Consolidated Financial Statements of

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND

Year ended March 31, 2011

INDEPENDENT AUDITORS' REPORT

To the Minister of Finance, Province of Nova Scotia

We have audited the accompanying consolidated financial statements of the Nova Scotia Public Service Superannuation Fund ("the Fund"), which comprise the consolidated statement of net assets available for benefits and accrued pension benefit obligation and surplus (deficit) as at March 31, 2011, and the consolidated 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 Consolidated 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 consolidated 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 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 an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 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 consolidated 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 financial position of the Nova Scotia Public Service Superannuation Fund as at March 31, 2011 and its results of operations for the year then ended in accordance with the Canadian generally accepted accounting principles.

Other matter

The comparative figures for March 31, 2010 were reported on by another firm of chartered accountants, who issued an unqualified audit opinion.

KPMG LLP

Chartered Accountants
June 30, 2011
Halifax, Canada

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND

Consolidated Financial Statements

Year ended March 31, 2011

Financial Statements

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND

Consolidated Statement of Net Assets Available for Benefits and Accrued Pension Benefit Obligation and Surplus (Deficit)
(in thousands of dollars)

March 31, 2011, with comparative figures for 2010

		2011		2010
Net Assets Available for Benefits				
Assets				
Investments (notes 4 and 5)	$	4,309,177	$	3,466,144
Contributions receivable:				
Employers'		5,076		4,874
Employees'		4,662		4,370
Accrued income		19,696		14,368
Prepaid expenses		523		1,623
Receivables from pending trades		38,034		120,154
Cash		33,609		33,650
Total assets		4,410,777		3,645,183
Liabilities:				
Real estate mortgages (note 6)	$	58,221	$	49,451
Accounts payable		9,183		12,030
Payables from pending trades		42,333		139,379
Total liabilities		109,737		200,860
Net assets available for benefits		4,301,040		3,444,323
Present value of expected instalment payments (note 7)		920		1,026
Fair value of net assets available for benefits	$	4,301,960	$	3,445,349
Accrued Pension Benefit Obligation and Surplus (Deficit)				
Accrued pension benefit obligation (note 2 and 8)		4,240,670		4,961,851
Surplus (deficit)				
Funding surplus (deficit) (notes 2 and 8)		147,449		(1,516,502)
Actuarial value adjustment of net assets (notes 2 and 8)		(86,159)		-
		61,290		(1,516,502)
Commitments (note 13)				
Accrued pension benefit obligation and surplus (deficit)	$	4,301,960	$	3,445,349

See accompanying notes to consolidated financial statements.

Approved:

Trustee - Minister of Finance

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND

Consolidated Statement of Changes in Net Assets Available for Benefits
(in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Increase in Assets		
Investment activities (note 4)	$ 396,850	$ 623,733
Contributions:		
Employers' - matched	84,418	80,593
Employees' - matched	84,418	80,593
Employers' - unmatched (note 1)	536,000	-
Employees' - unmatched	2,005	5,912
Transfers from other pension plans	12,288	6,993
	183,129	174,091
Total increase in assets	1,115,979	797,824
Decrease in Assets:		
Benefits paid	229,755	219,044
Refunds of contributions, and interest and transfers to other pension plans	14,235	20,025
Operating expenses (note 9)	15,272	12,036
Total decrease in assets	259,262	251,105
Net increase in net assets	856,717	546,719
Net assets available for benefits, beginning of year	3,444,323	2,897,604
Net assets available for benefits, end of year	$ 4,301,040	$ 3,444,323

See accompanying notes to consolidated financial statements.

1. Authority and description of Plan:

The Public Service Superannuation Fund (the "Fund") was established by the Public Service Superannuation Act (the "Act"). It is the funding vehicle for the Public Service Superannuation Plan (the "Plan"), a pension plan that covers employees of the Province and certain other public sector organizations. The detailed provisions of the Plan, including pension eligibility criteria and benefit formulas, are also contained in the Act and in the Regulations made under the Act. The Minister of Finance is the Trustee of the Fund.

The following description is a summary only. For more complete information, reference should be made to the Act and Regulations.

Employee and employer contributions and investment earnings are credited to the Fund. Pensions, payments to terminating employees and administration expenses are charged to the Fund.

The Plan is funded by employee and matching employer contributions of 8.4% of salary up to the Year's Maximum Pensionable Earnings (the "YMPE") and 10.9% of salary above the YMPE. The YMPE is a figure set annually by the Canada Pension Plan (the "CPP").

The basic pension formula is 2% multiplied by the number of years of pensionable service multiplied by the highest average pensionable salary of the best five years. Vesting occurs after two years. Pensions are integrated with CPP benefits at age 65.

Plan members are eligible for a pension upon reaching any of the following criteria:

- age 50 with an age plus service factor of 80 – "Rule of 80" (age 55 with an age plus service factor of 85 for members first hired by a participating employer on or after April 6, 2010);
- age 55 with two years of service (reduced pension);
- age 60 with two years of service;
- age 65 (if an employee at age 65).

Upon the death of a member, the surviving spouse is entitled to receive 66.67% of the member's pension benefit payable for life (60% for the surviving spouse of a member first hired by a participating employer on or after April 6, 2010). Eligible children are entitled to receive 10% of the member's pension benefit, payable until age 18 (or 25 while still in school).

Upon termination of employment, a member may choose to defer their pension until they satisfy one of the above eligibility criteria, or they may remove their funds from the plan in the form of a commuted value.

1. Authority and description of Plan (continued):

The benefit payable upon termination or death of a non vested member, or upon death prior to retirement of a vested member with no eligible survivors, is a lump sum refund of the member's contributions with interest.

In fiscal 2011, changes were made to the Public Service Superannuation Act to address the Plan's unfunded liability. From January 1, 2011 to January 1, 2015, indexing of pensions in pay will be at a rate of 1.25% annually. Starting January 1, 2016, the annual rate of indexing will be set by the Trustee for five-year periods, based on the funding level of the Plan and the advice of the Plan's actuary. Future indexing of pensions in the deferral period was eliminated. In addition, for members first hired by a participating employer on or after April 6, 2010, the "Rule of 80" with a minimum age of 50 was changed to the "Rule of 85" with a minimum age of 55, and the benefit payable to their surviving spouse was changed from 66.67% of the member's pension benefit to 60%. The Province also committed to a transfer of $536,000. This transfer occurred on December 15, 2010.

2. Change in accounting estimate:

During 2011, the Fund changed its estimation method to determine the actuarial value of the Plan's assets. For the year ended March 31, 2010, the Fund reported the value of the assets on a market value basis. Effective in fiscal 2011, the Fund adopted an adjusted market-value method to determine the actuarial value of the Plan's assets. Under this estimation method, net investment income in excess (deficient) of the actuarial long-term rate of return assumption arising during a given year is spread on a straight-line basis over five years in accordance with a predetermined formula. The asset values produced by this estimation method are related to the market value of the assets, with the advantage that, over time, the market-related asset values will tend to be more stable than market values. This change in estimation method has been applied prospectively and has resulted in an actuarial value adjustment in the amount of $86,159 at March 31, 2011.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND

Notes to Consolidated Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2011

---

3. **Significant accounting policies:**

(a) Basis of presentation:

These consolidated financial statements are prepared on a going-concern basis and present the aggregate financial position of the Fund as a separate financial reporting entity. These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(b) Consolidation:

The Fund holds real estate and infrastructure investments through wholly-owned subsidiaries. The consolidated financial statements include the accounts of the Fund and its wholly-owned subsidiaries.

(c) Investments:

(i) All investment transactions are recorded at the point when the risks and rewards of ownership are transferred. Purchases and sales of publicly traded investments are recorded as of the trade date. Investments are stated at fair value as at year-end. 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 securities, fixed income securities, real return bonds and equities are valued at quoted market prices.

Pooled funds are valued at the unit values supplied by the pooled fund administrator, which represent the Fund's proportionate share of underlying net assets at fair values determined using closing market prices.

Private equity values are estimated with appropriate valuation techniques and best estimates of managers or evaluators.

(ii) The derivative contracts held by the Fund are stated at fair value and are valued using quoted market indices. The gains or losses from derivative contracts are included in the realized and unrealized gains or losses on investments.

3. Significant accounting policies (continued):

(iii) Real estate consists of income producing properties and a real estate pooled fund. Properties are valued annually by independent appraisers in accordance with generally accepted appraisal practices and procedures. This process utilizes discounted future cash flows. In estimating future cash flows, certain assumptions are made with respect to future economic conditions and rates of return.

(iv) The Fund holds bank-sponsored asset-backed commercial paper in its cash portfolios; however, exposure is limited to multi-seller, multi-asset conduits with global-style credit facilities, thus mitigating both credit and liquidity risk. There has been no impact on the value of these assets at March 31, 2011.

(v) Infrastructure investments are initially valued at the cost of acquiring the asset, including professional fees and other acquisition costs. A suitable method of valuation is used annually by the Fund to determine fair value. Valuation techniques used include the use of discounted cash flows or other pricing models, as appropriate.

(d) Foreign currency translation:

Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing on the dates of the transactions. The fair values of foreign investments and cash balances held at period end are translated at the year-end rate of exchange. The resulting gain or loss from changes in these rates is included in current period change in the fair value of investments.

(e) Investment income (loss) and transaction costs:

Investment income (loss) is reflected in investment activities and includes interest, dividends and operating income (loss) from real estate, as well as gains and losses that have been realized on disposal of investments and the unrealized appreciation and depreciation in the fair value of investments.

Brokers' commissions and other transaction costs are expensed in the statement of changes in net assets available for benefits in the year incurred.

3. Significant accounting policies (continued):

(f) Financial instruments:

The Fund's financial instruments include cash, contributions receivable, investments, receivables from pending trades, accounts payable, payables from pending trades and real estate mortgages.

Due to their short-term nature, the Fund's short-term financial instruments, consisting of cash, contributions receivable, receivables from pending trades, accounts payable and payables from pending trades are carried at amortized cost which approximates their fair values.

Investments and real estate mortgages are carried at fair values as described in notes 3, 4, 5 and 6 and are subject to interest rate, market price, credit, foreign currency, and liquidity risks as described in note 5.

(g) Contributions:

Basic contributions from employers and members due to the Fund as at the end of the year are recorded on an accrual basis. Service purchases that include but are not limited to leaves of absence and transfers from other pension plans are recorded and service is credited when the purchase amount is received.

(h) Benefits:

Benefit payments to retired members, commuted value payments and transfers to other pension plans are recorded in the period in which they are paid. Accrued benefits are recorded as part of the accrued pension benefit obligation.

(i) Accrued pension benefit obligation:

The value of the accrued pension benefit obligation of the Fund is based on a going concern method actuarial valuation prepared by an independent firm of actuaries using the projected unit credit method. The accrued pension benefit obligation is measured in accordance with accepted actuarial methods using actuarial assumptions and methods adopted by the Fund for the purpose of establishing the long-term funding requirements of the Fund. The actuarial valuation included in the consolidated financial statements is consistent with the valuation for funding purposes.

3. Significant accounting policies (continued):

(j) Actuarial value of net assets and actuarial value adjustment:

The actuarial value of net assets for the Fund is used in assessing the funding position of the Fund, including the determination of contribution rates. The actuarial value of net assets is determined by smoothing returns above or below the actuarial long-term rate of return assumption over a five-year period. The fair value of net assets is adjusted by the unrecognized actuarial value adjustment to arrive at the actuarial value of net assets.

(k) Income taxes:

The Fund is the funding vehicle for a registered pension plan, as defined by the Income Tax Act (Canada) and, accordingly is not subject to income taxes.

(l) 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. Significant estimates included in the consolidated financial statements relate to the valuation of private market investments and the determination of the accrued pension benefit obligation.

(in thousands of dollars)

4. Investments and derivatives:

(a) The fair value of investments and related income is summarized in the following table:

	As at March 31, 2011		For the year	As at March 31, 2010		For the year
	Assets	%	Income *	Assets	%	Income *
Money market	$ 492,476	11.4	$ 6,148	$ 172,151	5.0	$ 1,992
Fixed Income **						
Canadian	810,332	18.8	35,774	652,886	18.8	54,605
US	325,183	7.5	17,718	273,754	7.9	900
Real return bonds	217,349	5.0	16,520	130,348	3.8	403
Equities						
Canadian	708,491	16.4	122,894	703,318	20.3	208,808
US	748,106	17.4	83,149	643,854	18.6	96,220
Global	678,160	15.7	63,365	620,537	17.9	132,092
Real estate	296,478	6.9	13,832	256,765	7.4	(8,823)
Infrastructure						
Canadian	26,548	0.6	1,248	808	-	-
non-Canadian	6,615	0.2	881	-	-	-
Derivatives						
Equity swap	2,508	0.1	10,518	247	-	17,010
Currency forwards	(2,748)	(0.1)	23,695	11,379	0.3	119,046
Other derivatives	(321)	-	586	97	-	838
Securities lending	-	-	471	-	-	592
Other	-	-	51	-	-	50
	$ 4,309,177	100.0	$ 396,850	$ 3,466,144	100.0	$ 623,733

* Income for the year includes realized and unrealized gains of $259,839 (2010 - gains of $384,730) and net brokerage commissions of $929 (2010 - $1,000).

** Fixed income-based derivatives are implemented by the investment manager as part of a US fixed income strategy.

(in thousands of dollars)

4. Investments and derivatives (continued):

(b) Derivatives:

Derivatives are financial contracts, the value of which is "derived" from the value of underlying assets or interest or exchange rates. Derivatives provide flexibility in implementing investment strategies.

i) Equity Swap Contract

The notional value of the equity swap contract represents the market value at the time of the contract opening. The fair value of the contract is determined to be the difference between the current market value and notional value. On a quarterly basis the fair value is paid to the Fund in the event of a gain or to the counterparty in the event of a loss. The notional value is then reset to the current market value.

Details of the contract held on March 31, 2011 and March 31, 2010 are shown below:

	2011	2010
Contract date	March 15, 2011	March 18, 2010
Maturity date	June 3, 2011	September 20, 2010
Counterparty Credit Rating	AA (low)	AA (low)
Equity Index	S&P/TSX 60	S&P/TSX 60
BA Index	CAD-BA-CDOR	CAD-BA-CDOR
Notional value	$71,423	$62,705
Market value	$73,931	$62,952
Fair value	$2,508	$247

(in thousands of dollars)

4. Investments and derivatives (continued):

ii) Currency Forwards

Forward contracts are used to manage the currency exposure of investments held in foreign currencies. The net notional amount of the currency forwards represents the contracted amount purchased or sold for settlement at a future date. The fair value is determined by the difference between the current market value and the notional value.

Details of the net contracts held on March 31, 2011 and March 31, 2010 are shown below:

	2011	2010
Maturity date	June 15, 2011	June 16, 2010
Notional value	$1,015,185	$783,157
Market value	$1,012,437	$794,536
Fair value	$(2,748)	$11,379

iii) US Fixed Income

Derivatives are employed by the investment manager as part of the US fixed income strategy. The derivatives used to implement the Fund's US fixed income strategy are shown below.

Government Futures	Used to adjust interest rate exposure and replicate government bond positions. Long future positions are backed with high grade, liquid debt securities.
Interest Rate Swaps	Used to adjust interest rate yield curve exposures and substitute for physical securities. Long swap positions increase exposure to long-term interest rates and short positions decrease exposure. Long swap positions are backed with high grade, liquid debt securities.

4. Investments and derivatives (continued):

Credit Default Swaps	Used to manage credit exposure without buying or selling securities outright. Written credit default swaps ("CDS") increase credit exposure (selling protection), obligating the Fund to buy bonds from counterparties in the event of a default. Purchased CDS decrease exposure (buying protection), providing the right to "put" bonds to the counterparty in the event of a default. Net long exposures are backed with high grade, liquid debt securities. Underlying credit exposures are continuously monitored.
Option Premiums	Purchased options are used to manage interest rate volatility exposures. Written options generate income in expected interest rate scenarios and may generate capital losses if unexpected interest rate environments are realized. In-the-money portion of written options are covered by high grade, liquid debt securities.
Mortgage Derivatives	Used to manage portfolio duration and/or enhance yield. Bond exposure is included in portfolio duration, convexity, and prepayment risk measures.
Money Market Derivatives	Used to manage exposures at the front end of the yield curve. Money market futures are based on short-term interest rates and do not require delivery of an asset at expiration, therefore do not require cash backing.

5. Financial instruments:

(a) Fair value disclosure:

The fair value of investments and derivatives is as described in note 3(c). Fair value measurements recognized in the statement of net assets available for benefits are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values.

- Level 1: Fair value is based on inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Investment Manager has the ability to access at the measurement date. Level 1 primarily includes publicly listed investments.

- Level 2: Fair value is based on valuation methods that make use of inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active. Level 2 primarily includes fixed income securities and derivative contracts not actively traded on a public exchange and public equities not traded in an active market.

- Level 3: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level 3 primarily includes private market investments valued based on discounted future cash flow models which reflect assumptions that a market participant would use when valuing such an asset or liability.

(in thousands of dollars)

5. Financial instruments (continued):

Investments based on the valuation level within the fair value hierarchy are as follows:

As at March 31, 2011	Level 1	Level 2	Level 3	Total
Money market	$ 50,271	$ 184,473	$ 257,732	$ 492,476
Fixed income - Canadian	389,485	420,847	-	810,332
Fixed income - US	-	325,183	-	325,183
Real return bonds	-	138,559	78,790	217,349
Equities - Canadian	456,752	251,739	-	708,491
Equities - US	716,248	-	31,858	748,106
Equities - global	597,611	80,549	-	678,160
Real estate	-	85,220	211,258	296,478
Infrastructure - Canadian	-	-	26,548	26,548
Infrastructure - non-Canadian	-	-	6,615	6,615
Equity swap contract	-	2,508	-	2,508
Currency forwards	-	(2,748)	-	(2,748)
Other derivatives	-	(321)	-	(321)
	$ 2,210,367	$ 1,486,009	$ 612,801	$ 4,309,177

As at March 31, 2010	Level 1	Level 2	Level 3	Total
Money market	$ 72,461	$ 31,478	$ 68,212	$ 172,151
Fixed income - Canadian	311,569	341,317	-	652,886
Fixed income - US	-	273,754	-	273,754
Real return bonds	-	55,384	74,964	130,348
Equities - Canadian	496,736	206,582	-	703,318
Equities - US	456,914	153,549	33,391	643,854
Equities - global	545,580	74,957	-	620,537
Real estate	-	79,787	176,978	256,765
Infrastructure - Canadian	-	-	808	808
Equity swap contract	-	247	-	247
Currency forwards	-	11,379	-	11,379
Other derivatives	-	97	-	97
	$ 1,883,260	$ 1,228,531	$ 354,353	$ 3,466,144

(in thousands of dollars)

5. Financial instruments (continued):

The following table shows the changes in the fair value measurement in Level 3 of the fair value hierarchy:

	Fair value March 31, 2010	Total gain included in income	Total loss included in income	Contributed capital	Capital returned	Fair value March 31, 2011	Unrealized gains/losses attributable to investments held at March 31, 2011
Money market	68,212	2,436	-	255,296	(68,212)	257,732	1,009
Real return bonds	74,964	7,376	-	-	(3,550)	78,790	46,087
Private equity funds - US	33,391	-	(1,533)	-	-	31,858	(49,172)
Real estate	176,978	23,945	(685)	17,902	(6,882)	211,258	4,870
Infrastructure funds - CAD	808	1,248	(442)	25,767	(833)	26,548	416
Infrastructure funds - non-Canadian	-	881	(599)	6,592	(259)	6,615	622
Total	$ 354,353	$ 35,886	$ (3,259)	$ 305,557	$ (79,736)	$ 612,801	$ 3,832

(b) Investment risk management:

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to interest rate volatility, market price fluctuations, credit risk, foreign currency risk and liquidity risk. The Fund has set formal goals, policies, and operating procedures that establish an asset mix among equity, fixed income, real estate and infrastructure investments, require diversification of investments within categories, and set limits on the size of exposure to individual investments and counterparties. Risk and credit committees have been created that regularly monitor the risks and exposures of the Fund. Trustee oversight, procedures and compliance functions are incorporated into Fund processes to achieve consistent controls and to mitigate operational risk.

(i) Interest rate risk

Interest rate risk refers to the fact that the Fund's financial position will change with market interest rate changes, as fixed income securities are sensitive to changes in nominal interest rates. Interest rate risk is inherent in the management of a pension plan due to prolonged timing differences between cash flows related to the Fund's assets and cash flows related to the Fund's liabilities.

(in thousands of dollars)

5. Financial instruments (continued):

The fair value of the Fund is affected by short term changes in nominal interest rates. Pension liabilities are exposed to the long term expectation of rate of return on the investments as well as expectations of inflation and salary escalation.

The term to maturity classifications of interest bearing investments, based upon the contractual maturity of the securities, as at March 31, are as follows:

					2011		2010	
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Average Effective yield[1] (%)	Total	Average Effective yield[1] (%)
Money market	$ 492,476	$ -	$ -	$ -	$ 492,476	-	$ 172,151	0.4
Bonds and debentures	9,271	433,313	426,644	266,287	1,135,515	5.1	926,737	4.9
Real return bonds [2]	-	1,133	637	215,579	217,349	4.7	130,348	3.8
	$ 501,747	$ 434,446	$ 427,281	$ 481,866	$ 1,845,340	3.7	$ 1,229,236	4.2

(1) The average effective yield reflects the estimated annual income of a security as a percentage of its March 31 fair value.

(2) Real return bond yields are based on real interest rates. The ultimate yield will be impacted by inflation as it occurs.

Excluding all other variables, a one percent increase in nominal interest rates would decrease the fair value of the Fund by $97,465 (2010 - $70,600), and a one percent decrease in nominal interest rates would increase the fair value of the Fund by $105,909 (2010 - $76,800).

(ii) Market price risk

Market price risk is the risk of fluctuation in market values of investments from influences specific to a particular investment or from influences on the market as a whole. Market price risk does not include interest rate risk and foreign currency risk which are also discussed in this note. As all of the Fund's financial instruments are carried at fair value with fair value changes recognized in the statement of changes in net assets available for benefits, all changes in market conditions will directly result in an increase (decrease) in net assets. Market price risk is managed by the Fund through the construction of a diversified portfolio of instruments traded on various markets and across various industries.

(in thousands of dollars)

5. Financial instruments (continued):

The Fund's investments in equities are sensitive to market fluctuations. After the effect of derivatives contracts, and without change in all other variables, a ten per cent increase in market values of all public equities and privately owned equities would increase the fair value of the Fund by $213,493 (2010 - $196,771). Similarly, a ten per cent decrease in market values of all public equities and privately owned equities would decrease the fair value of the Fund by $213,493 (2010 - $196,771).

(iii) 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 associated with the Fund is regularly monitored and analyzed through risk and credit committees.

Fixed income

The Fund's Fixed Income Program includes two main sectors: the Government Sector and the Credit Sector. One benefit to managing these two pieces separately is to provide the opportunity to access physical government bonds when required. When markets are at their utmost distress these may be the only securities available for liquidation. Managing the Corporate Sector and the Government Sector separately allows for the adjustment of credit risk within the Fixed Income Program by changing the allocation between these two sectors - increasing the Government Sector through periods of market duress and increasing the Corporate Sector through periods of stability. This approach also allows the active management of the Credit Sector and taking active decisions where returns can be maximized.

The Fund is exposed to credit risk from the following interest earning investments.

	2011	2010
Federal government	$ 557,034	$ 428,610
Provincial governments	419,781	171,535
Municipal governments	16,076	15,969
Corporate	852,449	646,772
	$ 1,845,340	$ 1,262,886

5. Financial instruments (continued):

Derivatives

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, the Fund deals only with highly rated counterparties that have a minimum "A" credit rating, with whom International Swap and Derivative Association agreements have been executed, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

Real estate

Real estate investment managers mitigate risk through monthly monitoring of tenant performance and arrears. Tenant exposure is managed by limiting concentration to a specific economic sector or to a single covenant. Transactions, where a new tenant exposure is assumed, are vetted by appropriate due diligence and approval process.

Securities lending

The Fund lends securities for a fee to approved borrowers. High quality collateral is provided by borrowers to alleviate the credit risk. Regular reporting of the securities lending program ensures that its various components are continuously being monitored.

(iv) Foreign currency risk

Foreign currency exposure arises from the holding of investments denominated in foreign currencies. A policy of hedging up to 100% of the currency exposure helps to mitigate this risk.

(in thousands of dollars)

5. Financial instruments (continued):

The Fund's unhedged and hedged currency exposure from net investment assets as at March 31, 2011 is summarized in the following table:

Currency	2011 Unhedged	2011 Hedged	2010 Unhedged	2010 Hedged
Canada	$ 2,548,393	$ 3,563,578	$ 1,890,005	$ 2,673,162
United States	1,110,329	353,531	928,199	457,994
Euro zone	164,510	86,985	141,999	42,328
Japan	110,258	52,305	129,820	61,106
United Kingdom	120,875	83,980	103,521	58,045
Other	248,945	160,184	239,075	151,362
	$ 4,303,310	$ 4,300,563	$ 3,432,619	$ 3,443,997

The Fund's currency policy allows for the management of risk through hedging strategies that are implemented through the purchase of forward currency contracts. The forward currency contracts offset the Fund's foreign currency exposure, hence reducing the Fund's foreign currency risk.

After the effect of hedging, and without change in all other variables, a ten percent increase in the Canadian dollar against all other currencies would decrease the fair value of the Fund by $67,145 (2010 - $85,648). Similarly, a ten percent decrease in the Canadian dollar against all other currencies would increase the fair value of the Fund by $81,708 (2010 - $70,076).

(v) Liquidity risk:

Liquidity risk is the risk of not meeting the cash obligations of the Fund in an efficient manner. Cash obligations are fulfilled from contributions to the Fund, cash income of the Fund and planned dispositions of Fund assets as required. Cash requirements of the Fund are reviewed on an ongoing basis to provide for the orderly availability of resources to meet the financial obligations of the Fund. The Fund's cash management policy ensures that the quality and liquidity of the investment vehicles within the cash portfolios are consistent with the needs of the Fund.

(in thousands of dollars)

6. Real estate mortgages:

Real estate mortgages are carried at fair value and have various terms to maturity to 2020 with each mortgage secured by a specific real property. Nominal rates range from 4.7% to 6.0%.

Scheduled principal repayments in each of the next five fiscal years, beginning April 1, 2011 are as follows:

2012	$	4,685
2013		1,216
2014		7,844
2015		10,441
2016		10,630
Thereafter		21,331
	$	56,147

For purposes of the consolidated statement of net assets available for benefits and accrued pension benefit obligation and surplus (deficit), real estate mortgages payable are valued at fair values based on prevailing interest rates.

7. Present value of expected instalment payments:

The present value of expected instalment payments of $920 (2010 - $1,026) represents the present value of outstanding employee and employer contributions as at March 31, 2011 that are due as a result of service buy-backs that are being paid for through payroll deductions. The liabilities associated with this service are already recognized in the accrued pension benefit obligation.

(in thousands of dollars)

8. Accrued pension benefit obligation:

Actuarial valuations of the Plan are carried out annually, and provide an estimate of the accrued pension benefit obligation (Fund liabilities) calculated using various economic and demographic assumptions, based on membership data as at the valuation date.

The Plan's consulting actuaries, Mercer, performed a valuation as at December 31, 2010 and issued their report in May 2011. The report indicated that the Plan had a funding surplus of \$172,546 (December 31, 2009 - deficit of \$1,502,958).

Valuations prior to 2010 reported assets on a market value basis. Commencing with the December 31, 2010 valuation, the actuarial valuation reports assets on a smoothed value basis. The actuarial value of net assets of the Fund is established such that investment returns above or below the long-term rate of return assumption in effect for the year (6.86% to December 31, 2010, 6.80% thereafter) is recognized over five years to smooth fluctuations in the market value of net assets. As at March 31, 2011, the actuarial adjustment was \$86,159, which reflected the fact that there was a net loss on investments relative to assumptions that had not yet been recognized.

The accrued pension benefit obligation as at March 31 is determined by an extrapolation performed by the Plan's actuary of the Plan's liabilities from December 31 of the immediately preceding calendar year, as reflected in the actuarial valuation. The following table reflects the extrapolated funding surplus (deficit) as at March 31, 2011 and as at March 31, 2010.

	2011 Extrapolated	2010 Extrapolated
Actuarial value of assets (2010 at market)	$ 4,388,119	$ 3,445,349
Accrued pension benefit obligation	4,240,670	4,961,851
Funding surplus (deficit)	$ 147,449	$ (1,516,502)

(in thousands of dollars)

8. Accrued pension benefit obligation (continued):

Reconciliation of changes in accrued pension benefit obligation:

	2011 Extrapolated	2010 Extrapolated
Accrued pension benefit obligation at beginning of period	$ 4,961,851	$ 4,768,219
Interest on accrued pension benefit obligation	340,383	327,100
Contributions and transfers from other pension plans	170,841	174,091
Net impact of changes in assumptions	29,512	34,528
Contributions in excess of current service cost	(41,104)	(6,503)
Refunds of contributions and interest and transfers to other pension plans	(14,235)	(20,025)
Benefits paid	(229,755)	(219,044)
Net impact of experience gains and losses relating to accrued pension benefit obligation	(54,001)	(96,515)
Net impact of plan amendments	(922,822)	-
Accrued pension benefit obligation at end of period	$ 4,240,670	$ 4,961,851

The actuarial valuation calculates liabilities for each member on the basis of service earned to date and the employee's projected five-year highest average salary at the expected date of retirement. The projected unit credit method was adopted for the actuarial valuation to determine the current cost and actuarial liability.

The major economic and demographic assumptions used in the 2010 valuation remained unchanged from those used in the 2009 valuation, with the exception of the following:

(a) total rate of return on assets (i.e. the discount rate), which changed from 6.86% to 6.80%,

(b) salary increases, which changed from 2.5% plus promotional scale every year to 1.5% plus promotional scale for 2011 and 2.5% plus promotional scale thereafter, and

(c) the mortality table, which changed from UP-94 projected to 2010 using scale AA to UP-94 projected with generational mortality improvements using scale AA.

(in thousands of dollars)

8. Accrued pension benefit obligation (continued):

	Valuation December 31 2010	Valuation December 31 2009
Inflation	2.5% per annum	2.5% per annum
Salary increase	1.5% plus merit in 2011; thereafter 2.5% per annum plus merit ranging from 0.0% to 2.5%	2.5% per annum plus merit ranging from 0.0% to 2.5%
Total rate of return on assets (i.e. discount rate)	6.80% per annum	6.86% per annum
Average retirement age	35% - earliest age for unreduced pension, but not before age 54 (age 55 for a member first hired on or after April 6, 2010); 65% - earlier of age 60 and 35 years of service	35% - earliest age for unreduced pension, but not before age 54; 65% - earlier of age 60 and 35 years of service
Mortality	UP-94 projected with generational mortality improvements using scale AA	UP-94 projected to 2020 using scale AA

(in thousands of dollars)

8. Accrued pension benefit obligation (continued):

The surplus (deficit) of the Fund's actuarial value of net assets available for benefits over accrued pension benefit obligation is as follows:

	2011 Extrapolated	2010 Extrapolated
Net assets available for benefits	$ 4,301,040	$ 3,444,323
Actuarial value adjustment	86,159	-
Present value of expected instalment payments	920	1,026
Actuarial value of net assets available for benefits	4,388,119	3,445,349
Accrued pension benefit obligation	4,240,670	4,961,851
Funding surplus (deficit) of actuarial value of net assets available for benefits over accrued pension benefit obligation	147,449	(1,516,502)
Reversal of actuarial value adjustment	(86,159)	-
Surplus (deficit) of net assets available for benefits over accrued pension benefit obligation	$ 61,290	$ (1,516,502)

(in thousands of dollars)

9. Operating expenses:

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

	2011	2010
Plan administration:		
Professional services	$ 454	$ 332
Salaries	1,450	1,347
Supplies and services	241	222
Travel	10	20
Technology project	118	-
Other	204	162
	2,477	2,083
Investment expenses:		
Investment management and custodian fees	12,055	9,276
Professional services	135	143
Salaries	510	422
Supplies and services	13	25
Travel	17	10
Other	65	77
	12,795	9,953
	$ 15,272	$ 12,036

10. Securities lending:

The Fund participates in a securities lending program where it lends securities that it owns to third parties for a fee. For securities lent, the Fund receives a fee and the borrower provides readily marketable securities of higher value as collateral which mitigates the credit risk associated with the program. When the Fund lends securities, the risk of failure by the borrower to return the loaned securities is alleviated by such loans being continually collateralized. The securities lending agent also provides indemnification if there is a shortfall between collateral and the lent security that cannot be recovered. As at March 31, 2011, securities with an estimated fair value of $334,387 (2010 – $356,133) were loaned out, while collateral held had an estimated fair value of $351,106 (2010 – $373,940). The securities lending contracts are collateralized by securities issued by, or guaranteed without any limitation or qualification by, the government of Canada or the governments of other countries.

(in thousands of dollars)

11. Related party transactions:

Investments held in the Fund include debentures of the Province of Nova Scotia with a total fair value of $13,594 (0.3% of total assets) as at March 31, 2011 ($5,292 (0.1% of total assets) as at March 31, 2010).

The Nova Scotia Pension Agency ("NSPA") provides pension administration and investment services to the Fund on a full cost recovery basis. As at March 31, 2011, $5,805 (2010 - $4,980) was due to NSPA.

12. Capital management:

The main objective of the Fund is to sustain a certain level of net assets in order to meet its pension obligations. The Trustee (note 1) manages the contributions and plan benefits as required by the Public Service Superannuation Act and its related Regulations. The Trustee approves and incurs expenses to administer the Plan in accordance with the Act.

Under the direction of the Trustee, the Fund provides for the short term financial needs of current benefit payments while investing members' contributions for the longer term security of pensioner payments. The Trustee exercises duly diligent practices and has established written investment policies and procedures, and approval processes. Operating budgets, audited financial statements, yearly actuarial valuations and reports, and as required, the retention of supplementary professional, technical and other advisors, are part of the Fund administration requirements.

13. Commitments:

In fiscal 2010, the Fund invested in infrastructure. The Fund has committed capital to specific infrastructure funds. The table below indicates the capital amount committed and outstanding as at March 31, 2011.

	Committed	Outstanding
Canadian infrastructure	30,000 CAD	17,982 CAD
Non-Canadian infrastructure	75,000 USD	68,655 USD

14. 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.

15. Comparative figures:

Certain 2010 comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.