NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED

FINANCIAL STATEMENTS

MARCH 31, 2014

Collins Barrow
Chartered Accountants

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INDEX
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Chartered Accountants

Collins Barrow Nova Scotia Inc.
101-120 Eileen Stubbs Avenue
City of Lakes Business Park
Dartmouth, Nova Scotia
B3B 1Y1 Canada

T. 902.404.4000
F. 902.404.3099

www.collinsbarrow.com

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 balance sheet as at March 31, 2014 and the statements of operations and change in net financial debt and cash flows for the year then ended and 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 auditors' 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, the auditors 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 of 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, 2014, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Collins Barrow N.S. Inc.

Dartmouth, Nova Scotia
June 11, 2014

Chartered Accountants

NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED
STATEMENT OF OPERATIONS AND CHANGE IN NET FINANCIAL DEBT FOR THE YEAR ENDED MARCH 31, 2014

	2014	2013
	$	$
INTEREST REVENUE	**3,297,809**	2,975,986
EXPENSES		
Amortization of deferred financing costs	**3,275,737**	3,168,403
Interest and bank charges	**26**	23
Professional fees	**9,930**	4,341
	3,285,693	3,172,767
ANNUAL SURPLUS (DEFICIT)	**12,116**	(196,781)
ACCUMULATED DEFICIT - beginning of year	**(1,360,667)**	(1,163,886)
ACCUMULATED DEFICIT - end of year	**(1,348,551)**	(1,360,667)

NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED
BALANCE SHEET
AS AT MARCH 31, 2014

	2014	2013
	$	$
ASSETS		
CURRENT		
Cash	7,978,078	4,519,778
Accounts receivable	26,038	27,893
Promissory note receivable (Note 3)	155,843,070	155,151,514
Current portion of loans receivable and accrued interest	47,693,838	-
	211,541,024	159,699,185
LOANS RECEIVABLE AND ACCRUED INTEREST (Note 4)	28,097,028	74,991,037
	239,638,052	234,690,222
LIABILITIES		
CURRENT		
Accounts payable	9,998	11,999
Deposits received in advance	1,376,092	1,604,097
	1,386,090	1,616,096
OBLIGATIONS TO INVESTORS (Note 5)	239,600,512	234,434,792
	240,986,602	236,050,888
ACCUMULATED DEFICIT		
SHARE CAPITAL (Note 6)	1	1
NET DEBT	(1,348,551)	(1,360,667)
	(1,348,550)	(1,360,666)
	239,638,052	234,690,222

Approved by the Board

________________________________ **Director**

NOVA SCOTIA STRATEGIC OPPORTUNITIES FUND INCORPORATED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2014

	2014 $	2013 $
CASH PROVIDED BY (USED FOR)		
OPERATING		
Annual surplus (deficit)	**12,116**	(196,781)
Item not affecting cash		
Amortization of deferred financing costs	**3,275,737**	3,168,403
	3,287,853	2,971,622
Changes in non-cash working capital items		
Accounts receivable	**1,855**	8,846
Accounts payable	**(2,001)**	(7,328)
Deposits received in advance	**(228,005)**	(2,659,037)
	3,059,702	314,103
FINANCING		
Deferred financing costs	**(3,379,776)**	(2,065,692)
Received from investors	**5,269,759**	29,293,643
	1,889,983	27,227,951
INVESTING		
Promissory note receivable	**(691,556)**	(27,008,276)
Loans receivable and accrued interest	**(799,829)**	(399,595)
	(1,491,385)	(27,407,871)
CHANGE IN CASH	**3,458,300**	134,183
CASH - beginning of year	**4,519,778**	4,385,595
CASH - end of year	**7,978,078**	4,519,778

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

Basis of accounting

The financial statements were prepared in accordance with Canadian public sector accounting standards and include the following significant accounting policies:

Cash

Cash consists of bank balances held with financial institutions.

Measurement uncertainty

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 and the reported amounts of revenue and expenses during the reporting period. Estimates are used when accounting for items and matters such as allowance for uncorrectable accounts receivable, amortization of deferred financing costs and asset valuations. Actual results could differ from those estimates.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

3. PROMISSORY NOTE RECEIVABLE

The note receivable bears interest at 1.05% and is due from the Province of Nova Scotia within 30 days.

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 are due five years from the date of issue. On a weighted average basis, the portfolio bears interest of 2.14%.

	2014 $	2013 $
Face value of loans	**73,296,395**	73,296,395
Accrued interest	**2,494,471**	1,694,642
	75,790,866	74,991,037
Less: current portion	**47,693,838**	-
	28,097,028	74,991,037

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 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.

5. OBLIGATIONS TO INVESTORS (Continued)

These obligations to investors are secured by a non-transferable zero interest promissory note issued by CIC as agent for the Fund and the guarantee of the Province of Nova Scotia. The guarantee is to CIC, as 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.

Obligations to investors at March 31, 2014 totaled $246,952,342. Scheduled repayment dates are as follows:

	$
2015	55,987,373
2016	60,546,553
2017	42,568,564
2018	30,896,206
2019	56,953,645
	246,952,341
Deferred financing costs	(7,351,829)
Total	239,600,512

6. SHARE CAPITAL

Authorized
1,000,000 common shares without nominal or par value

	2014 $	2013 $
Issued		
1 common shares	1	1

7. RELATED PARTY TRANSACTIONS

For administrative purposes, the Fund is managed by the Province of Nova Scotia Department of Economic and Rural Development and Tourism. Short-term investments for cash management purposes are made by the Department of Finance. The full amounts of investments made are carried on the corporation's books as a promissory note receivable from the Department of Finance. Expenses related to salaries and administration are incurred directly by the Department of Economic and Rural Development and Tourism and no provision is made in these financial statements for these expenses.

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 Corporation'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, 2014.

It is management's opinion that the Fund is not exposed to significant currency, and 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 promissory note receivable and loans receivable. A provision for impairment of loans receivable is established when there is objective evidence that the Fund will not be able to collect all amounts due.

9. 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 enough cash from operating activities to fund operations and fulfill obligations as they become due. Sufficient financing facilities are in place should cash requirements exceed cash generated from operations.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of 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 the fiscal year ended March 31, 2014, a 100 basis point increase or decrease in interest rates, assuming all other variables are constant, would have resulted in a $1,617,462 decrease or increase in the Fund's net earnings, respectively.