
Provincial Holdings Ltd
Annual Report
March 31, 2013

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

DIRECTORS

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

AUDITOR

Auditor General
Province of New Brunswick

LEGAL COUNSEL

Office of the Attorney General
Province of New Brunswick

PROVINCIAL HOLDINGS LTD.

2013

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

Aside from PHL's regular role of management of its portfolio of investments, the company embarked into a different type of work with a large project to renovate an office building and site for the National Payroll Center in Miramichi. The project was the highlight of PHL's work in 2013. PHL brought together a project management team from the Department of Transportation and Infrastructure, Economic Development, Regional Development Corporation and Environment and Local Government to undertake this significant multimillion dollar project. The initial phases of the project involved budget development, scheduling, design, site preparation, cleaning and disposal of some equipment and materials. A team of local contractors were retained to start this work. This project was a departure for PHL's regular business and involved significant project management efforts. At year end this work was nearing completion but the building was not occupied until the summer of 2013.

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

Sincerely,



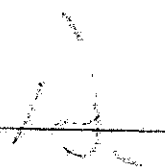
Victor Boudreau
Minister responsible for Provincial Holdings Ltd.

Financial Statements of

Provincial Holdings Ltd.

March 31, 2013

Approved by the Board



Director



Director



AUDITOR GENERAL OF NEW BRUNSWICK

INDEPENDENT AUDITOR'S REPORT

To the Chairperson and Board of Directors
Provincial Holdings Ltd.

I have audited the accompanying financial statements of Provincial Holdings Ltd., which comprise the statement of financial position as at March 31, 2013, and the statements of operations, change 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

As explained in Note 4 to the financial statements, management estimates were used to establish the carrying values of the net assets acquired in the previous year. We were unable to obtain sufficient appropriate audit evidence to conclude whether certain identifiable assets acquired and liabilities assumed as part of the business acquisition were recorded at fair value. As a result, we were unable to determine whether any adjustments were required to the amounts reported for tangible capital assets and environmental liabilities. The predecessor auditor's opinion on the financial statements for the year ended March 31, 2012 was modified because of the possible effects of a similar limitation of scope.

Qualified Opinion

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Provincial Holdings Ltd. as at March 31, 2013, and the results of its operations, its cash flows, change in net debt and change in its accumulated surplus for the year then ended in accordance with Canadian public sector accounting standards.

Other Matter

The financial statements of Provincial Holdings Ltd. for the year ended March 31, 2012 were audited by another auditor who expressed a qualified opinion on those financial statements on September 26, 2012 for the reasons described in the Basis for Qualified Opinion paragraph.

Kim MacPherson

Kim MacPherson, CA
Auditor General

Fredericton, N.B.
April 7, 2014

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

Financial Assets	2013	2012
Cash and Cash Equivalents	\$ 512,732	\$ 227,008
Accounts Receivable	178,191	230,634
HST Receivable	75,123	-
Due from Province of New Brunswick Industrial Development Projects(Note 5)	-	700,000
Loans to client companies	4,650,126	-
Equity Investment	2,450,433	2,577,000
Less: Provision for Loss	(2,468,433)	(2,577,000)
Total Financial Assets	\$ 5,398,172	\$ 1,157,642
Liabilities		
Accounts Payable and Accrued Liabilities	1,419,048	182,101
Environmental Liabilities (Note 4)	1,600,000	1,600,000
Due to Province of New Brunswick (Note 6)	9,833,334	5,000,000
Total Liabilities	\$ 12,852,382	\$ 6,782,101
Net Debt	\$ (7,454,210)	\$ (5,624,459)
Equity		
Authorized		
599 Common shares with a par value of \$10 each		
Issued		
500 Common shares	5,000	5,000
Non Financial Assets		
Tangible Capital Assets (Note 3)	4,518,965	5,980,000
Prepaid Expenses	11,425	-
Inventory	-	400,000
	\$ 4,530,390	\$ 6,380,000
Accumulated (Deficit)/Surplus	\$(2,928,820)	\$ 750,541
Contingent Liabilities (Note 11)		
Commitments (Note 12)		

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

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

	2013	2012
Revenues		
Provincial Contributions	\$ 1,178,250	\$ 7,117,760
RDC Contributions	-	250,000
Guarantee Fees	168,750	180,461
Contribution Recovery	-	62,549
Miscellaneous Revenue (Note 7)	711,169	-
Rental Income	12,000	21,200
Interest Income	71,379	1,193
	<hr/>	<hr/>
	\$ 2,141,548	\$ 7,633,163
Expenses		
Development Grants	\$ 1,178,250	\$ 7,117,760
Miscellaneous Expenses (Note 7)	811,039	-
Operating Expenses (Note 8)	630,736	427,985
Building Write Down (Note 3)	2,920,649	-
Concessionary Interest	271,301	-
Contribution Recovery Repayment	-	62,549
Professional Fees	5,000	3,850
Other	3,934	281
	<hr/>	<hr/>
	\$ 5,820,909	\$ 7,612,425
Annual (Deficit)/Surplus	\$ (3,679,361)	\$ 20,738

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

	<u>2013</u>	<u>2012</u>
Net (Debt)/Financial Assets Beginning of the Year	\$ (5,624,459)	\$ 734,803
Annual (Deficit)/Surplus	(3,679,361)	20,738
Business Acquisition	-	(6,600,000)
Acquisition of Tangible Capital Assets	(1,737,289)	-
Disposal of Tangible Capital Assets	277,675	220,000
Disposal of Inventory	400,000	-
Building write down	2,920,649	-
Net changes in Prepaid Expenses	(11,425)	-
Increase in Net Debt	<u>(1,829,751)</u>	<u>(6,359,262)</u>
Net Debt End of Year	\$ (7,454,210)	\$ (5,624,459)

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

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

	<u>2013</u>	<u>2012</u>
Accumulated Surplus – Beginning of Year	\$750,541	\$ 729,803
Annual (Deficit)/Surplus	<u>(3,679,361)</u>	<u>20,738</u>
Accumulated (Deficit)/Surplus – End of Year	\$ (2,928,820)	\$ 750,541

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

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

	<u>2013</u>	<u>2012</u>
Operating Activities		
Annual (Deficit)/Surplus	\$ (3,679,361)	\$ 20,738
Items not requiring an outlay of cash		
Concessionary interest revenue	(70,093)	-
Concessionary interest expense	271,301	-
(Decrease)/Increase in provision for loss	(36,567)	64,557
Loss on sale of capital assets	102,054	-
Building write down	2,920,649	-
Changes in non-cash working capital (Note 13)	1,902,842	845,967
	\$ 1,410,825	\$ 931,262
Investing Activities		
Issuance of loans	(5,000,000)	
Loan Repayment	203,233	87,549
	\$ (4,796,767)	\$ 87,549
Capital Activities		
Business acquisition	-	(6,600,000)
Proceeds from sale of assets	575,621	220,000
Acquisition of capital assets	(1,737,289)	-
	\$ (1,161,668)	\$ (6,380,000)
Financing Activities		
Increase in due to Province of New Brunswick	4,833,334	4,935,443
Repayment to the Province of New Brunswick	-	(87,549)
	\$ 4,833,334	\$ 4,847,894
Net increase/(decrease) in cash	285,724	(513,295)
Cash balance, beginning of year	227,008	740,303
Cash balance, end of year	\$ 512,732	\$ 227,008

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

Provincial Holdings Ltd.

Notes to the financial statements

March 31, 2013

1. Description of operations and economic dependence

Provincial Holdings Ltd. (the "Company") 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). The Company has adopted the accounting standards contained in PS 1201 – *Financial statement presentation*, PS 3410 – *Government Transfers* and PS 3450 – *Financial instruments* in the preparation of these financial statements. The impact of these accounting standards is not significant, affecting only disclosures in the notes to the financial statements. The financial statements of prior periods, including comparative figures, have not been restated. 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.

Provincial Holdings Ltd.

Notes to the financial statements

March 31, 2013

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.

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.

Provincial Holdings Ltd.

Notes to the financial statements

March 31, 2013

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.

3. Tangible Capital Assets

Cost	Land	Buildings	Equipment	2013 Total	2012 Total
Opening Balance	\$972,200	\$4,750,000	\$257,800	\$5,980,000	-
Additions	-	1,737,289	-	1,737,289	5,980,000
Disposals	-	(24,475)	(253,200)	(277,675)	-
Impairment/Write Down	-	(2,920,649)	-	(2,920,649)	-
Closing Balance	\$972,200	\$3,542,165	\$4,600	\$4,518,965	\$5,980,000
Accumulated Amortization	-	-	-	-	-
Net Book Value	\$972,200	\$3,542,165	\$4,600	\$4,518,965	\$5,980,000

Subsequent to year end, an appraisal of the building and property was performed where a write down of \$2,920,649 was recorded in these financial statements as a reduction of the tangible capital asset amount.

During the year PHL incurred \$115,605 for leasehold improvements. Such expenses were reimbursed by the Federal Government, and have not been recorded in these financial statements.

Provincial Holdings Ltd.

Notes to the financial statements

March 31, 2013

4. Valuation of prior year asset and environmental liability

Effective June 23, 2011, the Company purchased 100% of the shares of Umoe Solar New Brunswick Inc. and Fornebu Development Corporation and as such the prior year Company financial statements were presented on a consolidated basis. As the entities have amalgamated, no consolidation issues remain and the March 31, 2013 financial statements are presented as non-consolidated.

Certain assets acquired and liabilities assumed in the prior years' business acquisition were recorded in the prior year Company financial statements using management estimates to establish carrying values.

Among the buildings acquired included an asset recorded at \$1.5 million. No appraisal has been performed on this building at the acquisition date or as at March 31, 2013, and therefore it is unknown if the carrying value estimation prepared by management approximates fair value. Management continues to assess the possible future uses of this building.

Management has continued to record an estimated environmental liability of \$1.6 million in the financial statements, however, further consultations were held with the Department of Transportation and Infrastructure and Environment and Local Government where an estimated cost of remediation was estimated to be up to \$6.5 million depending on the future use of the property and future management decisions. Given material uncertainty regarding possible future course of action and financial impacts, it is unknown if the carrying value liability estimate prepared by management reflects fair value at the acquisition date of as at March 31, 2013.

5. Industrial development projects – loans and shares

	Loans	Shares	March 31, 2013	March 31, 2012
Loans and investments	\$ 4,650,126	\$ 2,450,433	\$ 7,100,559	\$ 2,577,000
Less: Provision for loss	18,000	2,450,433	2,468,433	2,577,000
	<u>\$ 4,632,126</u>	<u>\$ -</u>	<u>\$ 4,632,126</u>	<u>\$ -</u>

The loans are represented by a loan of \$4,632,126 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. Provision for losses on long term investments are recorded once there is a permanent decline in value of the investment.

Provincial Holdings Ltd.

Notes to the financial statements

March 31, 2013

6. 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>2013</u>	<u>2012</u>
Opening Balance	\$ 7,526,999	\$ 2,679,105
Increase	5,000,000	10,762,759
Repayment	(203,233)	(152,106)
Debt Forgiveness	-	(5,762,759)
Closing Balance	\$ 12,323,766	\$ 7,526,999

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

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 2,526,999	\$ 2,654,105
Decrease during the year	36,567	127,106
	\$ 2,490,432	\$ 2,526,999
Net	\$9,833,334	\$ 5,000,000

7. Miscellaneous Revenue and Expenses

	<u>2013 Revenue</u>	<u>2013 Expenses</u>
Revenue from Oil Sales	\$ 660,516	\$657,502
Sale of Furniture	24,475	24,475
Other	26,178	129,062
	\$ 711,169	\$ 811,039

Provincial Holdings Ltd.

Notes to the financial statements

March 31, 2013

8. Operating Expenses

	<u>2013</u>	<u>2012</u>
Security	\$ 138,988	\$94,103
Property Taxes	292,318	88,725
Utilities	77,447	88,595
Management Services	84,092	87,471
Repairs and Maintenance	37,891	49,291
Environmental Fees	-	19,800
	<hr/> \$ 630,736	<hr/> \$ 427,985

9. 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 debtors.

Provincial Holdings Ltd.

Notes to the financial statements

March 31, 2013

The Company's maximum exposure to credit risk at March 31, 2013 is equal to the industrial development project - loans to client companies' balance of \$ 4,650,126.

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.

10. 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 \$1,178,250 (2012 - \$7,117,760) 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 \$864,217 incurred for building renovations completed by the Department of Transportation and Infrastructure. These expenses have been recorded at the exchange amount.

11. Contingent liabilities

As at March 31, 2013 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 \$11,250,000 at March 31, 2013 (2012 - \$11,674,823). 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.

12. Commitments

The Company entered into a multi-year funding agreement in 2011 for an amount of \$3 million over three years. An amount of \$1 million is remaining and is due in the next fiscal year.

Provincial Holdings Ltd.

Notes to the financial statements

March 31, 2013

13. Changes in non-cash working capital

	<u>2013</u>	<u>2012</u>
Accounts Receivable	\$ (22,680)	\$ (230,634)
Due from Province of New Brunswick	700,000	(700,000)
Prepays	(11,425)	-
Accounts payable and accrued liabilities	1,236,947	176,601
Environmental Liabilities	-	1,600,000
	<u>\$1,902,842</u>	<u>\$ 845,967</u>

14. Subsequent Event

As of August 2013, a building owned by the Company had been 100% leased to the Federal Government for a period of five years with a termination option after year four. The Company received funding from the Province of New Brunswick's Consolidated Fund to pay for the leasehold improvements, where it was noted that the profit from the lease of the building is to be returned to the Consolidated Fund. Renovations amounting to \$1,737,289 were completed during the year to enhance future service potential of the building.

INVESTMENTS
PROVINCIAL HOLDINGS LTD.
March 31, 2013

Provincial Holdings Ltd
Portfolio of Investments and Commitments
March 31, 2013

	2013	2012
	\$	\$
Investments		
Industrial Development Projects		
Connors Bros. Loan	4,632,126	-
Forgivable Loan to Maritime Cold Storage Limited	18,000	90,000
Other		
Loan Guarantee to Co-op Atlantic	11,250,000	11,674,823
Shares in ACF Equity Atlantic Inc.	2,450,433	2,487,000
Capital Assets		
Buildings	3,542,165	4,750,000
Land	972,200	972,200
Equipment	4,600	257,800
Other	-	400,000
	<u>4,518,965</u>	<u>6,380,000</u>
Total Investments	<u>22,869,524</u>	<u>20,631,823</u>
Commitments		
Bay Ferries Limited	1,000,000	2,000,000
Total Commitments	<u>1,000,000</u>	<u>2,000,000</u>