

Financial Statements of the

**NSAHO
PENSION PLAN**

Year ended December 31, 2010

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Health Association Nova Scotia
And the Trustees of the
Nova Scotia Association of Health Organizations Pension Plan

We have audited the accompanying financial statements of the **Nova Scotia Association of Health Organizations ("NSAHO") Pension Plan (the "Plan")**, which comprise the statement of net assets available for benefits and accrued pension benefits and surplus at December 31, 2010 and the statement of changes in net assets available for benefits 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 generally accepted accounting principles, 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 for our audit opinion, except as discussed in the following paragraph.

The Plan has investments in certain funds that are managed by Santa Fe Partners, LLC (the "Santa Fe Funds"). Lehman Brothers International Europe ("LBIE") acted as a prime broker and custodian for the Santa Fe Funds. LBIE was placed into bankruptcy administration on September 12, 2008. The Plan is in the process of obtaining the necessary information to determine the balance of the investment which may be recoverable, but does not expect to complete this prior to the release of the financial statements. As a result, the Plan had recorded an impairment charge of \$114,813,000 related to the Santa Fe Funds as of December 31, 2008. A subsequent recovery of \$53,320,000 was recorded for December 31, 2009, and a further recovery of \$45,737,000 was recognized for December 31, 2010. We are unable to confirm or verify by any alternative means the fair value of the Plan's investment in the Santa Fe Funds as of December 31, 2010. Accordingly, we were not able to determine whether the carrying value of the Santa Fe Funds and the investment income and asset impairment or recovery recorded by the Plan with respect to the Santa Fe Funds as at and for the year ended December 31, 2010 are appropriate under generally accepted accounting principles.

Opinion

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves with respect to the fair value assessment of the Santa Fe Fund investments described in the preceding paragraph, these financial statements, present fairly, in all material respects, the financial position of the Plan as at December 31, 2010 and the changes in net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Halifax, Canada,
June 2nd, 2011

Chartered Accountants

STATEMENT OF NET ASSETS

Available for Benefits and Accrued Pension Benefits and Surplus (Deficit)

As at December 31

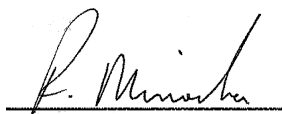
(\$ Thousands)

	2010	2009
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments (note 3)	\$ 3,509,525	\$ 2,827,778
Cash	9,172	16,712
Receivables (note 4)	23,566	26,495
Fixed assets	137	162
	<u>3,542,400</u>	<u>2,871,147</u>
Liabilities		
Accounts payable and accrued liabilities (note 5)	2,931	2,381
Net assets available for benefits	<u>\$ 3,539,469</u>	<u>\$ 2,868,766</u>
 ACCRUED PENSION BENEFITS AND SURPLUS (DEFICIT)		
Accrued pension benefits (note 6)	\$ 3,429,915	\$ 2,912,067
Surplus (Deficit)	109,554	(43,301)
Accrued pension benefits and surplus (deficit)	<u>\$ 3,539,469</u>	<u>\$ 2,868,766</u>

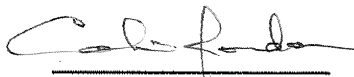
Commitments (note 12)

Contingency (note 13)

Approved on behalf of the Trustees:



Rakesh Minocha



Calvin Jordan

STATEMENT OF CHANGES IN NET ASSETS

Available for Benefits

For the year ended December 31

(\$ Thousands)

	2010	2009
Net assets available for benefits, beginning of year	\$ 2,868,766	\$ 2,109,266
Asset management & governance operations		
Investment income (note 2b & note 8)	539,695	637,210
Investment recovery (note 2b & note 8)	45,737	53,320
Asset management & governance expenses (note 9)	(6,943)	(5,933)
Net asset management & governance operations	578,489	684,597
Client service operations		
Contributions (note 10)	192,851	165,645
Benefits (note 11)	(98,700)	(88,908)
Client service expenses (note 9)	(1,937)	(1,834)
Net client service operations	92,214	74,903
Net increase in net assets	670,703	759,500
Net assets available for benefits, end of year	\$ 3,539,469	\$ 2,868,766

NSAHO PENSION PLAN

Notes to Financial Statements, page 1
Year ended December 31, 2010

1. DESCRIPTION OF PLAN:

The following description of the Nova Scotia Association of Health Organizations (NSAHO) Pension Plan ("the Plan") is a summary only. For more complete information, reference should be made to the Plan Text.

a) General:

The Plan is a contributory defined benefit pension plan covering contributing employees of member organizations of the Nova Scotia Association of Health Organizations. Contributions are made by both employees and employers. The Plan is registered under the Pension Benefits Act of Nova Scotia (Registration number NS 0355925).

Benefits are based on career average earnings, but have been enhanced in the past by Base Year Upgrades. As at the end of 2010, the plan had a 2008 base year, meaning that benefits with respect to service up to and including 2008 are based on earnings and the YMPE (Yearly Maximum Pensionable Earnings level for Canada Pension Plan purposes) in 2008.

b) Funding policy:

Plan benefits are funded by contributions and investment earnings. The determination of the value of the accumulated benefits and the required contributions is made on the basis of periodic actuarial valuations (see note 7).

c) Retirement pension:

Members are eligible for an unreduced retirement pension if their age is 65; they are age 60 or over with at least 10 years of continuous service; they are age 55 or over and their age plus continuous service equals 85 or more; or their age plus continuous service equals 90 (if enrolled before January 1, 1999).

Members are eligible for a reduced pension if they are age 50 or more and have 10 or more years of continuous service; are age 55 or over; or their age plus continuous service equals 80.

The pension benefit provides 1.4% of earnings up to the YMPE and 2% of any earnings in excess of the YMPE for each year of participation. A bridge benefit of 0.6% of earnings to the YMPE for each year of participation is also available from retirement to age 65 (or death if earlier).

d) Indexing:

Pensions in payment are subject to annual indexation for inflation up to a maximum of 3% per year. Indexing above 3% (if applicable) may be provided on an ad-hoc basis subject to the recommendation of the Trustees and the approval of the Board.

NSAHO PENSION PLAN

Notes to Financial Statements, page 2
Year ended December 31, 2010

e) Disability pensions:

A disability pension for service prior to January 1, 1993, is available to qualifying individuals:

- who joined the plan prior to October 1, 1999;
- who have 10 years of continuous service prior to 1993; and
- who do not participate in an employer-sponsored Long-Term Disability Plan.

f) Survivor pensions:

A survivor pension is paid to a spouse or common-law partner, and/or a dependent child, of a member who dies after retirement, or prior to retirement with a minimum of 10 years continuous service.

g) Death benefit:

When no survivor pension is applicable, a lump sum payment will be made to the surviving spouse, beneficiary, or estate as applicable with respect to any Member who dies before retirement.

h) Termination refunds:

On termination of employment, a Member will receive a refund of contributions with interest, a deferred pension, or a locked-in transfer, dependent on their years of membership in the Plan and the option they choose.

i) Income taxes:

The Plan is a Registered Pension Trust as defined in the Income Tax Act and is not subject to income taxes for contributions or investment income received.

2. SIGNIFICANT ACCOUNTING POLICIES:

a) Basis of presentation:

These financial statements are prepared on a going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the employers and Plan Members. They are prepared to assist the NSAHO Board and Plan Trustees in reviewing the activities of the Plan for the fiscal period. They are prepared in accordance with Canadian generally accepted accounting principles.

b) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the year. Actual results could differ from these estimates.

On September 12, 2008, certain entities affiliated with Lehman Brothers Holdings, Inc. ("LBH"), including Lehman's UK broker-dealer affiliate, Lehman Brothers International Europe ("LBIE"), were placed into bankruptcy administration. LBIE served as a prime broker and custodian for certain funds in which the Plan has invested, as well as serving as a direct counterparty to non-exchange traded transactions. The financial records of LBIE are now being handled by the bankruptcy administrators. Before applying any write down to net realizable value, these funds amounted to approximately \$191,700,000 as at August 31, 2008.

NSAHO PENSION PLAN

Notes to Financial Statements, page 3
Year ended December 31, 2010

Significant uncertainty continues to exist regarding the timing of the resolution of these claims, the value to be realized from these claims, and the amount of investment losses on these assets. As such Management has recorded in investment income in note 8 an estimate of investment gains on these assets of \$5,740,000 (2009 – gain of \$62,149,000; 2008 - loss of \$76,887,000). In 2008 an impairment charge was taken against these assets of \$114,813,000. In 2009, a subsequent recovery of \$53,320,000 was recognized, and in 2010 a further recovery of \$45,737,000 was recognized, reflecting Management's best estimate of their realizable value. The differences between amounts currently recorded and those that may be realized may be material.

c) Contributions:

Contributions from employees of member organizations and contributions from member organizations are recorded in the period that payroll deductions are made.

d) Investments:

Investments are recorded as of the trade date and are stated at fair value as at December 31, 2010. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Money market, publicly traded bonds, equity securities, and derivatives are valued at year-end market prices. Other investments, for which market quotations are not available such as real estate and infrastructure, are valued on a current market yield or appraised basis. Private equity investments for which reliable fair value information is not readily available are accounted for using the equity method.

e) Fixed assets:

Fixed assets are stated at cost and consist of costs related to a software license, leasehold improvements, furniture & fixtures, and a website. Depreciation is being recorded on a straight-line basis over five years. Fixed asset additions, costing less than \$10,000 each, are expensed in the year of purchase.

f) Investment income:

Dividends are recognized on the ex-dividend date and interest income and real estate income is recognized on the accrual basis as earned. Investment income also includes realized and unrealized gains and losses.

g) Translation of foreign currencies:

- (i) Assets and liabilities denoted in foreign currencies are translated into Canadian dollars at approximate quoted rates of exchange at December 31.
- (ii) Investment income and expenses are translated into Canadian dollars using the exchange rate prevailing at the date of the transaction.
- (iii) The gains and losses arising from these translations are included in investment income.

NSAHO PENSION PLAN

Notes to Financial Statements, page 4
Year ended December 31, 2010

3. INVESTMENTS:

The investment objectives of the Plan are to provide long-term security of pension benefits to Members and to minimize any increases in required contributions, while controlling risk at a level consistent with policy guidelines. A strategy of investing in assets of equities, bonds, bond alternatives, real estate, commodities, infrastructure, money market securities and absolute return investments is aimed at achieving these objectives.

a) Market value of investments before allocating the effects of derivative contracts:

(\$ Thousands)

	2010		2009	
Fixed income	\$ 937,428	26.7%	\$ 602,703	21.3%
Short-term	228,228	6.5	225,965	8.0
Equities - Canadian	354,521	10.1	305,378	10.8
- US	272,430	7.8	195,250	6.9
- Other foreign	572,843	16.3	517,264	18.3
Alternatives - Real Estate	53,051	1.5	45,479	1.6
- Bond Alternatives	181,185	5.2	156,026	5.5
- Commodities	57,694	1.6	40,931	1.4
- Infrastructure	135,565	3.9	167,789	6.0
Absolute Return	677,252	19.3	568,545	20.1
Derivatives	39,328	1.1	2,448	0.1
	\$ 3,509,525	100.0%	\$ 2,827,778	100.0%

b) Derivative contracts:

Derivatives are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. Derivative contracts are transacted either in the over-the-counter ("OTC") market or in regulated markets. The Plan utilizes derivatives to manage its asset mix and foreign currencies exposure.

Notional amounts of derivative contracts represent the volume of outstanding transactions and do not represent the potential gain, loss or net exposure associated with the market, foreign currency or credit risk of such transactions. Rather, they serve as the basis upon which the returns from, and the fair market value of, the contracts are determined.

Derivative contracts are valued at fair market value. Fair market value represents the amount of consideration at which they could be exchanged in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. Realized and unrealized gains and losses from derivative contracts have been included in investment income as part of net gain on investments (see note 8).

NSAHO PENSION PLAN

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Year ended December 31, 2010

The NSAHO Pension Plan has entered into two swap agreements with a counterparty that are linked to a collateral management agreement between the two parties. Depending upon the position of the two swaps at a given point in time, one of the counterparties will be required to post collateral. At December 31, 2010, the NSAHO Pension Plan held approximately \$9,000,000 in cash posted by the counterparty due to the position of the two swaps at that date. This cash has not been recorded in the NSAHO Pension Plan's records.

c) Market value of investments after allocating the effect of derivative contracts:

(unaudited)	(\$ Thousands)			
	2010		2009	
Prior to Overlays				
Fixed income	\$ 1,212,927	34.6%	\$ 869,980	30.8%
Short-term	228,228	6.5	225,965	8.0
Equities - Canadian	354,521	10.1	305,378	10.8
- US	448,727	12.8	339,348	12.0
- Other foreign	551,376	15.7	449,207	15.9
Alternatives - Real Estate	53,051	1.5	45,479	1.6
- Bond Alternatives	364,029	10.4	272,253	9.6
- Commodities	163,020	4.6	148,513	5.2
- Infrastructure	133,646	3.8	171,655	6.1
Subtotal	\$ 3,509,525	100.0%	\$ 2,827,778	100.0%
Overlays				
Fixed income	990,911	28.2%	945,925	33.5%
Absolute Return	677,252	19.3	568,545	20.1
Leverage for Overlays	(1,668,163)	(47.5)	(1,514,470)	(53.6)
Total	\$ 3,509,525	100.0%	\$ 2,827,778	100.0%

NSAHO PENSION PLAN

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Year ended December 31, 2010

d) Interest Rate Risk:

Interest rate risk refers to the fact that the Plan's financial position will change as market interest rates change. Interest rate risk is inherent in the nature of the pension plan business due to prolonged timing differences between cash flows related to the assets and liabilities of the Plan.

The value of the Plan's assets is affected by changes in nominal interest rates and equity markets. Pension liabilities are exposed to the long-term expectation of the rate of return on investments as well as expectations of inflation and salary escalation. To meet these liabilities, the Plan has established a long term policy asset mix for each asset type. At December 31, 2010, these were: 40% for equities, 25% for fixed income, and 35% for alternative investments such as real estate, commodities, high yield bonds, emerging market debt and infrastructure. The fixed income overlay is used to change the Fund's sensitivity to changes in interest and inflation rates to more closely match the sensitivity of the Plan liabilities, thereby reducing interest rate risk.

e) Credit Risk:

Credit risk is the risk of loss in the event the counterparty to a transaction fails to discharge an obligation and causes the other party to incur a loss. Credit risk is controlled by limiting to 10% or less the percentage of the market value of assets invested in a single issuer or family of legally related entities (this does not apply to securities guaranteed by the Government of Canada, World Bank, or a Canadian Province).

f) Foreign Currency Risk:

Foreign currency exposure arises from the Plan's holding of foreign currency-denominated investments. Foreign currency risk is controlled by limiting foreign investments through asset allocation guidelines.

The Plan's foreign currency exposure, after the effect of derivatives (net of currency forwards), at December 31, 2010, is summarized in the following table.

(unaudited)

Currency Exposure	(CDN\$ Thousands)
United States	\$ 651,061
European Union	227,682
Japan	2,384
Australia	30,249
United Kingdom	66,603
Other	205,066
	<u>\$ 1,183,045</u>

NSAHO PENSION PLAN

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Year ended December 31, 2010

4. RECEIVABLES:

(\$ Thousands)

	2010	2009
Employers' contributions	\$ 9,262	\$ 9,070
Employees' contributions	7,563	7,264
Dividends and accrued interest	5,724	2,262
Fund redemptions receivable	471	7,332
Other receivables	546	567
	\$ 23,566	\$ 26,495

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

(\$ Thousands)

	2010	2009
Trade and accrued liabilities	\$ 2,922	\$ 2,376
Due to Nova Scotia Association of Health Organizations	9	5
	\$ 2,931	\$ 2,381

NSAHO PENSION PLAN

Notes to Financial Statements, page 8
Year ended December 31, 2010

6. ACCRUED PENSION BENEFITS:

The actuarial present value of accrued pension benefits at December 31, 2010 was determined using the projected benefit method prorated on service and the administrator's best estimate assumptions. These results were extrapolated from the date of the last formal valuation of Plan liabilities, October 31, 2010.

The actuarial present value of benefits as at December 31 and the principal components of changes in actuarial present values during the year were as follows:

	(\$ Thousands)	
	2010	2009
Actuarial present value of accrued pension benefits, beginning of year	\$ 2,912,067	\$ 2,232,585
Benefits accrued	176,714	127,900
Interest accrued on benefits	218,468	168,970
Benefits paid, refunds and transfers	(96,298)	(87,213)
Impact of assumption changes	218,964	469,825
Actuarial present value of accrued pension benefits, end of the year (funding basis)	\$ 3,429,915	\$ 2,912,067
Actuarial value of net assets available for benefits	\$ 3,539,469	\$ 2,868,766

The economic assumptions used in determining the accrued pension benefits were developed by reference to expected long-term market conditions. Significant long-term actuarial assumptions used in the valuation were:

	2010	2009
Investment Assumption (discount rate)	6.75% per annum	7.4% per annum
Inflation	2.5% per annum	2.7% per annum
Salary / YMPE Increase	3.7% / 2.5% per annum	3.9% / 2.7% per annum
Mortality	UP 94 with future improvements	UP 94 with future improvements
Retirement	75% earliest unreduced 25% age 65	75% earliest unreduced 25% age 65

Future base year improvements and indexing of pensions to 100% of the change in CPI (not limited to 3%) are included in the actuarial present value of accrued pension benefits.

NSAHO PENSION PLAN

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7. FUNDING POLICY:

In accordance with the Plan terms, employees were required to contribute 7.0666% of their earnings up to the Year's Maximum Pensionable Earnings (YMPE; \$47,200 in 2010) as defined under the Canada Pension Plan, and 9.2555% of earnings in excess of the YMPE. Employers remitted 9.0961% up to the YMPE, and 11.2806% of earnings in excess of the YMPE, or 8.4961% and 10.6806% respectively, if the employer did not participate in the early retirement incentive program.

The most recent actuarial valuation for funding purposes was prepared by Mercer (Canada) Ltd. as of October 31, 2010, and a copy of this valuation was filed with the Nova Scotia Superintendent of Pensions and with the Canada Revenue Agency. This valuation disclosed a funding excess of \$100.4 million on a going-concern basis.

8. INVESTMENT INCOME:

(\$ Thousands)

	2010	2009
Net gain on investments	\$ 441,357	\$ 600,971
Investment recovery	45,737	53,320
Dividends	44,858	36,263
Short-term interest	704	527
Bond interest	17,458	15,911
Real estate income	466	1,112
Infrastructure income	9,653	-
Other foreign exchange gain (loss)	25,199	(17,574)
	\$ 585,432	\$ 690,530

Net gains on investments are presented net of pooled fund expenses, which have been deducted directly from investment revenues by the investment manager. Pooled fund expenses are not direct cash flows of the Plan, are difficult to measure with a great deal of certainty, and as such only other investment expenses are directly reflected on the Plan's financial statements.

Other foreign exchange gain (loss) amounts include gains and losses not already recorded in other investment income categories.

NSAHO PENSION PLAN

Notes to Financial Statements, page 10
Year ended December 31, 2010

9. EXPENSES:

	(\$ Thousands)	
ASSET MANAGEMENT & GOVERNANCE	2010	2009
Investment management*	\$ 5,155	\$ 3,894
Investment structure implementation fees	489	863
Salaries and benefits	409	393
Education & related travel	5	1
Trustee expenses	37	20
Premises	17	20
Computer services	9	9
Custodial	401	341
Professional fees	64	69
Insurance (50%)	23	25
Administration	33	40
Audit	26	34
Consulting & performance measurement	275	224
	\$ 6,943	\$ 5,933

(*see note 8 footnote)

	(\$ Thousands)	
CLIENT SERVICES	2010	2009
Salaries and benefits	\$ 1,106	\$ 1,053
Professional fees	216	164
Benefit payment fees	164	154
Equipment & software	110	112
Communications	45	32
Depreciation	56	84
Administration	42	41
Premises	99	92
Computer services	48	47
Insurance (50%)	23	25
Trustee expenses	12	12
Printing	2	0
Education & related travel	1	1
Audit	13	17
	\$ 1,937	\$ 1,834

NSAHO PENSION PLAN

Notes to Financial Statements, page 11
Year ended December 31, 2010

10. CONTRIBUTIONS:

	(\$ Thousands)	
	2010	2009
Employers	\$ 100,572	\$ 90,253
Employees	79,536	71,169
Transfers from other plans	8,365	1,696
Members' Past Service Purchases	4,378	2,527
	\$ 192,851	\$ 165,645

11. BENEFITS:

	(\$ Thousands)	
	2010	2009
Pensioner benefits	\$ 85,337	\$ 76,737
Termination benefits	10,114	10,267
Death benefits	847	461
Transfers to other plans	2,402	1,443
	\$ 98,700	\$ 88,908

12. COMMITMENTS:

The Plan has committed to enter into investment transactions, which may be funded over the next several years in accordance with the terms and conditions agreed to. As at December 31, 2010, these potential commitments totaled \$408.9 million (2009: \$259.5 million).

13. CONTINGENCY:

The NSAHO Pension Plan may, from time to time, be involved in legal proceedings, claims and litigation that arise in the ordinary course of business that the Plan believes would not reasonably be expected to have a material adverse effect on the financial condition of the Plan.

14. COMPARATIVE INFORMATION:

Certain of the comparative figures for 2009 have been reclassified to conform to the financial statement presentation adopted for 2010.