended March 31, 2017



Director

Approved by the Board



Director

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, 2017, and the statements of operations, changes in net debt, change in accumulated deficit 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, 2017 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

Fredericton, New Brunswick
January 30, 2018

CHARTERED PROFESSIONAL ACCOUNTANTS

PROVINCIAL HOLDINGS LTD.

Statement of Financial Position

March 31, 2017

	2017	2016
Financial Assets		
Cash and cash equivalents	\$ 1,689,551	\$ 2,020,685
Accounts receivable	6,261,573	724,145
HST Receivable	493,094	-
Total Financial Assets	\$ 8,444,218	\$ 2,744,830
Liabilities		
Accounts payable & accrued liabilities	6,481,931	543,288
HST Payable	-	89,631
Environmental liabilities (Note 3)	3,833,060	4,534,881
Loan Payable (Note 4)	2,708,441	-
Due to Province of New Brunswick (Note 5)	7,950,791	7,950,791
Total Liabilities	\$ 20,974,223	\$ 13,118,591
Net Debt	\$ (12,530,005)	\$ (10,373,761)
Equity		
Authorized 599 Common shares par value of \$10 each		
Issued 500 Common shares	5,000	5,000
Non-Financial Assets		
Tangible Capital Assets (Note 6)	11,629,496	3,943,834
Prepaid expenses	11,838	5,012
	\$ 11,641,334	\$ 3,948,846
Accumulated Deficit	\$ (893,671)	\$ (6,429,915)
Contingent Liabilities (Note 7)		

The accompanying notes are an integral part of these Financial Statements.

PROVINCIAL HOLDINGS LTD.

Statement of Operations

For The Year Ended March 31

	2017	2016
Revenues		
Provincial contribution	\$ 10,791,500	\$ 1,486,678
Grants	160,000	-
Miscellaneous revenue	2,798	2,560
Rental income	1,700,704	1,618,575
Boat and vessel services	110,093	-
Interest income	-	4,484
	<u>\$ 12,765,095</u>	<u>\$ 3,112,297</u>
Expenses		
Development grants	\$ 1,000,000	\$ 1,000,000
Miscellaneous expenses	-	2,397
Operating expenses (Note 8)	1,168,754	776,988
Environmental remediation	219,976	(478,441)
Bad debt	23,045	-
Amortization	394,271	206,000
Professional fees	15,355	8,635
Loss on sale of capital assets	-	55,000
Loss on settlement (Note 9)	3,778,333	-
Settlement - Loan Guarantee (Note 10)	600,000	-
Other	29,117	9,019
	<u>\$ 7,228,851</u>	<u>\$ 1,579,598</u>
Annual Surplus	\$ 5,536,244	\$ 1,532,699

The accompanying notes are an integral part of these Financial Statements.

Provincial Holdings Ltd.

Statement of Cash Flow

For The Year Ended March 31

	2017	2016
Operating Activities		
Annual Surplus	\$ 5,536,244	\$ 1,532,699
Items not requiring an outlay of cash		
Loss on sale of capital assets	-	55,000
Decrease in provision for loss	-	(291,700)
Changes in non-cash		
Amortization of tangible capital assets	394,271	206,000
Working capital (Note 11)	(890,157)	(2,222,494)
	\$ 5,040,358	\$ (720,495)
Investing Activities		
Loan transfer/payment	-	3,791,667
Equity investment payment/write down	-	3,049
	\$ -	\$ 3,794,716
Capital Activities		
Purchase of capital assets	(8,079,933)	-
Proceeds from sale of capital assets	-	195,000
	\$ (8,079,933)	\$ 195,000
Financing Activities		
Loan	2,708,441	-
Decrease in due to Province of New Brunswick	-	(3,499,967)
	\$ 2,708,441	\$ (3,499,967)
Net decrease in cash during the year	(331,134)	(230,746)
Cash balance - beginning of year	2,020,685	2,251,431
Cash balance - End of year	\$ 1,689,551	\$ 2,020,685

The accompanying notes are an integral part of these Financial Statements.

Provincial Holdings Ltd.

Statement of Change in Net Debt

For The Year Ended March 31

	2017	2016
Net Debt - Beginning of Year	\$ (10,373,761)	\$ (12,358,601)
Annual surplus	5,536,244	1,532,699
Purchase of tangible capital assets	(8,079,933)	
Disposal of tangible capital assets	-	250,000
Amortization of tangible capital assets	394,271	206,000
Net changes in prepaid expenses	(6,826)	(3,859)
(Increase) decrease in Net Debt	(2,156,244)	1,984,840
Net Debt - End of Year	\$ (12,530,005)	\$ (10,373,761)

The accompanying notes are an integral part of these Financial Statements.

Provincial Holdings Ltd.

Statement of Change in Accumulated Deficit

For The Year Ended March 31

	2017	2016
Accumulated Deficit - Beginning of Year	\$ (6,429,915)	\$ (7,962,614)
Annual Surplus	5,536,244	1,532,699
Accumulated Deficit - End of Year	\$ (893,671)	\$ (6,429,915)

The accompanying notes are an integral part of these Financial Statements.

Provincial Holdings Ltd.

Notes to the financial statements

March 31, 2017

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.

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, 2017

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 occurred, as long as the transfer is authorized and eligibility criteria have been met.

Provincial Holdings Ltd.

Notes to the financial statements

March 31, 2017

3. 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 has been adjusted to \$3,833,060 for remediation costs based on revised estimates and work completed. PHL, in collaboration with the department of Transportation and Infrastructure and environmental consultants, is continuing work on the various stages of the environmental remediation action plan. The department of Environment and Local Government has received an approved Phase III Environmental Site Assessment and the Remedial Action Plan for all sites.

4. Loan Payable

Payable to the Regional Development Corporation, bearing interest at 3.6%. Interest calculated monthly commencing on the date of commission of the floating dry dock at the shipyard site. Repayable in 240 monthly principal payments of \$60,983 commencing on the date of commission. The balance of the principal sum together with any accrued and unpaid interest to be repaid by October 2039.

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.

	<u>2017</u>	<u>2016</u>
Opening balance	\$ 7,950,791	\$ 11,742,256
Repayment	-	-
Debt forgiveness	-	<u>(3,791,465)</u>
Closing balance	\$ 7,950,791	\$ 7,950,791

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

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ -	\$ 291,698
Decrease during the year	-	<u>(291,698)</u>
	\$ -	\$ -
Net	\$ 7,950,791	\$ 7,950,791

Provincial Holdings Ltd.

Notes to the financial statements

March 31, 2017

6. Tangible capital assets

	<u>Land</u>	<u>Buildings</u>	<u>Vehicles</u>	<u>Equipment</u>	<u>Floating Dry Dock</u>	<u>2017 Total</u>	<u>2016 Total</u>
Cost							
Opening balance	\$339,000	\$3,604,834	\$ -	\$ -	\$ -	\$3,943,834	\$4,399,834
Additions	565,000	2,967,393	41,747	1,478,193	3,027,600	8,079,933	-
Disposals	-	-	-	-	-	-	(250,000)
Impairment/Write down	-	-	-	-	-	-	-
Closing balance	\$904,000	\$6,572,227	\$ 41,747	\$1,478,193	\$3,027,600	\$12,023,767	\$4,149,834
Less: Accumulated amortization	-	243,092	4,175	147,004	-	394,271	206,000
Net Book Value	\$904,000	\$6,329,135	\$37,572	\$1,331,189	\$3,027,600	\$11,629,496	\$3,943,834

The office building is amortized on a straight-line basis over 20 years and the 2 new building additions are amortized over 40 years. Equipment and vehicles are over 5 years. Included in the closing costs are costs for assets under construction, which are not amortized. These costs are for the floating dry dock in the amount of \$3,027,600.

7. Contingent liabilities

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. Operating expenses

Miramichi Payroll Centre

	<u>2017</u>	<u>2016</u>
Property taxes	\$ 274,031	\$ 279,803
Utilities	276,535	255,127
Management services	79,590	81,013
Repairs and maintenance	130,314	137,310
Insurance	6,598	4,800
Environmental fees	<u>8,451</u>	<u>18,935</u>
	\$ 775,519	\$ 776,988

Shipyards

	<u>2017</u>	<u>2016</u>
Property taxes	\$ 58,209	\$ -
Utilities	24,625	-
Management services	-	-
Repairs and maintenance	180,164	-
Wages, subcontractors and benefits	<u>130,237</u>	<u>-</u>
	\$ 393,235	\$ -

Total \$ 1,168,754 \$ 776,988

Provincial Holdings Ltd.

Notes to the financial statements

March 31, 2017

9. Loss on Settlement

The agreement signed between Provincial Holdings Ltd. and Centre Naval du Nouveau-Brunswick Inc. (CNNB) and Services Maritime de Bas-Caraquet Ltée (SMBC) which resulted in the transfer of specific assets and the assumption of certain debt of CNNB and SMBC to Provincial Holdings Ltd. The cost of the settlement of liabilities assumed exceeded the value of the assets as determined by a third party appraisal by \$3,778,333.

10. Settlement Loan Guarantee

A settlement of \$600,000 was paid in exchange for full release of the Company under the \$7.5M loan guarantee agreement.

11. Changes in non-cash working capital

	<u>2017</u>	<u>2016</u>
Accounts receivable	\$ (6,030,522)	\$ (415,692)
Prepaids	(6,826)	(3,859)
Accounts payable and accrued liabilities	5,849,012	(837,824)
Environmental liabilities	<u>(701,821)</u>	<u>(965,119)</u>
	\$ (890,157)	\$ (2,222,494)

12. Financial instruments

Financial instruments consist of cash and cash equivalents, accounts receivable, loans to client companies, equity investment, amounts due from Province of New Brunswick, accounts payable and accrued liabilities, HST payable 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, loans to client companies, equity investment, due from Province of New Brunswick, accounts payable and accrued liabilities, HST payable 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 debtors. The Company's maximum exposure to credit risk is equal to the industrial development project - loans to client companies' balance, which was nil at March 31, 2017.

Provincial Holdings Ltd.

Notes to the financial statements

March 31, 2017

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

13. 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 \$9,869,703 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 \$921,797 incurred for environmental remediation. These expenses have been recorded at the exchange amount.

The Company also has a loan payable to the Regional Development Corporation for the construction of the floating dry dock. The amount received at March 31st was \$2,708,441.