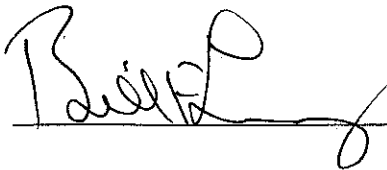


Financial Statements of

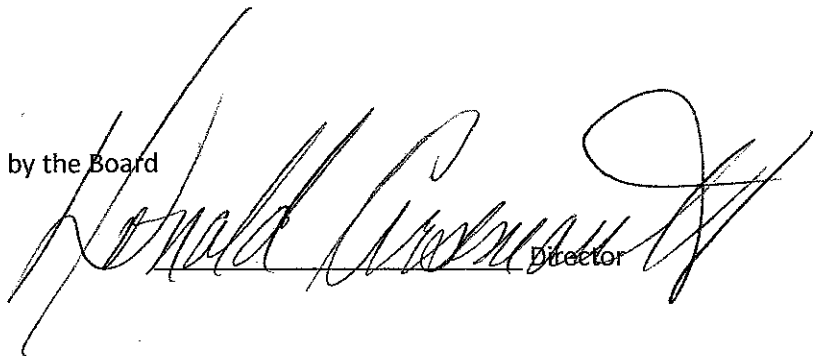
**Provincial Holdings Ltd.**

March 31, 2016



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, 2016, 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, 2016 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  
March 31, 2017

CHARTERED PROFESSIONAL ACCOUNTANTS

**Provincial Holdings Ltd.**  
**Statement of Financial Position**  
**As at March 31, 2016**

	<u>2016</u>	<u>2015</u>
<b>Financial Assets</b>		
Cash and cash equivalents	\$ 2,020,685	\$ 2,251,431
Accounts receivable	724,145	308,453
Industrial development projects (Note 3)		
Loans to client companies	-	3,791,667
Equity investment	-	3,049
Less: provision for loss	-	(291,700)
<b>Total Financial Assets</b>	<b>\$ 2,744,830</b>	<b>\$ 6,062,900</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	543,288	1,448,404
HST payable	89,631	22,339
Environmental liabilities (Note 4)	4,534,881	5,500,000
Due to Province of New Brunswick (Note 5)	7,950,791	11,450,758
<b>Total Liabilities</b>	<b>\$ 13,118,591</b>	<b>\$ 18,421,501</b>
<b>Net Debt</b>	<b>\$ (10,373,761)</b>	<b>\$ (12,358,601)</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)	3,943,834	4,399,834
Prepaid expenses	5,012	1,153
	<b>\$ 3,948,846</b>	<b>\$ 4,400,987</b>
<b>Accumulated Deficit</b>	<b>\$ (6,429,915)</b>	<b>\$ (7,962,614)</b>

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, 2016**

---

	<u>2016</u>	<u>2015</u>
<b>Revenues</b>		
Provincial contributions	\$ 1,486,678	\$ 918,238
Miscellaneous revenue	2,560	83,890
Rental income	1,618,575	1,581,257
Interest income	4,484	114,093
	<hr/> \$ 3,112,297	<hr/> \$ 2,697,478
<b>Expenses</b>		
Development grants	\$ 1,000,000	\$ 1,000,000
Miscellaneous expenses	2,397	73,274
Operating expenses (Note 8)	776,988	781,332
Environmental remediation	(478,441)	(701,714)
Bad debt	-	(84,811)
Amortization	206,000	206,000
Professional fees	8,635	30,350
Loss on sale of capital assets	55,000	-
Other	9,019	56,599
	<hr/> \$ 1,579,598	<hr/> \$ 1,361,030
<b>Annual Surplus</b>	<b>\$ 1,532,699</b>	<b>\$ 1,336,448</b>

---

*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, 2016**

---

	<u>2016</u>	<u>2015</u>
<b>Net Debt - Beginning of Year</b>	\$ (12,358,601)	\$ (13,900,945)
Annual surplus	1,532,699	1,336,448
Disposal of tangible capital assets	250,000	-
Amortization of tangible capital assets	206,000	206,000
Net changes in prepaid expenses	(3,859)	(104)
<b>Decrease in Net Debt</b>	<u>1,984,840</u>	<u>1,542,344</u>
<b>Net Debt - End of Year</b>	<b>\$ (10,373,761)</b>	<b>\$ (12,358,601)</b>

---

*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, 2016**

---

	<u>2016</u>	<u>2015</u>
<b>Accumulated Deficit – Beginning of Year</b>	\$ (7,962,614)	\$ (9,299,062)
<b>Annual Surplus</b>	<u>1,532,699</u>	<u>1,336,448</u>
<b>Accumulated Deficit – End of Year</b>	<b>\$ (6,429,915)</b>	<b>\$ (7,962,614)</b>

---

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

**Provincial Holdings Ltd.**  
**Statement of Cash Flows**  
**For the year ended March 31, 2016**

	<u>2016</u>	<u>2015</u>
<b>Operating Activities</b>		
Annual surplus	\$ 1,532,699	\$ 1,336,448
Items not requiring an outlay of cash		
Concessionary interest revenue	-	(64,843)
Loss on sale of capital assets	55,000	-
Decrease in provision for loss	(291,700)	(2,550,195)
Changes in non-cash		
Amortization of tangible capital assets	206,000	206,000
Working capital (Note 9)	(2,222,494)	489,330
	<b>\$ (720,495)</b>	<b>\$ (583,260)</b>
<b>Investing Activities</b>		
Loan transfer/payment	3,791,667	499,999
Loan forgiveness	-	18,000
Equity investment payment/write down	3,049	2,447,384
	<b>\$ 3,794,716</b>	<b>\$ 2,965,383</b>
<b>Capital Activities</b>		
Proceeds from sale of capital assets	195,000	-
	<b>\$ 195,000</b>	<b>\$ -</b>
<b>Financing Activities</b>		
Decrease in due to Province of New Brunswick	(3,499,967)	(467,447)
	<b>\$ (3,499,967)</b>	<b>\$ (467,447)</b>
Net increase (decrease) in cash	(230,746)	1,914,676
Cash balance - beginning of year	2,251,431	336,755
<b>Cash balance - End of Year</b>	<b>\$ 2,020,685</b>	<b>\$ 2,251,431</b>

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

# Provincial Holdings Ltd.

## Notes to the financial statements

March 31, 2016

---

### 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

# Provincial Holdings Ltd.

## Notes to the financial statements

March 31, 2016

---

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.

### *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, 2016

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

	Loans	Shares	March 31, 2016	March 31, 2015
Loans and investments	\$ -	\$ -	\$ -	\$ 3,794,716
Less: Provision for loss	-	-	-	291,700
	\$ -	\$ -	\$ -	\$ 3,503,016

### 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 has been adjusted to \$4,534,881 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.

### 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>2016</u>	<u>2015</u>
Opening balance	\$ 11,742,256	\$ 14,710,098
Repayment	-	(549,209)
Debt forgiveness	<u>(3,791,465)</u>	<u>(2,418,433)</u>
Closing balance	\$ 7,950,791	\$ 11,742,456

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

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 291,698	\$ 2,791,893
Decrease during the year	<u>(291,698)</u>	<u>(2,500,195)</u>
	\$ -	\$ 291,698
<b>Net</b>	<b>\$ 7,950,791</b>	<b>\$ 11,450,758</b>

# Provincial Holdings Ltd.

Notes to the financial statements

March 31, 2016

## 6. Tangible capital assets

	Land	Building	Building Rental	2016 Total	2015 Total
<b>Cost</b>					
Opening balance	\$339,000	\$250,000	\$3,810,834	\$4,399,834	\$4,605,834
Additions	-	-	-	-	-
Disposals	-	(250,000)	-	(250,000)	-
Impairment/Write down	-	-	-	-	-
Closing balance	\$339,000	\$ -	\$ 3,810,834	\$4,149,834	\$4,605,834
Less: Accumulated amortization	-	-	206,000	206,000	206,000
<b>Net Book Value</b>	<b>\$339,000</b>	<b>\$ -</b>	<b>\$3,604,834</b>	<b>\$3,943,834</b>	<b>\$4,399,834</b>

The rental building is amortized on a straight-line basis over 20 years.

## 7. Contingent liabilities

As at March 31, 2016 the Company had one loan guarantee outstanding. Under the agreement, the amount guaranteed shall not exceed \$7,500,000. The contingent liability in respect of this guarantee was \$7,500,000 at March 31, 2016 (2015 - \$7,500,000). 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. Operating expenses

	<u>2016</u>	<u>2015</u>
Security	\$ -	\$ 2,970
Property taxes	279,803	251,405
Utilities	255,127	291,377
Management services	81,013	74,750
Repairs and maintenance	137,310	152,249
Insurance	4,800	4,509
Environmental fees	18,935	4,072
	<u>\$ 776,988</u>	<u>\$ 781,332</u>

## 9. Changes in non-cash working capital

	<u>2016</u>	<u>2015</u>
Accounts receivable	\$ (415,692)	\$ 55,732
Prepays	(3,859)	(104)
Accounts payable and accrued liabilities	(837,824)	1,383,702
Environmental liabilities	(965,119)	(950,000)
	<u>\$ (2,222,494)</u>	<u>\$ 489,330</u>

# Provincial Holdings Ltd.

## Notes to the financial statements

March 31, 2016

---

### 10. 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, 2016.

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.

### 11. 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 \$486,678 incurred for environmental remediation. These expenses have been recorded at the exchange amount.

### 12. Subsequent Events

On April 28, 2016 a settlement agreement was finalized in regards to the Company's outstanding loan guarantee and the Company subsequently paid out \$600,000 to settle in exchange for full release of the Company under the \$7.5M loan guarantee agreement.

# Provincial Holdings Ltd.

Notes to the financial statements

March 31, 2016

---

An agreement was signed in August, 2016 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. Assets included land, buildings, boat lift and equipment. Debts were subsequently negotiated by legal counsel with suppliers and contactors identified in the agreement. As of January 11, 2017, \$3,883,423 has been paid. Outstanding amounts remaining to be paid are approximately \$3.5 million. In addition, Provincial Holdings Ltd. entered into an agreement with Océan New Brunswick Inc. and Location Industries Océan Inc. to complete construction of a \$13 million floating dry dock. As of January 11, 2017, \$2.7 million has been disbursed.