
PROVINCIAL HOLDINGS LTD.

ANNUAL REPORT

31 MARCH 2012

DIRECTORS

The Honourable Paul Robichaud
The Honourable Blaine Higgs
The Honourable Bruce Northrup
The Honourable Martine Coulombe
Mr. Bill Levesque
Mr. Doug Holt
Mr. Byron James
Mr. Jean Marc Dupuis

OFFICERS

Chairperson	The Honourable Paul Robichaud
Vice-Chairperson	The Honourable Blaine Higgs
President	Mr. Bill Levesque
Vice-President	Mr. Jeff Trail
Secretary-Treasurer	Ms. Grace Lee Cutler

AUDITOR

Deloitte & Touche LLP

LEGAL COUNSEL

Office of the Attorney General
Province of New Brunswick

**Provincial Holdings Ltd.
Centennial Building
Fredericton, New Brunswick
Canada E3B 5H1**

PROVINCIAL HOLDINGS LTD.

Report of the Chairperson

Provincial Holdings Ltd. continues to be a funding vehicle, used in limited cases, to implement strategic investments that are not eligible under the Economic Development Act.

The assistance provided by Provincial Holdings Ltd. is consistent with its mandate to be a vehicle through which the Province of New Brunswick can invest in attractive opportunities for the economic development of New Brunswick.

Provincial Holdings Ltd. investments are monitored through visits to plants and other facilities, or through regular monitoring by staff of the Department of Economic Development.

During the twelve-month period ended March 31, 2012, Provincial Holdings Ltd. purchased the shares of Umoe Solar New Brunswick Inc. and Fornebu Development Corporation as the result of a previous commitment of government. Provincial Holdings Ltd. is working diligently in managing the acquired assets which includes a disposition plan and retaining certain assets for development opportunities.

For the period ended March 31, 2012, Provincial Holdings Ltd. recorded an annual surplus of \$20,738.

A schedule of Provincial Holdings Ltd. complete portfolio can be found at the end of this Annual Report.

Sincerely,

A handwritten signature in blue ink, appearing to read "Paul Kelubick". The signature is fluid and cursive, with the first name "Paul" being more prominent than the last name "Kelubick".

Chairperson of the Board

Financial Statements of

Provincial Holdings Ltd.

March 31, 2012

Independent Auditor's Report

To the Shareholder of Provincial Holdings Ltd.

We have audited the accompanying consolidated financial statements of Provincial Holdings Ltd., which comprise the consolidated statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, and the consolidated statements of financial activities, changes in net debt and cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

Basis for Qualified Opinion

As explained in Note 3, management estimates were used to establish the carrying values of the net assets of Umoe Solar New Brunswick Inc. and Fornebu Development Corporation acquired during the year. We were unable to obtain sufficient appropriate audit evidence to conclude whether the identifiable assets acquired and liabilities assumed 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 the environmental liabilities.

Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of Provincial Holdings Ltd. as at March 31, 2012, March 31, 2011 and April 1, 2010, and the results of its operations and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian public sector accounting standards.



Chartered Accountants
September 26, 2012

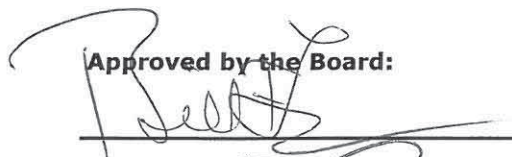
Provincial Holdings Ltd.

Consolidated statements of financial position


	March 31, 2012	March 31, 2011 (Note 2)	April 1, 2010 (Note 2)
Financial assets			
Cash and cash equivalents	\$ 227,008	\$ 740,303	\$ 564,724
Accounts receivable	230,634	-	-
Due from Province of New Brunswick	700,000	-	-
Industrial development projects (Note 6)			
Loans to client companies	-	242,105	242,105
Shares in client companies	2,577,000	2,487,000	2,487,000
Less: provision for loss	(2,577,000)	(2,704,105)	(2,704,105)
Total financial assets	1,157,642	765,303	589,724
Liabilities			
Accounts payable and accrued liabilities	182,101	5,500	5,500
Environmental liabilities (Note 3)	1,600,000	-	-
Long-term debt (Note 7)			
Due to Province of New Brunswick	7,526,999	2,679,105	2,679,105
Less: provision for loss	(2,526,999)	(2,654,105)	(2,654,105)
Total liabilities	6,782,101	30,500	30,500
Net debt	(5,624,459)	734,803	559,224
Equity			
Authorized			
599 Common shares with a par value of \$10 each			
Issued			
500 Common shares	5,000	5,000	5,000
Non-financial assets			
Tangible capital assets (Note 4)	5,980,000	-	-
Inventory (Note 4)	400,000	-	-
Total non-financial assets	6,380,000	-	-
Accumulated surplus	\$ 750,541	\$ 729,803	\$ 554,224

Contingent liabilities and commitments (Notes 9 and 10)

Approved by the Board:



Director



Director

Provincial Holdings Ltd.

Consolidated statements of changes in net debt
years ended March 31

	<u>2012</u>	<u>2011</u> (Note 2)
Net debt, beginning of year	\$ 734,803	\$ 559,224
Changes in year		
Annual surplus	20,738	175,579
Business acquisition	(6,600,000)	-
Disposal of capital assets	220,000	-
(Decrease) increase in net debt	(6,359,262)	175,579
Net debt, end of year	\$ (5,624,459)	\$ 734,803

Provincial Holdings Ltd.

Consolidated statements of financial activities years ended March 31

	<u>2012</u>	<u>2011</u> (Note 2)
Revenues		
Provincial contribution	\$ 7,117,760	\$ 1,350,000
Regional Development Corporation contribution	250,000	-
Guarantee fees	180,461	180,461
Contribution recovery	62,549	314,401
Rental income	21,200	-
Interest income	1,193	883
	<u>7,633,163</u>	<u>1,845,745</u>
Expenses		
Development grant	7,117,760	1,350,000
Operating expenses for Umoe and FDC (Note 8)	427,985	-
Contribution recovery repayment to Province of New Brunswick	62,549	314,401
Professional fees	3,850	5,650
Miscellaneous	281	115
	<u>7,612,425</u>	<u>1,670,166</u>
Annual surplus	20,738	175,579
Accumulated surplus, beginning of year	729,803	554,224
Accumulated surplus, end of year	\$ 750,541	\$ 729,803

Provincial Holdings Ltd.

Consolidated statements of cash flows years ended March 31

	<u>2012</u>	<u>2011</u> (Note 2)
Net inflow (outflow) of cash related to the following activities		
Operating activities		
Annual surplus	\$ 20,738	\$ 175,579
Changes in non-cash operating working capital items (Note 11)	845,967	-
Decrease in provision for loss	64,557	-
	<u>931,262</u>	<u>175,579</u>
Investing activities		
Business acquisition (Note 3)	(6,600,000)	-
Proceeds from sale of assets held for resale	220,000	-
Industrial development projects		
Loan repayment	87,549	-
	<u>(6,292,451)</u>	<u>-</u>
Financing activities		
Increase in due to Province of New Brunswick	4,935,443	-
Repayment to the Province of New Brunswick	(87,549)	-
	<u>4,847,894</u>	<u>-</u>
(Decrease) increase in cash during the year	(513,295)	175,579
Cash position, beginning of year	<u>740,303</u>	<u>564,724</u>
Cash position, end of year	<u>\$ 227,008</u>	<u>\$ 740,303</u>

Provincial Holdings Ltd.

Notes to the consolidated financial statements

March 31, 2012, March 31, 2011 and April 1, 2010

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. Conversion to public sector accounting standards

In previous fiscal years, Provincial Holdings Ltd. (the "Company"), a wholly owned subsidiary of the Province of New Brunswick (the "Province") classified itself as a Government Business-Type Organization ("GBTO") and followed the recommendations of the Canadian Institute of Chartered Accountants (CICA) Accounting Handbook - Part V. In October 2009, the Public Sector Accounting Board ("PSAB") determined that this category would cease to exist for fiscal years ending on or after January 1, 2011, and GBTOs were required to reclassify themselves in accordance with the Introduction to Accounting Standards in the CICA Public Sector Accounting Handbook. The Province has determined that the Company is an "Other Government Organization" and that Public Sector Accounting Standards ("PSAS") is the most appropriate framework for reporting purposes. These consolidated financial statements are the first consolidated financial statements for which the Company has applied PSAS as issued by the Public Sector Accounting Standards Board.

In accordance with the requirements of PS 2125, the accounting policies set out in Note 3 have been consistently applied to all years presented. In accordance with PS 2125, the Company has elected to adopt the exemptions available under PS 2125 relating to business combinations. This elective exemption provides the option to apply the requirements in PS 2510 Additional Areas of Consolidation on the application of the purchase method prospectively from the date of transition to Public Sector Accounting Standards. As such, no business combinations have been restated before the date of transition using the purchase method as required under by PS 2510.

The adoption of PSAS had no impact on the previously reported assets, liabilities, and accumulated surplus of the Company, and accordingly; no adjustments have been recorded in the comparative statements of financial position, financial activities, changes in net debt and cash flows. The presentation of certain of the Company's assets and liabilities in the statement of financial position and certain of its disclosures included in these financial statements have been adjusted to reflect the requirements of PSAS.

3. Business acquisition

Effective June 23, 2011, the Company purchased 100% of the shares of Umoe Solar New Brunswick Inc. and Fornebu Development Corporation for \$10,762,759 cash. Financing for the acquisition was provided by the Province of New Brunswick. The operating results of the acquired business are included in the financial statements from the effective date of acquisition.

The following summarizes management's estimates of the carrying value of the acquired assets and assumed liabilities:

Provincial Holdings Ltd.

Notes to the consolidated financial statements

March 31, 2012, March 31, 2011 and April 1, 2010

3. Business acquisition (continued)

Net assets acquired:

Land	\$	972,200
Buildings		4,750,000
Inventory		400,000
Equipment		312,800
Rail siding		165,000
		<u>6,600,000</u>
Environmental liabilities		(1,200,000)
Landfill remediation		(400,000)
Purchase premium		5,762,759
	\$	<u>10,762,759</u>

Subsequent to purchase, the purchase premium was written off. As disclosed in Note 7, losses on investments reduce the amount of long-term debt to be repaid.

4. Tangible capital and other assets

The assets acquired in business acquisition described in Note 3 are being evaluated for rental or development purposes.

Land	\$	972,200
Buildings		4,750,000
Equipment		257,800
		<u>5,980,000</u>
Inventory		400,000
	\$	<u>6,380,000</u>

5. Accounting policies

The consolidated financial statements are the representations of management, prepared in accordance with the Canadian public sector accounting standards for governments as established by PSAB and reflect the following significant accounting policies:

Basis of 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.

Basis of consolidation

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of the Company, which is comprised of all controlled organizations. These organizations are listed in Note 3.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with maturities of three months or less from the date of acquisition.

Provincial Holdings Ltd.

Notes to the consolidated financial statements

March 31, 2012, March 31, 2011 and April 1, 2010

5. Accounting policies (continued)

Provincial contributions and revenue

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

Industrial development projects and development grants

Loans to client companies are carried at amortized cost except where, by agreement, interest on such projects is capitalized. In these cases the capitalized interest is added to the cost of the investment.

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

The Company's portfolio investments in shares in client companies are carried at cost, less any impairment losses. Impairment losses are reversed when there is a subsequent increase in the value of the investment.

The Company maintains a provision for loss against its investments 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.

Tangible capital assets

Tangible capital assets, while being evaluated for final use, are carried at cost less accumulated depreciation and accumulated write-down. 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 consolidated statement of financial activities.

Use of accounting estimates

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 these estimates.

Provincial Holdings Ltd.

Notes to the consolidated financial statements

March 31, 2012, March 31, 2011 and April 1, 2010

5. Accounting policies (continued)

Environmental liabilities

The Company recognizes and estimate environmental liabilities for remediation of contaminated sites and landfill closures. These liabilities arose from the business acquisition disclosed in Note 3.

Landfill

The Company recognizes a liability for closure and post closure activities as the landfill site capacity is used. The liability is measured as the net present value of the total estimated future cash flows associated with the closure and post closure activities.

Remediation of contaminated sites

A liability for remediation of contaminated sites is recognized when the Company has accepted responsibility for contamination that has exceeded an environmental standard, it is expected future economic benefits will be given up and the liability can be reasonably estimated.

The liability is measured as the best estimate of the expenditures required to complete the remediation activities

6. Industrial development projects – loans and shares

	<u>Loans</u>	<u>Shares</u>	<u>March 31, 2012</u>	<u>April 1, 2010 and March 31, 2011</u>
Loans and investments	\$ 90,000	\$ 2,487,000	\$ 2,577,000	\$ 2,729,105
Less: Provision for loss	90,000	2,487,000	2,577,000	2,704,105
	\$ -	\$ -	\$ -	\$ 25,000

The loans are represented by a forgivable advance in the amount of \$90,000. The shares represent a 15.6% investment in the common shares of a private investee corporation.

Details of the provision for loss are as follows:

	<u>March 31, 2012</u>	<u>March 31, 2011</u>
Balance, beginning of year	\$ 2,704,105	\$ 2,704,105
Recovery	(62,549)	-
Decrease	(64,556)	-
	\$ 2,577,000	\$ 2,704,105

Provincial Holdings Ltd.

Notes to the consolidated financial statements

March 31, 2012, March 31, 2011 and April 1, 2010

7. Long-term debt

Pursuant to Treasury Board Minute 74-57, advances from the Province of New Brunswick are interest free and are to be repaid from recoveries of amounts invested in industrial development projects. Any losses on investments funded by this debt reduce the amount of long-term debt to be repaid.

	<u>March 31,</u> <u>2012</u>	<u>March 31,</u> <u>2011</u>
Opening balance	\$ 2,679,105	\$ 2,679,105
Increase	10,762,759	-
Repayment	(152,106)	-
Debt forgiveness	(5,762,759)	-
Closing balance	<u>\$ 7,526,999</u>	<u>\$ 2,679,105</u>

The Province provided a debt forgiveness of \$5.8 million associated with the business acquisition disclosed in Note 3.

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

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 2,654,105	\$ 2,654,105
Decrease during the year	127,106	-
	<u>\$ 2,526,999</u>	<u>\$ 2,654,105</u>

8. UMOE expenses

	<u>2012</u>	<u>2011</u>
Security	\$ 94,103	\$ -
Property taxes	88,725	-
Utilities	88,595	-
Management services	87,471	-
Repairs and maintenance	49,291	-
Environmental fees	19,800	-
	<u>\$ 427,985</u>	<u>\$ -</u>

9. Contingent liabilities

As at March 31, 2012 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 \$11,674,823 at March 31, 2012 (2011 - \$12,030,800). Any resulting losses will be borne by the Province of New Brunswick.

10. Commitments

As of March 31, 2012, the Company has outstanding commitments in respect of industrial development projects of \$2,000,000 (2011 - \$350,000).

Provincial Holdings Ltd.

Notes to the consolidated financial statements

March 31, 2012, March 31, 2011 and April 1, 2010

11. Additional information relating to the statement of cash flows

Changes in non-cash operating working capital items

	<u>2012</u>	<u>2011</u>
Accounts receivable	\$ (230,634)	\$ -
Due from the Province of New Brunswick	(700,000)	-
Accounts payable and accrued liabilities	176,601	-
Environmental liabilities	1,600,000	-
	<u>\$ 845,967</u>	<u>\$ -</u>
Interest received	\$ 1,193	\$ 883

INVESTMENTS

PROVINCIAL HOLDINGS LTD.

31 MARCH 2012

**PROVINCIAL HOLDINGS LTD.
PORTFOLIO OF INVESTMENTS AND COMMITMENTS
31 MARCH 2012**

INVESTMENTS

INDUSTRIAL DEVELOPMENT PROJECTS

Forgivable Loans	<u>\$90,000</u>	
Total Projects		<u>\$90,000</u>

OTHER

Loan Guarantees to Client Companies	\$11,674,823	
Shares in Client Companies	<u>2,487,000</u>	
Total Other		<u>\$14,161,823</u>

CAPITAL AND OTHER ASSETS

Capital assets held for rental or development	<u>\$6,380,000</u>	
Total Assets		<u>\$6,380,000</u>

TOTAL INVESTMENTS \$20,631,823

COMMITMENTS

Non Repayable Contributions	<u>\$2,000,000</u>	
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TOTAL COMMITMENTS \$2,000,000

**PROVINCIAL HOLDINGS LTD.
SCHEDULE OF INVESTMENTS – INDUSTRIAL DEVELOPMENT PROJECTS
31 MARCH 2012**

FORGIVABLE LOANS TO CLIENT COMPANIES

Maritime Cold Storage Ltd.

\$90,000

TOTAL INDUSTRIAL DEVELOPMENT PROJECTS

\$90,000

**PROVINCIAL HOLDINGS LTD.
SCHEDULE OF INVESTMENTS – COMMITMENTS
31 MARCH 2012**

COMMITMENTS
Bay Ferries Ltd.

\$2,000,000

TOTAL COMMITMENTS

\$2,000,000

**PROVINCIAL HOLDINGS LTD.
SCHEDULE OF INVESTMENTS – OTHER
31 MARCH 2012**

LOAN GUARANTEES TO CLIENT COMPANIES

Coop Atlantic

\$11,674,823

SHARES IN CLIENT COMPANIES

A.C.F. Equity Atlantic Inc.

\$2,487,000

TOTAL OTHER

\$14,161,823

**PROVINCIAL HOLDINGS LTD.
SCHEDULE OF INVESTMENTS – CAPITAL AND OTHER ASSETS
31 MARCH 2012**

CAPITAL ASSETS HELD FOR RENTAL OR DEVELOPMENT

Buildings	\$4,750,000	
Land	972,200	
Equipment	257,800	
Inventory - Oil	<u>400,000</u>	
Total Capital assets held for rental or development		<u>\$6,380,000</u>