

Financial Statements of

**NOVA SCOTIA STRATEGIC
OPPORTUNITIES FUND
INCORPORATED**

Year ended March 31, 2019



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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of Nova Scotia Strategic Opportunities Fund Incorporated, (the "Entity"), which comprise:

- the statement of financial position as at March 31, 2019,
- the statement of operations and accumulated surplus (deficit) 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 results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting 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 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.

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.

KPMG LLP

Chartered Professional Accountant, Licensed Public Accountants
Halifax, Canada
June 19, 2019

NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED

Statement of Financial Position

March 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Current assets:		
Cash	\$ 18,910	\$ 355,551
Interest income receivable	10,490	1,038,140
Investments (note 3)	10,553,838	67,102,385
	<u>10,583,238</u>	<u>68,496,076</u>
Due from Province of Nova Scotia (note 4)	9,090,580	7,000,000
	<u>\$ 19,673,818</u>	<u>\$ 75,496,076</u>
Liabilities and Surplus (Deficit)		
Current liabilities:		
Accounts payable	\$ 10,000	\$ 10,000
Current portion of obligations to investors (note 5)	17,705,842	58,419,055
	<u>17,715,842</u>	<u>58,429,055</u>
Obligations to investors (note 5)	1,942,197	19,157,551
	<u>19,658,039</u>	<u>77,586,606</u>
Accumulated surplus (deficit) (note 6)	<u>\$ 15,779</u>	<u>\$ (2,090,530)</u>

See accompanying notes to financial statements.

On behalf of the Board:

 Director

NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED

Statement of Operations and Accumulated Surplus (Deficit)

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

	2019	2018
Revenue:		
Investment income	\$ 579,202	\$ 1,040,804
Provincial recovery (note 4)	2,090,580	-
	<u>2,669,782</u>	<u>1,040,804</u>
Expenses:		
Amortization of deferred financing costs	551,436	1,099,691
Interest and bank charges	1,509	2,520
Professional fees	10,528	11,960
	<u>563,473</u>	<u>1,114,171</u>
Excess of revenue over expenses (expenses over revenue)	2,106,309	(73,367)
Accumulated deficit, beginning of year	(2,090,530)	(2,017,163)
Accumulated surplus (deficit), end of year	<u>\$ 15,779</u>	<u>\$(2,090,530)</u>

See accompanying notes to financial statements.

NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED

Statement of Cash Flows

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

	2019	2018
Cash provided by (used in):		
Operating:		
Excess of revenue over expenses (expenses over revenue)	\$ 2,106,309	\$ (73,368)
Items not affecting cash:		
Amortization of deferred financing costs	551,436	1,099,692
Provincial recovery	(2,090,580)	–
	567,165	1,026,324
Changes in non-cash working capital items:		
Interest income receivable	1,027,650	73,300
	1,594,815	1,099,624
Financing:		
Deferred financing costs	(551,436)	(1,099,692)
Paid to investors	(57,928,567)	(29,762,234)
	(58,480,003)	(30,861,926)
Investing:		
Payment on loans receivable and accrued interest	–	5,012,423
Proceeds from sale of investments	56,548,547	25,101,766
	56,548,547	30,114,189
Change in cash	(336,641)	351,887
Cash, beginning of year	355,551	3,664
Cash, end of year	\$ 18,910	\$ 355,551

See accompanying notes to financial statements.

NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED

Notes to Financial Statements

Year ended March 31, 2019

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 ("the "Province") 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. As a Crown entity of the Province 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 surplus (deficit) is equal to net financial assets.

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.

(d) Interest revenue:

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

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Notes to Financial Statements

Year ended March 31, 2019

2. Significant accounting policies (continued):

(e) 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.

(f) 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.

(g) Budget:

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

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.

	2019	2018
Principal value	\$10,553,838	\$68,966,427
Discount of bonds	–	(1,864,042)
	<u>\$10,553,838</u>	<u>\$67,102,385</u>

The investment income earned on deposit notes, banker acceptances, and bearer deposit notes of Canadian financial institutions is \$579,202 (2018 - \$998,568).

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Notes to Financial Statements

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4. 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 the 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. At March 31, 2019, the Fund has a total of \$9,090,580 (2018, \$7,000,000) accounts receivable due from the Province of Nova Scotia, arising from loan forgiveness in the amount of \$7,000,000 and other losses, which results in the claim on the provincial guarantee. The accounts receivable will be carried on the balance sheet under Due from Province and will be drawn down at such time as cash is required for IIP repayments.

5. 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, 2019

5. Obligations to investors (continued):

Obligations to investors at March 31, 2019 totaled \$19,751,746 (2018 - \$78,234,274). Scheduled payment dates are as follows:

2020	\$ 17,705,842
2021	1,659,056
2022	386,848
	<u>19,751,746</u>
Deferred financing costs	(103,707)
	<u>19,648,039</u>
Less: current portion	17,705,842
	<u>\$ 1,942,197</u>

6. Surplus (deficit):

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

	2019	2018
Authorized:		
1,000,000 common shares without nominal or par value		
Issued:		
1 common share	\$ 1	\$ 1

7. 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.

NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED

Notes to Financial Statements

Year ended March 31, 2019

8. 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.

9. Financial instruments:

The Fund's financial instruments include cash, interest income receivable, investments, 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, 2019.

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.

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.

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9. Financial instruments (continued):

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.