

Financial Statements of

**NOVA SCOTIA STRATEGIC
OPPORTUNITIES FUND
INCORPORATED**

Year ended March 31, 2018



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Nova Scotia Strategic Opportunities Fund Incorporated

We have audited the accompanying financial statements of Nova Scotia Strategic Opportunities Fund Incorporated which comprise the statement of financial position as at March 31, 2018, the statements of operations and accumulated deficit and cash flows for the year then ended, and notes, comprising 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.

Auditors' 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, we consider 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 Nova Scotia Strategic Opportunities Fund Incorporated as at March 31, 2018 and its results of operations and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

Chartered Professional Accountants, Licensed Public Accountants
June 29, 2018
Halifax, Canada

NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED

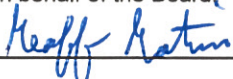
Statement of Financial Position

March 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash	\$ 355,551	\$ 3,664
Interest income receivable	1,038,140	1,111,440
Short-term investments (note 3)	67,102,385	27,218,068
Current portion of loans receivable and accrued interest (note 4)	—	5,012,423
	<u>68,496,076</u>	<u>33,345,595</u>
Long-term investments (note 3)	—	64,986,083
Due from Province of Nova Scotia (note 5)	7,000,000	7,000,000
	<u>\$ 75,496,076</u>	<u>\$ 105,331,678</u>
Liabilities and Deficit		
Current liabilities:		
Accounts payable	\$ 10,000	\$ 10,000
Current portion of obligations to investors (note 6)	58,419,055	30,864,166
	<u>58,429,055</u>	<u>30,874,166</u>
Obligations to investors (note 6)	19,157,551	76,474,674
	<u>77,586,606</u>	<u>107,348,840</u>
Accumulated deficit (Note 7)	<u>\$ (2,090,530)</u>	<u>\$ (2,017,163)</u>

See accompanying notes to financial statements.

On behalf of the Board:

 Director

NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED

Statement of Operations and Accumulated Deficit

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Revenue:		
Investment income	\$ 1,040,804	\$ 1,267,203
Provincial recovery (note 5)	–	7,000,000
	<u>1,040,804</u>	<u>8,267,203</u>
Expenses:		
Amortization of deferred financing costs	1,099,691	1,610,581
Interest and bank charges	2,520	25
Professional fees	11,960	11,605
Loan forgiveness (note 5)	–	7,000,000
	<u>1,114,171</u>	<u>8,622,211</u>
Excess of expenses over revenue	(73,367)	(355,008)
Accumulated deficit, beginning of year	(2,017,163)	(1,662,155)
Accumulated deficit, end of year	<u>\$(2,090,530)</u>	<u>\$(2,017,163)</u>

See accompanying notes to financial statements.

NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED

Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating:		
Excess of expenses over revenue	\$ (73,368)	\$ (355,008)
Item not affecting cash:		
Amortization of deferred financing costs	1,099,692	1,610,581
	<u>1,026,324</u>	<u>1,255,573</u>
Changes in non-cash working capital items:		
Interest income receivable	73,300	(1,111,133)
Accounts payable	—	1,026
	<u>1,099,624</u>	<u>145,466</u>
Financing:		
Deferred financing costs	(1,099,692)	(1,610,579)
Paid to investors	(29,762,234)	(40,560,436)
	<u>(30,861,926)</u>	<u>(42,171,015)</u>
Investing:		
Repayment of promissory note receivable	—	126,073,046
Payment on loans receivable and accrued interest	5,012,423	8,129,001
Proceeds from (purchase of) investments	25,101,766	(92,204,151)
	<u>30,114,189</u>	<u>41,997,896</u>
Change in cash	351,887	(27,653)
Cash, beginning of year	3,664	31,317
Cash, end of year	<u>\$ 355,551</u>	<u>\$ 3,664</u>

See accompanying notes to financial statements.

NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED

Notes to Financial Statements

Year ended March 31, 2018

1. Purpose of the organization:

The Nova Scotia Strategic Opportunities Fund Incorporated (the "Fund") is a corporation owned and established by the Province of Nova Scotia for the purpose of receiving and managing allocations under the Federal Immigrant Investor Program ("IIP"). The IIP is an investment program designed to deliver low cost funding to support provincial and territorial economic development and job creation priorities. Provincial allocations are repayable to the federal government within five years of receipt by the Fund on behalf of the Province. The Province has provided a guarantee of repayment to the federal government to secure participation in the program.

The Fund is incorporated under the laws of the Province of Nova Scotia. As a Crown entity of the Province of Nova Scotia it is not subject to provincial or federal income taxes.

2. Significant accounting policies:

These financial statements are prepared by management in accordance with Canadian Public Sector Accounting Standards of the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada. These statements do not present a statement of changes in net financial liabilities, as the Fund does not have non-financial assets and therefore accumulated deficit is equal to net financial liabilities.

These financial statements reflect the assets, liabilities, revenues and expenses of the Fund. The more significant policies are described below:

(a) Basis of accounting:

The Fund follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(b) Cash:

Cash consists of bank balances held with financial institutions.

(c) Use of estimates:

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements. Actual results could differ from those estimates.

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Notes to Financial Statements

Year ended March 31, 2018

2. Significant accounting policies (continued):

(d) Loans receivable:

Loans receivable are initially recorded at cost and subsequently revalued at the lower of cost or net recoverable value. Loans receivable are written down when there is an indication that the loan amount will not be recoverable. Interest on the loans is accrued monthly.

(e) Interest revenue:

Interest is recognized on an accrual basis and accrued interest is based on the rate assigned to the asset.

(f) Financial instruments:

Financial instruments are recorded at cost, which approximates fair value, at initial recognition and are subsequently recorded at cost less allowances for impairment. All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations.

(g) Administrative expenses:

The administration expenses of the Fund are incurred by the Department of Finance and the Province of Nova Scotia and accordingly are not reflected in the financial statements of the Fund.

(h) Budget:

The Fund has not presented a budget in its statement of operations as the Fund does not prepare an assessment of future operations.

(i) Adoption of new accounting standards:

On April 1, 2017, the Entity adopted the following Canadian public sector accounting standards:

- PS 2200 Related party disclosures, defines a related party and establishes disclosures required for related party transactions.
- PS 3210 Assets, provides guidance for applying the definition of assets in PS 1000, Financial Statement Concepts and establishes general disclosure standards for assets.
- PS 3320 Contingent Assets, establishes disclosure standards on contingent assets.
- PS 3380 Contractual rights, defines and establishes disclosure standards on rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future.

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Notes to Financial Statements

Year ended March 31, 2018

2. Significant accounting policies (continued):

- PS 3420 Inter-entity transactions, establishes standards on how to account for and report transactions between public sector entities that comprise the reporting entity. This standard provides that inter-entity transactions should generally be recorded at the carrying amount at the transaction date, except in certain circumstances.

The adoption of these standards did not result in an accounting policy change and did not result in any adjustments to the financial statements as at April 1, 2017.

3. Investments:

Investments are comprised of deposit notes, banker acceptances and bearer deposit notes of Canadian financial institutions. Deposit notes are interest bearing securities while bearer deposit notes and banker acceptances are purchased on a discounted basis.

	2018	2017
Principal value	\$68,966,427	\$89,918,068
Premium (discount) of bonds	(1,864,042)	2,286,083
	67,102,385	92,204,151
Less: current portion	67,102,385	27,218,068
Long-term portion	\$ —	\$64,986,083

The investment income earned on deposit notes, banker acceptances, and bearer deposit notes of Canadian financial institutions is \$998,568 (2017 - \$384,048).

4. Loans receivable and accrued interest:

The Fund had two outstanding loans, bearing interest of 3.15%, on a weighted average basis. Both loans were fully repaid in 2018.

	2018	2017
Face value of loans	\$ —	\$ 5,000,000
Accrued interest	—	12,423
	—	5,012,423
Less: current portion	—	5,012,423
	\$ —	\$ —

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Notes to Financial Statements

Year ended March 31, 2018

5. Provincial guarantee:

As stated in Note 1, the Province guarantees the repayment of all moneys owed to the federal government by the Fund under Order-in-Council 2008-35. There are two circumstances a Provincial guarantee could be called by the Fund. The first could result from the Fund having insufficient cash to meet its required payment under the IIP repayment schedule. Although capital received from IIP may have been preserved, a deficit and therefore a cash shortfall could result from return on assets being less than the cost of IIP funds. A provincial guarantee could also result from a loan not being repaid or from assets defaulting. During the fiscal year 2017, the Fund accounted for loan forgiveness in the amount of \$7,000,000.00, which will result in a claim on the Provincial guarantee in fiscal year 2019-20. The full provincial guarantee will be carried on the balance sheet under Due from Province and will be drawn down in fiscal 2019-20 as cash is required for IIP repayment.

6. Obligations to investors:

One of the conditions for the issuance of a visa to immigrants under the Citizenship and Immigration Canada (CIC), Business Immigration Program, is that an immigrant must invest \$800,000 in Canada for a period of five years. Prior to December 1, 2010 the investment required was \$400,000. The amount of the investment is allocated to the participating provinces on the first day of the second month following the month when payment is received from the investor. \$400,000 of the \$800,000 is divided equally among the participating provinces while the remaining \$400,000 is allocated on the basis of each participating provinces' gross domestic product as a percentage of the total gross domestic product of all participating provinces.

These obligations to investors are secured by a non-transferable, zero interest promissory note issued by CIC as agent for the Fund and a guarantee of the Province of Nova Scotia. The guarantee is to CIC, as an agent of the Fund, who will repay investors. The promissory notes are repayable, without interest, in full, five years from the date the funds were allocated to the Province or within 90 days after the receipt of a written request by the investor for repayment of the funds provided that such request for repayment has been received by the agent before a visa has been issued to the investor.

NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED

Notes to Financial Statements

Year ended March 31, 2018

6. Obligations to investors (continued):

Obligations to investors at March 31, 2018 totaled \$78,234,274 (2017 - \$109,098,440). Scheduled payment dates are as follows:

2019	\$ 58,419,055
2020	17,769,315
2021	1,659,056
2022	386,848
	78,234,274
Deferred financing costs	(657,668)
	77,576,606
Less: current portion	58,419,055
	\$ 19,157,551

7. Deficit:

Included in the accumulated deficit of the Fund is initial share capital as follows:

	2018	2017
Authorized:		
1,000,000 common shares without nominal or par value		
Issued:		
1 common share	\$ 1	\$ 1

8. Unallocated transactions:

For administrative purposes, the Fund is managed by the Province of Nova Scotia Department of Finance. Short term investments for cash management purposes are made by the Department of Finance & Treasury Board. The Department of Finance incurs unallocated expenses related to salaries and administration on behalf of the Fund. The Fund has elected not to record these costs in these financial statements.

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9. Economic dependence:

As a result of its reliance on actions by Citizenship and Immigration Canada and investment decisions by the Government of Nova Scotia, the Fund's ability to continue viable operations is dependent on the future actions of both entities.

The Federal Government has discontinued the IIP program. The legislative amendments terminating the applications became law on June 19, 2014. The IIP ceased intake of new applications on July 1, 2012. No further applications will be processed and the IIP will wind down over a period of 48 months.

10. Financial instruments:

The Fund's financial instruments include cash, interest income receivable, investments, loans receivable, accounts payable and obligations to investors.

Risks and concentrations

The Fund is exposed to various risks through its financial instruments. The following analysis provides a measure of the Fund's risk exposure and concentrations at March 31, 2018.

It is management's opinion that the Fund is not exposed to currency risk, and modest price risks from its financial instruments. The risks arising on financial instruments are limited to the following:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments that potentially subject the Fund to concentrations of credit risk consist of cash and short-term investments. The Fund deposits its cash in reputable financial institutions and invests only in creditworthy companies, and therefore believes the risk of loss to be remote.

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Notes to Financial Statements

Year ended March 31, 2018

10. Financial instruments (continued):

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The entity is exposed to this risk mainly in respect of its accounts payable and obligations to investors. The Fund generates sufficient cash from interest revenue earned to fund operations and fulfill obligations as they become due. Sufficient financing facilities via the guarantee of the Province of Nova Scotia are in place should cash requirements exceed cash generated.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The entity is mainly exposed to interest rate risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fluctuations in interest rates have a direct impact on the market valuation of fixed income securities portfolio values. Generally, investment income will move with interest rates over the long-term. Generally, interest investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed income securities are called, mature, or are sold and the proceeds are reinvested at lower rates.