

Financial Statements of

**NOVA SCOTIA STRATEGIC  
OPPORTUNITIES FUND  
INCORPORATED**

Year ended March 31, 2016



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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 the Nova Scotia Strategic Opportunities Fund Incorporated which comprise the statement of financial position as at March 31, 2016, 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 the Nova Scotia Strategic Opportunities Fund Incorporated as at March 31, 2016 and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants  
June 29, 2016  
Halifax, Canada

# NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED

## Statement of Financial Position

March 31, 2016, with comparative information for 2015

	2016	2015
<b>Assets</b>		
Current assets:		
Cash	\$ 31,317	\$ 159,478
Accounts receivable	308	19,847
Promissory note receivable (note 3)	126,073,046	158,093,348
Current portion of loans receivable and accrued interest (note 4)	15,141,425	28,042,561
	<u>141,246,096</u>	<u>186,315,234</u>
Loans receivable and accrued interest (note 4)	5,000,000	17,040,874
	<u>\$ 146,246,096</u>	<u>\$ 203,356,108</u>
<b>Liabilities and Deficiency in Assets</b>		
Current liabilities:		
Accounts payable	\$ 8,974	\$ 10,000
Deposits received in advance	-	117,628
Current portion of obligations to investors (note 5)	42,504,596	60,478,892
	<u>42,513,570</u>	<u>60,606,520</u>
Obligations to investors (note 5)	105,394,680	144,024,929
	<u>147,908,250</u>	<u>204,631,449</u>
Deficiency in assets:		
Share capital (note 6)	1	1
Accumulated deficit	(1,662,155)	(1,275,342)
	<u>(1,662,154)</u>	<u>(1,275,341)</u>
	<u>\$ 146,246,096</u>	<u>\$ 203,356,108</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, 2016, with comparative information for 2015

	2016	2015
Revenue:		
Interest	\$ 1,792,376	\$ 3,117,628
Expenses:		
Amortization of deferred financing costs	2,169,052	3,035,068
Interest and bank charges	36	36
Professional fees	10,101	9,315
	<u>2,179,189</u>	<u>3,044,419</u>
Excess of revenue over expenses (expenses over revenue)	(386,813)	73,209
Accumulated deficit, beginning of year	(1,275,342)	(1,348,551)
Accumulated deficit, end of year	<u>\$(1,662,155)</u>	<u>\$(1,275,342)</u>

See accompanying notes to financial statements.

# NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED

## Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating:		
Excess of revenue over expenses	\$ (386,813)	\$ 73,209
Item not affecting cash:		
Amortization of deferred financing costs	2,169,052	3,035,068
	<u>1,782,239</u>	<u>3,108,277</u>
Changes in non-cash working capital items:		
Accounts receivable	19,539	6,191
Accounts payable	(1,026)	2
Deposits received in advance	(117,628)	(1,258,464)
	<u>1,683,124</u>	<u>1,856,006</u>
Financing:		
Deferred financing costs	(106,542)	(1,120,772)
Paid to investors	(58,667,055)	(37,010,987)
	<u>(58,773,597)</u>	<u>(38,131,759)</u>
Investing:		
Decrease (increase) in promissory note receivable	32,020,302	(2,250,278)
Decrease in loans receivable and accrued interest	24,942,010	30,707,431
	<u>56,962,312</u>	<u>28,457,153</u>
Change in cash	(128,161)	(7,818,600)
Cash, beginning of year	159,478	7,978,078
Cash, end of year	<u>\$ 31,317</u>	<u>\$ 159,478</u>

See accompanying notes to financial statements.

# NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED

Notes to Financial Statements

Year ended March 31, 2016

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## 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 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. Estimates are used when accounting for items and matters such as allowance for uncollectible accounts receivable, amortization of deferred financing costs and asset valuations. Actual results could differ from those estimates.

# NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED

Notes to Financial Statements

Year ended March 31, 2016

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## 2. Significant accounting policies (continued):

### (d) Loans receivable:

Loans receivable are recorded at amortized cost less allowances. An allowance is recorded when management considers it necessary to reduce the loan receivable to its estimated recoverable amount. 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.

## 3. Promissory note receivable:

The note receivable bears interest at 0.65% (2015 – 0.72%) and is due from the Province of Nova Scotia within 30 days.

# NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED

Notes to Financial Statements

Year ended March 31, 2016

## 4. Loans receivable and accrued interest:

All loans except for one bear interest compounded annually. The remaining loan bears interest compounded semi-annually. The loan principal and interest have maturity dates ending on or before March 31, 2018. On a weighted average basis, the portfolio bears interest of 2.99%.

	2016	2015
Face value of loans	\$20,000,000	\$44,205,821
Accrued interest	141,425	877,614
	20,141,425	45,083,435
Less: current portion	15,141,425	28,042,561
	\$ 5,000,000	\$17,040,874

## 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, 2016

## 5. Obligations to investors (continued):

Obligations to investors at March 31, 2016 totaled \$151,274,299 (2015 - \$209,941,354). Scheduled repayment dates are as follows:

2017	\$ 42,504,596
2018	30,864,166
2019	58,482,528
2020	17,769,315
2021	1,653,694
	151,274,299
Deferred financing costs	3,375,023
<b>Total</b>	<b>\$ 147,899,276</b>
Less: current portion	42,504,596
	<b>\$ 105,394,680</b>

## 6. Share capital:

	2016	2015
Authorized:		
1,000,000 common shares without nominal or par value		
Issued:		
1 common share	\$ 1	\$ 1

## 7. Related party 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 full amounts of investments made are carried on the Fund's books as a promissory note receivable from the Department of Finance & Treasury Board. Expenses related to salaries and administration are incurred directly by the Department of Finance and no provision is made in these financial statements for these expenses.

# NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED

Notes to Financial Statements

Year ended March 31, 2016

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## **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.

## **9. Financial instruments:**

The Fund's financial instruments include cash, accounts receivable, promissory note receivable, 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, 2016.

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, promissory note receivable and loans receivable. The Fund deposits its cash in reputable financial institutions and therefore believes the risk of loss to be remote. The Fund is exposed to credit risk from its loans receivable. An allowance for impairment of loans receivable is established when there is objective evidence that the Fund will not be able to collect all amounts due. No such allowance was recorded in the current year.

### *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.

# NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED

Notes to Financial Statements

Year ended March 31, 2016

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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. The Fund is exposed to interest rate risk on its financial assets at variable interest rates. For fiscal year ended March 31, 2016, a 100 basis point increase or decrease in interest rates, assuming all other variables are constant, would result in a \$739,322 decrease or a \$1,137,419 increase in the Fund's net earnings. Given rates on promissory notes as of March 31, 2016 yielded 0.65 basis points per annum, a rate decrease scenario is assumed to be bound by a 65 basis points decline.