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Financial statements of  
Nova Scotia Power Finance  
Corporation

March 31, 2021

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Independent Auditor's Report	1-2
Statement of financial position	3
Statement of comprehensive income and changes in equity	4
Statement of cash flows	5
Notes to the financial statements	6-11

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## Independent Auditor's Report

To the Management of  
Nova Scotia Finance Power Corporation

### Opinion

We have audited the financial statements of Nova Scotia Finance Power Corporation (the "Company"), which comprise the statements of financial position as at March 31, 2021, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company 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 IFRS, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

## **Auditor's 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 auditor's 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 GAAS 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 these financial statements.

As part of an audit in accordance with Canadian GAAS, 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Company 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.

We 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.

*Deloitte LLP*

Chartered Professional Accountants  
June 30, 2021

# Nova Scotia Power Finance Corporation

## Statement of financial position

As at March 31, 2021

(In thousands of dollars)

	Notes	2021 \$	2020 \$
<b>Assets</b>			
Current assets			
Cash		36,670	17,313
Defeasance assets	4, 9	357,752	15,241
		<b>394,422</b>	32,554
Long term defeasance assets	9	320,461	787,031
		<b>714,883</b>	819,585
<b>Liabilities</b>			
Current debt			
	5, 9	324,850	—
Long term debt	5, 9	377,367	810,119
		<b>702,217</b>	
<b>Shareholder's equity</b>			
Retained earnings		12,666	9,466
		<b>714,883</b>	819,585
Subsequent events	8		

The accompanying notes are an integral part of the financial statements.

Approved by the Board

 \_\_\_\_\_, Director

 \_\_\_\_\_, Director

**Nova Scotia Power Finance Corporation**  
**Statement of comprehensive income and changes in equity**

As at March 31, 2021  
(In thousands of dollars)

	Notes	<b>2021</b> \$	2020 \$
<b>Revenue</b>			
Interest income from investments		<b>43,094</b>	56,173
<b>Expenses</b>			
Interest expense - long term debt		<b>(58,989)</b>	(56,067)
		<b>(15,895)</b>	106
Unrealized foreign exchange gain		<b>19,095</b>	1,167
<b>Net and comprehensive income</b>		<b>3,200</b>	1,273
Equity, beginning of year		<b>9,466</b>	8,193
<b>Equity, end of year</b>		<b>12,666</b>	9,466

The accompanying notes are an integral part of the financial statements.

## Nova Scotia Power Finance Corporation

### Statement of cash flows

As at March 31, 2021

(In thousands of dollars)

	2021	2020
	\$	\$
<b>Operating activities</b>		
Cash interest received	42,376	44,200
Cash interest paid	(60,788)	(74,862)
Realized foreign exchange (loss) gain	(1,636)	1,167
	(20,048)	(29,495)
<b>Financing activities</b>		
Repayment in long term debt at maturity	—	(150,000)
<b>Investing activity</b>		
Proceeds from the sale of investments	39,405	194,148
Increase in cash	19,357	14,653
Cash, beginning of year	17,313	2,660
<b>Cash, end of year</b>	<b>36,670</b>	<b>17,313</b>

The accompanying notes are an integral part of the financial statements.

# **Nova Scotia Finance Power Corporation**

## **Notes to the financial statements**

March 31, 2021

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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"). Ineffecting 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.

### **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 historical cost 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 3.

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 30, 2021.



### **3. 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 income 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.

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.

**3. Significant accounting policies (continued)**

Assessment of whether contractual cash flows are solely payments of principal and interest ("SPPI") 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 assets.

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><u>Assets/liability</u></b>	<b><u>Business Model</u></b>	<b><u>Measurement</u></b>
Defeasance assets	Collect cash flows	Amortized cost
Long-term debt	SPPI	Amortized cost

## Nova Scotia Finance Power Corporation

### Notes to the financial statements

March 31, 2021

#### 4. Defeasance assets

The portfolio of assets held for the payment of principal and interest amounts on the NSPFC debt are held by CIBC Mellon. 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, 2021:

Series	Maturity	Par Value	Carrying Value
AM	June 2, 2021 - February 26, 2031	\$ 365,830	\$ 335,822
AN	* April 1, 2021	342,285	342,391
		<u>\$ 708,115</u>	<u>\$ 678,213</u>

As at March 31, 2020:

Series	Maturity	Par Value	Carrying Value
AM	July 30, 2020 - February 26, 2031	\$ 381,285	\$ 347,553
AN	* April 1, 2021	412,795	454,719
		<u>\$ 794,080</u>	<u>\$ 802,272</u>

The fair value of the defeasance assets at March 31, 2021 was \$708,115 (2020 - 802,272). The carrying value of the defeasance assets includes accrued interest of \$16,718 (2020 - \$19,224)

\* 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 \$1.258 as of March 31, 2021 and \$1.422 as of March 31, 2020). The par value of the foreign currency series at March 31, 2021 is \$272,195 United States dollars (2020 - \$290,312 United States dollars).

	2021
Par value of investments maturing in less than one year	\$ 357,874
Par value of investments maturing in more than one year and less than five	83,115
Par value of investments maturing in more than five years	267,126
	<u>\$ 708,115</u>

## Nova Scotia Finance Power Corporation

### Notes to the financial statements

March 31, 2021

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#### 5. Long-term debt

As at March 31, 2021:

Series	Maturity	Rate	Par Value	Carrying Value
AM	February 26, 2031	11.00%	\$ 200,000	\$ 324,850
AN - Current	* April 1, 2021	9.40%	377,250	377,367
			<u>\$ 577,250</u>	<u>\$ 702,217</u>

As at March 31, 2020:

Series	Maturity	Rate	Par Value	Carrying Value
AM	February 26, 2031	11.00%	\$ 200,000	\$ 339,487
AN	* April 1, 2021	9.40%	426,570	470,632
			<u>\$ 626,570</u>	<u>\$ 810,119</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 \$1.258 as of March 31, 2021 and \$1.422 as of March 31, 2020). The par value of the foreign currency series at March 31, 2021 is \$300,000 United States dollars (2020 - \$300,000 United States dollars).

#### 6. 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, 2021.

##### *Market risk*

NSPFC is exposed to price risk related to changes in market prices for both its defeasance assets and debt as all the assets and debt have fixed interest rates and are measured at fair value.

The amount of assets and liabilities exposed to market risk offset and therefore changes in market prices will not have a material impact on income.

##### *Currency risk*

NSPFC is exposed to foreign exchange risk related to changes in exchange rates for both its defeasance assets and debt as all 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

## **Nova Scotia Finance Power Corporation**

### **Notes to the financial statements**

March 31, 2021

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#### **6. Financial instruments and risk management (continued)**

payments and debt retirement obligations.

At March 31, 2021, 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.

##### *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.

##### *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 (i.e. as prices) or indirectly (i.e. 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.

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.

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.

#### **7. 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 \$65 (2020 - \$74) of such costs were paid by NSPI.

#### **8. Subsequent events**

At maturity on April 1, 2021, the Company repaid in full the AN Bond Series, at par value of \$377,250 CAD (\$300,000 USD). The only bond series remaining is the AM Series in CAD, with a par value of \$200,000. The AM series matures on February 26, 2031.

#### **9. Comparative figures**

Certain prior year comparative figures have been reclassified to conform to the current year's presentation.