



**PROVINCE OF NOVA SCOTIA
SYDNEY STEEL CORPORATION
SUPERANNUATION FUND
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011**



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Independent auditor's report

To the Minister of Finance, Province of Nova Scotia

We have audited the accompanying consolidated statement of net assets available for benefits and accrued pension benefits net of deficiency of the Sydney Steel Corporation Superannuation Fund (the "Fund") as at March 31, 2011, and the consolidated statement of changes in net assets available for benefits (deficiency) 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 consolidated 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits net of deficiency of the Fund as at March 31, 2011, and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Halifax, Nova Scotia
June 27, 2011

Grant Thornton LLP

Chartered accountants

**Province of Nova Scotia
 Sydney Steel Corporation Superannuation Fund
 Consolidated Statement of Net Assets Available for
 Benefits (Deficiency) and Accrued Pension Benefits Net of Deficiency
 As At March 31, 2011**

NET ASSETS AVAILABLE FOR BENEFITS	2011	2010
Assets		
Cash	\$ 20,997	\$ 33,018
Liabilities		
Accounts payable and accrued liabilities	<u>14,416</u>	<u>13,251</u>
Net assets available for benefits	<u>\$ 6,581</u>	<u>\$ 19,767</u>
 ACCRUED PENSION BENEFITS NET OF DEFICIENCY		
Accrued pension benefits (Note 4)	\$ 189,997,700	\$ 200,890,700
Deficiency (Note 4)	<u>(189,991,119)</u>	<u>(200,870,933)</u>
Accrued pension benefits net of deficiency	<u>\$ 6,581</u>	<u>\$ 19,767</u>

Approved:

Trustee – Minister of Finance

(See accompanying notes to the consolidated financial statements)

**Province of Nova Scotia
Sydney Steel Corporation Superannuation Fund
Consolidated Statement of Changes in Net Assets
Available for Benefits (Deficiency)
For the Year Ended March 31, 2011**



	2011	2010
Increase In Assets		
Contributions:		
Province of Nova Scotia	\$ 20,127,502	\$ 20,787,393
Investment income	<u>1,375</u>	<u>1,304</u>
Increase in assets	<u>20,128,877</u>	<u>20,788,697</u>
Decrease in Assets		
Benefits	19,964,570	20,677,776
Operating expenses (Note 5)	<u>177,493</u>	<u>140,772</u>
Decrease in assets	<u>20,142,063</u>	<u>20,818,548</u>
 (Decrease) increase in Net Assets Available for Benefits	 (13,186)	 (29,851)
Net Assets Available for Benefits (Deficiency) at Beginning of Year	 <u>19,767</u>	 <u>49,618</u>
Net Assets Available for Benefits at End of Year	 <u>\$ 6,581</u>	 <u>\$ 19,767</u>

(See accompanying notes to the consolidated financial statements)

Province of Nova Scotia
Sydney Steel Corporation Superannuation Fund
Notes to the Consolidated Financial Statements
March 31, 2011

1. Authority and Description of Plans:

The Sydney Steel Corporation Superannuation Fund (the "Fund") was established under Section 7 of the Sydney Steel Corporation Sale Act (the "Act"), which was proclaimed on February 9, 2001. Order in Council No. 2001-98 designated February 28, 2001 as the effective date on which the assets and obligations of the Sydney Steel Corporation pension plans were transferred to the Fund. The Minister of Finance is the Trustee of the Fund.

Under subsection 7(9) of the Act, the Minister of Finance assumed responsibility to fund any shortfalls arising under the Fund.

a) United Steel Workers of America Pension Plan:

The Plan is a defined benefit pension plan covering former employees of the Sydney Steel Corporation who were members of Locals 1064, 6537 and 6516 of the United Steelworkers of America.

A service pension is available based on \$30.00 per month per year of service, effective January 1, 1995 (previously \$16.50 per month), to a maximum of 35 years plus the amount of pension benefit as established under the provisions of the 1955 Pension Plan.

Death benefits are available if certain criteria are met.

b) Salaried Pension Plan:

The Plan is a defined benefit pension plan covering former salaried employees of the Sydney Steel Corporation.

A service pension is available based on \$30.00 per month per year of service, effective January 1, 1995 (previously \$16.50 per month), to a maximum of 35 years plus certain percentages of required contributions made after May 1, 1995.

Senior management employees receive pension benefits different from the above.

Death benefits are available if certain criteria are met.

**Province of Nova Scotia
Sydney Steel Corporation Superannuation Fund
Notes to the Consolidated Financial Statements
March 31, 2011**

1. Authority and Description of Plans (continued):

c) Canadian Union of Public Employees Pension Plan:

The Plan is a defined benefit pension plan covering former employees of the Sydney Steel Corporation who were members of Locals 1675 of the Canadian Union of Public Employees.

A service pension is available based on \$35.00 per month per year of service, effective January 1, 1995 (previously \$16.50 per month), to a maximum of 35 years plus the amount of pension benefit as established under the provisions of the 1955 Pension Plan.

Death benefits are available if certain criteria are met.

2. Significant Accounting Policies:

a) Basis of consolidation:

The consolidated financial statements include the accounts of the following pension plans:

- United Steel Workers of America Pension Plan
- Salaried Pension Plan
- Canadian Union of Public Employees Pension Plan

b) Basis of presentation:

As the Province of Nova Scotia has assumed any shortfall arising under this Fund (Note 1), these consolidated financial statements are prepared on the going concern basis and present the aggregate financial position of the Fund as a separate financial reporting entity. They are prepared in accordance with Canadian generally accepted accounting principles.

c) Assets and liabilities:

The fair value of cash and accounts payable approximate their carrying amounts due to their short-term nature.

**Province of Nova Scotia
Sydney Steel Corporation Superannuation Fund
Notes to the Consolidated Financial Statements
March 31, 2011**

2. Significant Accounting Policies (continued):

d) Benefits:

Benefit payments to retired members and commuted value payments are recorded in the period in which they are paid. Accrued benefits are recorded as part of accrued actuarial liabilities.

e) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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.

3. Investments:

The Fund's invested assets were depleted in October 2007. Pension payments are now funded completely by the Province. Investment income is from interest on cash balances and from recoveries from previously owned investments.

4. Accrued Pension Benefits and Deficiency:

Actuarial valuations of the Plans are carried out periodically and provide an estimate of the accrued pension benefits (Fund liabilities) calculated using various economic and demographic assumptions, based on membership data as at the valuation date. The Plans' previous actuary, Morneau Sobeco, performed valuations as at September 30, 2008. The reports indicated that the Plans had a combined unfunded liability of \$212.1 million. A projection to March 31, 2011 carried out by the Plans' current actuary, Mercer, applying the assumptions summarized below, indicated an unfunded liability of \$190.0 million (March 31, 2010 - \$200.9 million).

The following table reflects the unfunded liability as at March 31, 2011 and as at March 31, 2010.

	<u>2011</u>	<u>2010</u>
Actuarial value of assets:	\$ 6,581	\$ 19,767
Accrued pension benefits:	<u>189,997,700</u>	<u>200,890,700</u>
Unfunded liability:	<u>(\$189,991,119)</u>	<u>(\$ 200,870,933)</u>

Accrued pension benefits declined from the previous year, even though actuarial assumptions did not change, because members are no longer accruing service and the plans are closed to new entrants.

**Province of Nova Scotia
Sydney Steel Corporation Superannuation Fund
Notes to the Consolidated Financial Statements
March 31, 2011**

4. Accrued Pension Benefits and Deficiency (continued):

	2011	2010
Reconciliation of changes in accrued pension benefits:		
Accrued pension benefits at beginning of year	\$ 200,890,700	\$ 206,936,200
Impact of change in discount rate and inflation assumption	-	3,520,000
Estimated benefits paid	(20,139,100)	(20,851,600)
Interest on average liability during fiscal year	9,072,300	9,489,600
Net experience losses (gains)	<u>173,800</u>	<u>1,796,500</u>
Accrued pension benefits at end of year	<u>\$ 189,997,700</u>	<u>\$ 200,890,700</u>

The actuarial valuations project liabilities for each member on the basis of the pension credit years earned. The actuaries have used the unit credit method of determining the actuarial liability.

The net actuarial losses (gains) noted above include experience gains and losses resulting when actual benefits differ from estimated benefits.

The major economic and demographic assumptions used in the extrapolation and most recent valuations are as follows:

	Extrapolation March 31, 2011	Valuation September 30, 2008
Inflation (only applies to the Salaried Plan)	2.50% per annum	2.50% per annum
Average Salary Increase	Not applicable	Not applicable
Interest (discount) rate	4.75% per annum	4.95% per annum
Retirement Age	Earliest unreduced retirement date	Earliest unreduced retirement date
Mortality	UP-94 projected to 2020 using scale AA	UP-94 projected to 2015 using scale AA

Province of Nova Scotia
Sydney Steel Corporation Superannuation Fund
Notes to the Consolidated Financial Statements
March 31, 2011

5. Operating Expenses:

The Fund is charged with administrative and other expenses, certain of which are incurred on behalf of the Fund by the Nova Scotia Pension Agency. The following is a summary of these operating expenses:

	<u>2011</u>	<u>2010</u>
Plan Administration		
Professional services	\$ 17,610	\$ 14,085
Salaries	91,858	88,652
Supplies and services	54,204	26,425
Travel	508	701
Other	<u>13,313</u>	<u>10,909</u>
Total Operating Expenses	<u>\$ 177,493</u>	<u>\$ 140,772</u>

6. Capital Management:

The Trustee (see Note 1) manages the benefits as required by the Sydney Steel Corporation Sale Act. The Trustee approves and incurs expenses to administer the commerce of the Fund as required under the Act.

Benefit payments are funded by the General Revenue Fund of the Province of Nova Scotia. The Fund exercises due diligence and has established written policies, procedures, and approval processes. Operating budgets, audited financial statements, actuarial valuations and reports, and as required, the retention of supplementary professional, technical and other advisors, are part of the Fund governance structure.

7. Future New Accounting Pronouncement:

The Accounting Standards Board's ("AcSB") April 2008 Exposure Draft, Adopting IFRS in Canada, proposed that, upon adoption of International Financial Reporting Standards ("IFRS") by publicly accountable enterprises, pension plans would continue to prepare their financial statements in accordance with the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 4100, Pension Plans ("Section 4100"), rather than International Accounting Standards 26, Accounting and Reporting by Retirement Benefit Plans. On July 30, 2009, the AcSB issued an Exposure Draft that proposed changes to existing Section 4100 in the areas of presentation and disclosure. It also provided more guidance on how to measure fair value of investment assets and investment liabilities. In February 2010, the AcSB approved CICA Handbook Section 4600, Pension Plans ("Section 4600"), as Part IV of the CICA Handbook. The new Section 4600 was released in April 2010 and is based on existing Section 4100 with substantive modifications and will be effective for annual financial statements for fiscal years beginning on or after January 1, 2011. The Fund is currently in the process of evaluating the potential impact of adopting Section 4600.

**Province of Nova Scotia
Sydney Steel Corporation Superannuation Fund
Schedule A – Assets Available for Benefits by Pension Plan
March 31, 2011**

	United Steel Workers of America (Locals 1064, 6537 and 6516) Pension Plan	Salaried Pension Plan	Canadian Union of Public Employees (Local 1675) Pension Plan	Total
2011				
Cash	\$ 10,966	\$ 8,558	\$ 1,473	\$ 20,997
Less: Accounts payable and accrued liabilities	<u>9,315</u>	<u>4,224</u>	<u>877</u>	<u>14,416</u>
Net assets available for benefits	<u>\$ 1,651</u>	<u>\$ 4,334</u>	<u>\$ 596</u>	<u>\$ 6,581</u>
Accrued pension benefits	138,945,900	48,740,500	2,311,300	189,997,700
Deficiency	<u>(138,944,249)</u>	<u>(48,736,166)</u>	<u>(2,310,704)</u>	<u>(189,991,119)</u>
Accrued pension benefits net of deficiency	<u>\$ 1,651</u>	<u>\$ 4,334</u>	<u>\$ 596</u>	<u>\$ 6,581</u>
2010				
Cash	\$ 16,238	\$ 14,302	\$ 2,478	\$ 33,018
Less: Accounts payable and accrued liabilities	<u>10,710</u>	<u>2,266</u>	<u>275</u>	<u>13,251</u>
Net assets available for benefits	<u>\$ 5,528</u>	<u>\$ 12,036</u>	<u>\$ 2,203</u>	<u>\$ 19,767</u>
Accrued pension benefits	147,658,600	50,832,300	2,399,800	200,890,700
Deficiency	<u>(147,653,072)</u>	<u>(50,820,264)</u>	<u>(2,397,597)</u>	<u>(200,870,933)</u>
Accrued pension benefits net of deficiency	<u>\$ 5,528</u>	<u>\$ 12,036</u>	<u>\$ 2,203</u>	<u>\$ 19,767</u>

**Province of Nova Scotia
Sydney Steel Corporation Superannuation Fund
Schedule B – Changes in Assets Available for Benefits by Pension Plan
March 31, 2011**

	United Steel Workers of America (Locals 1064, 6537 and 6516) Pension Plan	Salaried Pension Plan	Canadian Union of Public Employees (Local 1675) Pension Plan	Total
2011				
Increase in Assets				
Contributions:				
Province of Nova Scotia	\$ 15,528,382	\$ 4,395,672	\$ 203,448	\$ 20,127,502
Investment income	<u>-</u>	<u>1,375</u>	<u>-</u>	<u>1,375</u>
	<u>15,528,382</u>	<u>4,397,047</u>	<u>203,448</u>	<u>20,128,877</u>
Decrease in Assets				
Benefits	15,393,317	4,370,536	200,717	19,964,570
Administrative expenses	<u>138,942</u>	<u>34,213</u>	<u>4,338</u>	<u>177,493</u>
	<u>15,532,259</u>	<u>4,404,749</u>	<u>205,055</u>	<u>20,142,063</u>
Decrease in Net Assets	(3,877)	(7,702)	(1,607)	(13,186)
Assets available for benefits, beginning of year	<u>5,528</u>	<u>12,036</u>	<u>2,203</u>	<u>19,767</u>
Assets available for benefits, end of year	<u>\$ 1,651</u>	<u>\$ 4,334</u>	<u>\$ 596</u>	<u>\$ 6,581</u>
2010				
Increase in Assets				
Contributions:				
Province of Nova Scotia	\$ 16,027,935	\$ 4,552,106	\$ 207,352	\$ 20,787,393
Investment income	<u>3</u>	<u>1,300</u>	<u>1</u>	<u>1,304</u>
	<u>16,027,938</u>	<u>4,553,406</u>	<u>207,353</u>	<u>20,788,697</u>
Decrease in Assets				
Benefits	15,938,638	4,532,177	206,961	20,677,776
Administrative expenses	<u>113,421</u>	<u>25,141</u>	<u>2,210</u>	<u>140,772</u>
	<u>16,052,059</u>	<u>4,557,318</u>	<u>209,171</u>	<u>20,818,548</u>
Increase in Net Assets	(24,121)	(3,912)	(1,818)	(29,851)
Assets available for benefits, beginning of year	<u>29,649</u>	<u>15,948</u>	<u>4,021</u>	<u>49,618</u>
Assets available for benefits, end of year	<u>\$ 5,528</u>	<u>\$ 12,036</u>	<u>\$ 2,203</u>	<u>\$ 19,767</u>