

Financial Statements of (In  
thousands of dollars)

# **NOVA SCOTIA POWER FINANCE CORPORATION**

Year ended March 31, 2019

# NOVA SCOTIA POWER FINANCE CORPORATION

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(In thousands of dollars)

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KPMG LLP  
Purdy's Wharf Tower One  
1959 Upper Water Street, Suite 1500  
Halifax Nova Scotia B3J 3N2  
Canada  
Telephone (902) 492-6000  
Fax (902) 429-1307

## INDEPENDENT AUDITORS' REPORT

### ***Opinion***

We have audited the financial statements of Nova Scotia Power Finance Corporation (the Entity), which comprise:

- the statement of financial position as at March 31, 2019
- the statement of comprehensive income (loss) and statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditors’ Responsibilities for the Audit of the Financial Statements***” section of our auditors’ report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



## ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

## ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that serves as a separator or underline.

Chartered Professional Accountants, Licensed Public Accountants  
Halifax, Canada  
June 25, 2019

# NOVA SCOTIA POWER FINANCE CORPORATION

Statement of Financial Position  
(In thousands of dollars)

March 31, 2019, with comparative information for 2018

	2019	2018
<b>Assets</b>		
Cash	\$ 2,660	\$ 1,825
Defeasance assets (note 5)	984,447	1,013,622
	<u>\$ 987,107</u>	<u>\$ 1,015,447</u>
<b>Liabilities and Shareholder's Equity</b>		
Long-term debt (note 6)	\$ 978,914	\$ 1,009,150
Shareholder's equity:		
Retained earnings	8,193	6,297
	<u>\$ 987,107</u>	<u>\$ 1,015,447</u>

See accompanying notes to financial statements.

Approved by the Board:

 Director

 Director

# NOVA SCOTIA POWER FINANCE CORPORATION

Statement of Comprehensive Income (Loss) and  
Changes in Equity (In thousands of dollars)

Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Interest income from investments	\$ 45,294	\$ 7,979
Interest expense - long-term debt	(43,404)	(11,120)
	1,890	(3,141)
Unrealized foreign exchange gain	6	54
Net and comprehensive income (loss)	1,896	(3,087)
Equity, beginning of year	6,297	9,384
Equity, end of year	\$ 8,193	\$ 6,297

See accompanying notes to financial statements.

# NOVA SCOTIA POWER FINANCE CORPORATION

## Statement of Cash Flows

(In thousands of dollars)

Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Operating activities:		
Cash interest received	\$ 44,346	\$ 44,421
Cash interest paid	(73,640)	(73,880)
Effect of foreign exchange on United States dollar cash	6	54
	(29,288)	(29,405)
Investing activities:		
Proceeds from the sale of investments	30,123	28,405
Increase (decrease) in cash	835	(1,000)
Cash, beginning of year	1,825	2,825
Cash, end of year	\$ 2,660	\$ 1,825

See accompanying notes to financial statements.

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# NOVA SCOTIA POWER FINANCE CORPORATION

Notes to Financial Statements  
(In thousands of dollars)

Year ended March 31, 2019

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## 1. Reorganization and privatization:

In 1992, The Province of Nova Scotia (The "Province") passed legislation to facilitate the reorganization and privatization of the business of Nova Scotia Power Corporation ("NSPC"). In effecting this, pursuant to an Asset Transfer Agreement and a Debt Restructuring Agreement effective August 10, 1992, NSPC transferred all of its existing assets, liabilities and equity, except for long-term debt and related sinking funds, to Nova Scotia Power Inc. ("NSPI") in exchange for:

- (a) matching notes receivable equivalent to outstanding long-term debt, and matching notes payable equivalent to sinking funds assets; and
- (b) 20,134,666 fully paid common shares of NSPI issued to the Province, which were subsequently sold on August 12, 1992 by the Province as a secondary offering.

Subsequent to the reorganization and privatization, the former business activities of NSPC continued under NSPI. NSPC changed its name to Nova Scotia Power Finance Corporation ("NSPFC") which continued to hold the long-term debt and sinking funds assets and the matching notes receivable and notes payable.

On reorganization, NSPI and NSPFC committed, subject to certain conditions, to effect defeasance of NSPFC debt by December 31, 1998. Defeasance required qualifying assets to be set aside to be used solely for satisfying scheduled future payments of principal and interest of the outstanding debt. Defeasance of NSPFC's debt was achieved by December 31, 1998 and the matching notes receivable and notes payable of NSPI were exchanged for the portfolio of defeasance assets. The matching notes continued to be pledged by NSPI as collateral security for a Defeasance Indemnity. NSPI is responsible for managing the portfolio of defeasance assets and is obligated to match its cash inflows with the principal and interest streams of the related debt. NSPI is obligated to indemnify NSPFC against all expense, cost, damage, etc. which NSPFC may suffer or incur as a consequence of a Defeasance Portfolio Deficiency as defined in the Debt Restructuring Agreement.

# NOVA SCOTIA POWER FINANCE CORPORATION

Notes to Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

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## 2. Basis of presentation:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee except that the Corporation is unable, with reasonable effort, to provide the historical cost of investments or the effective rate of the investments. In this respect, the financial statements are not in accordance with IFRS.

These financial statements have been prepared on a fair value basis except for certain financial assets and liabilities which are measured at their amortized cost, as discussed further under the financial instruments significant accounting policy in Note 4.

The presentation and functional currency are in Canadian dollars.

These financial statements were authorized for issuance by the Board of Directors of the Corporation on June 25, 2019.

## 3. Change in accounting policies:

The Company adopted IFRS 9 Financial Instruments with a date of initial adoption of April 1, 2018. The new standard brings fundamental changes to accounting for financial assets and to certain aspects of the accounting for financial liabilities. Key changes are summarized below:

### *Classification of financial assets and financial liabilities*

IFRS 9 contains three principle classification of financial assets: Measurement at amortized cost, fair value through other comprehensive income and fair value through profit and loss (FVTPL). IFRS 9 classification is generally based on the business model in which the financial assets are managed and its contractual cash flows.

Under IFRS 9 the Company has determined that defeasance assets should be classified based on a held to collect cash-flow model and that the defeasance assets are solely payment of principal and interest (SPPI). Therefore they are required to follow the amortized cost model as there are new criteria to elect a FVTPL accounting classification which the Company does not meet. Similarly, the Company will no longer meet the criteria under IFRS 9 to elect to account for long-term debt at FVTPL and therefore will be required on transition to account for long-term debt at amortized cost.

Both the assets and the liabilities originated in 1992 when the Company was first established. The company can not practically determine a retrospective adoption of the amortized cost for the defeasance assets and long-term debt as the records from 1992 are no longer available. As a result, the gross carrying value of defeasance assets and amortized cost of long-term debt has been determined as their respective fair values at April 1, 2018. This resulted in impact on the date of adoption.

# NOVA SCOTIA POWER FINANCE CORPORATION

Notes to Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

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### 3. Change in accounting policies (continued):

#### *Impairment of financial assets*

IFRS 9 replaced the incurred loss model in IAS 39 with an expected credit loss model. The new impairment model. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

#### *Transition*

Changes in the accounting policies result from the adoption of IFRS 9 have been applied retrospectively. Comparative periods have been restated. As it was not practical to determine the amortized cost of the defeasance asset or long-term debt the comparative figure for these instruments have been presented at fair value as the gross carrying value and amortized cost of the defeasance asset and long-term debt, respectively. Changes in fair value previously reported have been reclassified as interest income and expense as there is no practical method to determine what the impact would have been on the comparative information. There was no adjustments of the retained earnings in either period.

### 4. Significant accounting policies:

#### a. Foreign currency translation:

All US dollar denominated monetary items are translated into Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transaction. Foreign exchange gains and losses are included in comprehensive loss for the year.

#### b. Financial instruments:

##### **Financial assets**

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at fair value through profit and loss (FVTPL):

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI").

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI (FVOCI). This election is made on an investment-by-investment basis. The Company holds no equity investments.

All other financial assets are classified as measured at FVTPL.

# NOVA SCOTIA POWER FINANCE CORPORATION

Notes to Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

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## 4. Significant accounting policies (continued):

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirement to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

### *Business model assessment*

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information it provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and report to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

Assessment of whether contractual cash flows are solely payments of principal and interest For the purpose of this assessment, "principal" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

### *Impairment*

The Company recognized loss allowances for expected credit losses (ECL) on defeasance assts.

# NOVA SCOTIA POWER FINANCE CORPORATION

Notes to Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

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## 4. Significant accounting policies (continued):

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of “investment grade”. All defeasance assets meet this definition.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. All defeasance assets use this model.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. No assets required lifetime ECL at this time. Should there be a significant increase in credit risk which the Company considers the investment no longer being investment grade, a lifetime ECL will be determined.

### Financial liabilities

Financial liabilities are initially recorded at fair value and subsequently at amortized cost. The Company may elect to measure financial liabilities at FVTPL on initial recognition if certain conditions are met. The Company has not used this election on long-term debt.

Financial assets and financial liabilities are classified as follows:

<b>Assets/liability</b>	<b>Business model</b>	<b>Measurement</b>
Cash	Collect cash flows	Amortized cost
Defeasance assets	Collect cash flows	Amortized cost
Long-term debt	Financial liability	Amortized cost

# NOVA SCOTIA POWER FINANCE CORPORATION

Notes to Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

## 5. Defeasance assets:

The portfolio of assets held for the payment of principal and interest amounts on the NSPFC debt are held by RBC Dexia. Defeasance assets are held in debt securities issued and guaranteed by the Federal or Provincial Governments of Canada, debt securities issued and guaranteed by the United States Department of the Treasury and investments in NSPFC's own debt.

As at March 31, 2019:

Series	Maturity	Par Value	Carrying Value
AM	June 1, 2019 - February 26, 2031	\$ 559,998	\$ 520,556
AN	* March 1, 2020 - April 1, 2021	401,811	463,891
		\$ 961,809	\$ 984,447

As at March 31, 2018:

Series	Maturity	Par Value	Carrying Value
AM	June 1, 2017 - February 26, 2031	\$ 590,120	\$ 543,748
AN	* March 1, 2020 - April 1, 2021	387,966	469,875
		\$ 978,086	\$ 1,013,623

The fair value of the defeasance assets at March 31, 2019 was \$1,005,217 (2018 – \$1,013,623). The carrying value of the defeasance assets includes accrued interest of \$18,432 (2017 - \$17,819).

\* Amounts in foreign currencies are expressed at the Canadian dollar equivalent at the rates prevailing at the date of the financial statements (exchange rate was \$1.335 as of March 31, 2019 and \$1.289 as of March 31, 2018).

# NOVA SCOTIA POWER FINANCE CORPORATION

Notes to Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

## 5. Defeasance assets (continued):

	2019
Par value of investments maturing in less than one year	\$ 177,116
Par value of investments maturing in more than one year and less than five years	465,043
Par value of investments maturing in more than five years	319,650
	<u>\$ 961,809</u>

## 6. Long-term debt:

As at March 31, 2019:

Series	Maturity	Rate	Par Value	Carrying Value
AK	January 10, 2020	10.250%	\$ 150,000	\$ 162,482
AM	February 26, 2031	11.000%	200,000	352,016
AN	* April 1, 2021	9.400%	400,500	464,416
			<u>\$ 750,500</u>	<u>\$ 978,914</u>

As at March 31, 2018:

Series	Maturity	Rate	Par Value	Carrying Value
AK	January 10, 2020	10.250%	\$ 150,000	\$ 174,151
AM	February 26, 2031	11.000%	200,000	364,604
AN	* April 1, 2021	9.400%	386,700	470,395
			<u>\$ 736,700</u>	<u>\$ 1,009,150</u>

Interest is payable semi-annually.

\* Amounts in foreign currencies are expressed at the Canadian dollar equivalent at the rated prevailing at the date of the financial statements (exchange rate was \$1.335 as of March 31, 2019 and \$1.289 as of March 31, 2018). The par value of the foreign currency series at March 31, 2019 is \$300,000 United States dollars (2018 - \$300,000 United States dollars).

# NOVA SCOTIA POWER FINANCE CORPORATION

Notes to Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

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## 7. Financial instruments and risk management:

NSPFC, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: currency risk, market risk, and liquidity risk. The following analysis outlines these risks as at March 31, 2019

### *Interest rate risk*

NSPFC is not exposed to interest risk as all amounts subject to interest rates have a fixed interest rate.

### *Credit Risk*

NSPC is exposed to risk that the issuer of debt instruments held in defeasance assets will cause financial loss as a result of failing to make the contractual payments. The Corporation invest in only investment grade debt instruments to minimize credit risk with provincial and federal governments or debt instruments that are guaranteed by a provincial or federal government. The carrying value of the defeasance assets represent the maximum exposure to credit loss.

### *Currency risk*

NSPFC is exposed to foreign exchange risk related to changes in exchange rates for both its defeasance assets and debt as all of the "AN" series of assets and debt are US dollars denominated. The risk is mitigated by the fact that US dollar denominated investments were purchased to match US dollar denominated cash flows required to fulfil its interest payments and debt retirement obligations.

At March 31, 2019, the Corporation has approximately equal amounts of US dollar assets and liabilities creating a natural offset in future foreign exchange fluctuations. As a result, any future change in foreign exchange would not have a material impact on income.



# NOVA SCOTIA POWER FINANCE CORPORATION

Notes to Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

## 7. Financial instruments and risk management (continued):

### *Liquidity risk*

NSPFC's objective is to have sufficient liquidity to meet its liabilities when due. The Corporation monitors its cash balances and cash flows to meeting its requirements. The cash flows from investments are intended to settle the liability when due.

	Carrying amount	Total	Less than one year	More than one year and less than five years	More than five years
Long-term debt, including interest payments	\$ 978,914	\$ 1,099,384	\$ 221,178	\$ 526,039	\$ 352,167

### *Fair value hierarchy*

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly (ie as prices) or indirectly (ie derived from prices).

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Fair value disclosures related to the Corporation's investments are classified as Level 1 measurement as fair value is determined based on the quoted price in an actively traded market.

Fair value disclosures related to the Corporation's long-term debt is classified as Level 2 measurement as the fair value is determined based on the quoted price in an active market for long-term debt held by another party as an asset.

# NOVA SCOTIA POWER FINANCE CORPORATION

Notes to Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

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## **8. General and administrative expenses:**

Under the terms of the privatization agreement, NSPI is responsible for the payment of all reasonable operating costs of NSPFC. During the year \$70 (2018 - \$75) of such costs were paid by NSPI.