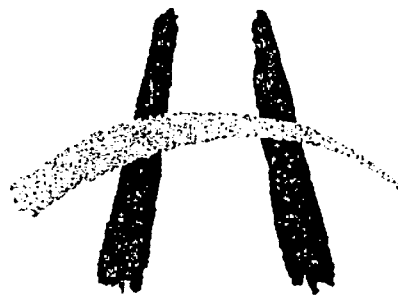




Financial Statements of



**HAMILTON HEALTH SCIENCES
CORPORATION**

Year ended March 31, 2008



KPMG LLP
Chartered Accountants
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Auditors' Report

To the Board of
Hamilton Health Sciences Corporation

We have audited the statement of financial position of Hamilton Health Sciences Corporation as at March 31, 2008 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. In accordance with the Corporations Act (Ontario), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Chartered Accountants, Licensed Public Accountants

Hamilton, Canada

May 16, 2008



Hamilton Health Sciences

Statement of Financial Position
(in thousands of dollars)

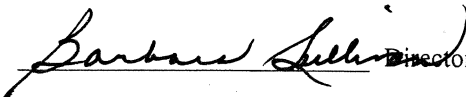
March 31, 2008, with comparative figures for 2007

	2008	2007 <i>[restated note 21]</i>
ASSETS		
Current		
Restricted cash and cash equivalents <i>[notes 5 and 12]</i>	\$ 132,650	\$ 99,429
Short-term investments <i>[note 5]</i>	33,356	22,986
Accounts receivable <i>[note 6]</i>	82,187	43,951
Inventories	13,865	12,954
Prepaid expenses and deposits	3,487	2,406
Total current assets	265,545	181,726
Long-term investments <i>[note 7]</i>	172,802	143,502
Capital assets, net <i>[note 8]</i>	266,008	201,781
Total assets	\$ 704,355	\$ 527,009
LIABILITIES AND NET ASSETS		
Current		
Bank indebtedness <i>[note 9]</i>	\$ 57,068	\$ 29,519
Capital financing <i>[note 10]</i>	43,589	-
Accounts payable and accrued liabilities	123,367	112,988
Current portion of obligations under capital leases <i>[note 11]</i>	3,064	2,469
Current portion of long-term debt <i>[note 12]</i>	864	821
Total current liabilities	227,952	145,797
Obligations under capital leases <i>[note 11]</i>	8,898	5,844
Long-term debt <i>[note 12]</i>	9,321	10,184
Accrued benefit liability <i>[note 13]</i>	29,470	26,008
Unrealized losses on revaluation of derivative hedges	4,128	-
Deferred capital contributions <i>[note 14]</i>	196,442	150,293
Deferred contributions <i>[note 15]</i>	200,753	157,948
Total liabilities	676,964	496,074
Net assets (deficit)		
Unrestricted	\$ (175,984)	\$ (148,647)
Invested in capital assets <i>[note 16 (a)]</i>	75,187	71,946
Board designated	128,188	107,636
Total net assets	27,391	30,935
Commitments and contingencies <i>[notes 11, 18, 19]</i>		
	\$ 704,355	\$ 527,009

See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director



Hamilton Health Sciences

Statement of Operations
(in thousands of dollars)

Year ended March 31, 2008, with comparative figures for 2007

	2008	2007
REVENUE		
Ontario Ministry of Health and Long-Term Care	\$ 747,985	\$ 696,148
Ontario Health Insurance Plan	37,317	34,787
Ministry of Community and Social Services	23,934	22,575
Patient and third party payors	18,674	18,406
Amortization of deferred capital contributions <i>[note 14]</i>	14,301	14,362
Investment income	10,422	12,732
Ancillary and other recoveries	92,172	88,800
Research <i>[note 15]</i>	108,441	96,146
	1,053,246	983,956
EXPENSES		
Salaries and employee benefits <i>[note 13]</i>	593,085	547,170
Medical staff remuneration	73,860	66,797
Medical and surgical supplies	54,816	51,239
Drugs	57,142	55,900
Facilities	31,070	26,000
Amortization of capital assets	24,698	25,519
Other expenses	122,502	118,535
Research	95,333	90,829
	1,052,506	981,989
Excess of revenue over expenses for the year	\$ 740	\$ 1,967

See accompanying notes to financial statements.



Hamilton Health Sciences

Statement of Changes in Net Assets (in thousands of dollars)

Year ended March 31, 2008, with comparative figures for 2007

				2008	2007
	Unrestricted	Invested in capital assets <i>[note 16(a)]</i>	Board designated	Total	Total
Net assets (deficit), beginning of year	\$ (148,647)	\$ 71,946	\$ 86,013	\$ 9,312	\$ 7,345
Prior period adjustment <i>[note 21]</i>	-	-	21,623	21,623	21,623
Net assets (deficit), as restated, beginning of year	(148,647)	71,946	107,636	30,935	28,968
Change in accounting policy – financial instruments <i>[note 4]</i>	(47)	-	(1,053)	(1,100)	-
	(148,694)	71,946	106,583	29,835	28,968
Excess of revenue over expenses for the year	740	-	-	740	1,967
Transfer to Board designated	(23,297)	-	23,297	-	-
Net change invested in capital assets <i>[note 16(b)]</i>	(3,241)	3,241	-	-	-
Net change in unrealized losses on available-for-sale investments	-	-	897	897	-
Net change in unrealized losses on revaluation of derivative hedges	(4,081)	-	-	(4,081)	-
Transfer from board designated assets	2,589	-	(2,589)	-	-
Net assets (deficit), end of year	\$ (175,984)	\$ 75,187	\$ 128,188	\$ 27,391	\$ 30,935

See accompanying notes to financial statements



Hamilton Health Sciences

Statement of Cash Flows
(in thousands of dollars)

Year ended March 31, 2008, with comparative figures for 2007

	2008	2007
Cash provided by (used in):		
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	\$ 740	\$ 1,967
Add (deduct) non-cash items:		
Amortization of capital assets	24,698	25,519
Amortization of deferred capital contributions	(14,301)	(14,362)
Non-pension post-retirement benefits expense	5,088	5,102
	16,225	18,226
Net change in non-cash working capital balances related to operations <i>[note 17]</i>	(29,849)	3,345
Non-pension benefit contributions	(1,626)	(1,464)
Increase in deferred contributions	42,934	32,624
Cash provided by operating activities	27,684	52,731
INVESTING ACTIVITIES		
Decrease in long-term receivable	-	26
Purchase of capital assets	(88,925)	(65,744)
Increase in investments, net	(39,955)	(5,137)
Increase in restricted cash and cash equivalents	(33,221)	(34,948)
Decrease in investment in BAHT	-	3,248
Cash used in investing activities	(162,101)	(102,555)
FINANCING ACTIVITIES		
Contributions received for capital purposes	60,450	35,286
(Decrease) increase in long-term debt	(820)	910
Increase in capital financing	43,589	-
Increase in obligations under capital leases	3,649	2,026
Cash provided by financing activities	106,868	38,222
Increase in bank indebtedness during the year	27,549	11,602
Bank indebtedness, beginning of year	29,519	17,917
Bank indebtedness, end of year	\$ 57,068	\$ 29,519
Supplemental cash flow information		
Interest paid	\$ 3,032	\$ 1,539

See accompanying notes to financial statements.



Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS
(in thousands of dollars, except where noted)

March 31, 2008

1. PURPOSE OF THE ORGANIZATION

The Hamilton Health Sciences Corporation [the "Hospital"] is a regional provider of comprehensive health services for Central-West Ontario and a provider of community hospital services to the City of Hamilton. The Hospital is an academic health science organization which is incorporated without share capital under the Corporations Act (Ontario) and is a registered charity under the Income Tax Act (Canada) and, as such, is exempt from income taxes.

2. HOSPITAL OPERATIONS

The Hospital is funded primarily by the Province of Ontario in accordance with funding policies established by the Ontario Ministry of Health and Long-Term Care ["MOHLTC"]. Any excess of revenue over expenses earned during a fiscal year may be retained by the Hospital.

In 2006/2007, the Hospital entered into an agreement with MOHLTC, the Hospital Accountability Agreement [the "HAA"], that sets out the rights and obligations of the two parties to the HAA in respect of funding provided to the Hospital by the MOHLTC for fiscal 2008. The HAA sets out the funding provided to the Hospital together with the performance standards and obligations of the Hospital that establish the acceptable results for the Hospital's performance in a number of areas. The HAA was assigned to the Hamilton Niagara Haldimand Brant ["HNHB"] Local Health Integrated Network ["LHIN"] in Fiscal 2008.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation:

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

These financial statements include the assets, liabilities and activities of the Hospital. The financial statements do not include the activities of Hamilton Health Sciences Foundation [the "Foundation"] and Hamilton Health Sciences Volunteer Association [the "Volunteer Association"] which are non-controlled not-for-profit entities [note 19[a] and [b]].

The Bay Area Health Trust [the "Trust"], a commercial entity, is accounted for by the equity method.



Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS
(in thousands of dollars, except where noted)

March 31, 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A summary of the significant accounting policies is as follows:

(a) Revenue recognition:

The Hospital follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized.

(b) Inventories

Inventories are valued at the lower of average cost and replacement cost.

(c) Long-term investments

Long-term investments are recorded at fair value and are designated as available-for-sale financial assets. Accrued interest on long-term investments is recorded in accounts receivable. Changes in unrealized gains and losses are recorded through the statement of changes in net assets for board designated trust investments and deferred contributions for research investments.

(d) Capital assets

Capital assets are recorded at cost less accumulated amortization. Donated capital assets are recorded at fair market value at the date of donation. Amortization is provided on a straight-line basis over the estimated useful life of the related capital asset. The amortization periods are as follows:

Building improvements	20 – 40 years
Equipment	5 – 20 years

The Chedoke site operates in facilities owned by Chedoke Health Corporation. The McMaster University Medical Centre site operates in facilities owned by McMaster University.

Building renovations and alterations that restore original operating conditions are expensed in the year incurred. Building improvements that reduce original operating costs or increase original capacity are capitalized as building improvements.

(e) Equipment under capital leases

Equipment leases that effectively transfer substantially all of the risks and rewards of ownership to the Hospital as lessee are capitalized at the present value of the minimum payments under the lease with a corresponding liability for the related lease obligations. Charges to expenses are made for amortization on the equipment and interest on the lease obligations.



Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS
(in thousands of dollars, except where noted)

March 31, 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Deferred capital contributions

Capital contributions received for the purpose of acquiring depreciable capital assets are deferred and amortized on the same basis and over the same period as the related capital assets.

(g) Deferred contributions

Grants for sponsored research and other externally restricted contributions are recorded as deferred contributions and recognized as revenue in the periods in which the related expenses are incurred.

(h) Employee benefit plans

(i) Multi-employer plan

Defined contribution plan accounting is applied to the Hospitals of Ontario Pension Plan ["HOOPP"], a multi-employer plan, whereby contributions are expensed when due as the Hospital has insufficient information to apply defined benefit plan accounting.

(ii) Accrued post-retirement benefits

The Hospital accrues its obligations under non-pension employee benefit plans as employees render services. The Hospital has adopted the following policies:

- The cost of non-pension post-retirement benefits earned by employees is actuarially determined using the projected benefits method pro rated on service and management's best estimate assumptions.
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of active employees at the date of amendment.
- Liabilities are determined using discount rates that are consistent with market rates of high quality debt instruments.
- The excess of the cumulative unamortized balance of the net actuarial gain (loss) over 10% of the benefit obligations is amortized over the average remaining service period of active employees. The average remaining service period of active employees is 14 years.

(i) Board designated net assets

Board designated net assets include unrestricted donations and bequests as well as certain fund surpluses designated for specific purposes by the Board of Directors.



Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS
(in thousands of dollars, except where noted)

March 31, 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Contributed services and materials

Volunteers contribute numerous hours to assist the Hospital in carrying out certain charitable aspects of its service delivery activities. The fair value of these contributed services is not readily determinable and, as such, is not reflected in these financial statements. Contributed materials are also not recognized in these financial statements.

(k) Derivative financial instruments

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes to notional contract amounts. The Hospital uses interest rate swaps ["IRS"] as an interest rate risk management solution. In effect, IRS are used to hedge interest rate exposure inherent in floating rate loan facilities. These instruments are used for hedging an on-balance sheet liability and have been designated as a hedge.

Hedges are documented at inception detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the liability being hedged, the type of derivative used and how effectiveness is measured. The derivative must be highly effective in accomplishing the objective of offsetting changes in cash flows attributable to the risk being hedged both at inception and over the life of the hedge. If it is determined that the derivative is not highly effective as a hedge, hedge accounting is discontinued.

Derivative financial instruments are recorded at their fair value as an asset or liability based on quoted values determined by the counterparty to the interest rate swap contracts. Changes in fair value are recorded in the statement of changes in net assets.

(l) Future accounting policy changes

The CICA has issued two new standards, 3862 "Financial Instruments - Disclosures" and 3863 "Financial Instruments - Presentation". The new standards are intended to enhance the ability of users of the financial statements to better evaluate the significance of financial instruments to the Hospital, related exposures and the management of these risks.

The CICA has also issued a new accounting standard, 1535 "Capital Disclosures", which requires the disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the Hospital's objectives, policies and processes for managing capital.

These changes in accounting policies will be adopted effective April 1, 2008 and will only require additional note disclosure in the financial statements.



Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS
(in thousands of dollars, except where noted)

March 31, 2008

4. CHANGE IN ACCOUNTING POLICY

Effective April 1, 2007, the Hospital adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 3855 "Financial Instruments - Recognition and Measurement", 3865 "Hedges" and 3861 "Financial Instruments – Presentation and Disclosure". Pursuant to the transitional provisions of the standards, the change in accounting policy was adopted retroactively, without restatement of the prior year's financial statements. The adoption of these standards has given rise to the recognition of certain transition adjustments in the opening balance of unrestricted net assets, board designated net assets and deferred contributions.

Financial Instruments – recognition and measurement

Under the new standards, all financial instruments are initially recorded on the statement of financial position at fair value. They are subsequently valued at fair value or amortized cost depending on the classification selected for the financial instrument. Financial assets are classified as either "held-for-trading", "held-to-maturity", "available-for-sale" or "loans and receivables" and financial liabilities are classified as either "held-for-trading" or "other liabilities".

Financial assets and liabilities classified as held-for-trading are measured at fair value with changes in fair value recorded in the statement of operations. Financial assets classified as held-to-maturity or loans and receivables and financial liabilities classified as other liabilities are subsequently measured at amortized cost using the effective interest method. Available-for-sale financial assets that have a quoted price in an active market are measured at fair value with changes in fair value recorded in deferred contributions if the investment is externally restricted for research and in changes in board designated net assets if the investment is internally restricted. Such gains or losses are reclassified to the statement of operations when the related financial asset is disposed of or when the decline in value is considered to be other-than-temporary.

The Hospital has classified its financial instruments as follows:

- Restricted cash and cash equivalents and bank indebtedness are classified as held-for-trading.
- Short-term investments and long-term investments are classified as available-for-sale.
- Accounts receivable are classified as loans and receivables.
- Accounts payable and accrued liabilities, and current and long-term debt and obligations under capital leases are classified as other liabilities.

Investments and investment income

Publicly traded securities are valued based on the latest bid prices and short-term fixed term securities are valued based on cost plus accrued income, which approximates fair value. The Hospital has elected to use settlement date accounting for regular-way purchases and sales of financial assets and transaction costs are expensed as incurred.



Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS
(in thousands of dollars, except where noted)

March 31, 2008

4. CHANGE IN ACCOUNTING POLICY (continued)

Investments and investment income (continued)

As required by the transitional provisions of the standards, the change in accounting policy of recording investments from cost to fair value was adopted retroactively, without restatement of the prior year's financial statements. As a result of the change, as at April 1, 2007, short-term investments were decreased by \$337, long-term investments were decreased by \$1,367, deferred contributions were decreased by \$651 and board designated net assets were decreased by \$1,053.

Hedges

The standards stipulate that all derivative instruments be recorded on the statement of financial position at fair value, with changes in fair value of derivative instruments recognized in the statement of operations, with the exception of derivatives that the Hospital has designated as an effective cash flow hedge.

In accordance with the standards, the Hospital's interest rate swap contracts are measured at fair value at the year end date and included on the statement of financial position. The effective portion of the gain or loss is recorded as a direct increase or decrease in unrestricted net assets, and the ineffective portion, if any, is recognized in the statement of operations. In prior years, no value was recorded for the interest rate swap contracts on the statement of financial position.

As required by the transitional provisions of the standards, the change in accounting policy was adopted retroactively, without restatement of the prior year's financial statements. The impact on the statement of financial position as at April 1, 2007 of recording the derivative contracts at fair value is an increase in unrealized losses on revaluation of derivative hedges of \$47 and a decrease in unrestricted net assets by the same amount.

5. RESTRICTED CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Restricted cash and cash equivalents consists of cash and fixed term securities with remaining maturities of less than three months at the date of acquisition. These funds are held for the Hospital's research operations. The short-term investments earn interest at an average rate of 2.94% [2007 - 4.16%] and have a carrying value that approximates market value. Cash in the Hospital's bank account earns interest at a rate of prime less 1.85 %.

Short-term investments consist of Government and Corporate Bonds with remaining maturities of less than one year. These investments are recorded at market value as at March 31, 2008, with a cost of \$33,353. The March 31, 2007 investments are recorded at cost, with a market value of \$22,649. All short-term investments as at March 31, 2007 and 2008 are restricted investments.



Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS
(in thousands of dollars, except where noted)

March 31, 2008

6. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2008		2007	
Ontario Ministry of Health and Long-Term Care	\$	47,924	\$	4,635
Patient receivables		5,850		10,646
Bay Area Health Trust <i>[note 19(c)]</i>		11,670		8,303
Hamilton Health Sciences Foundation and Hamilton Health Sciences Volunteer Association <i>[notes 19(a) and (b)]</i>		3,626		6,849
Other		13,117		13,518
	\$	82,187	\$	43,951

7. LONG-TERM INVESTMENTS

Long-term investments consist of the following:

	2008		2007	
	Cost	Market value	Cost	Market value
Fixed income - Canadian	\$ 93,587	\$ 94,667	\$ 89,759	\$ 89,316
Fixed income - U.S.	29,089	29,223	36,522	35,686
Equities - Canadian	50,414	48,912	17,221	17,133
	\$ 173,090	\$ 172,802	\$ 143,502	\$ 142,135

Fixed income investments have an average term of 10.83 years [2007 - 11.38 years] to maturity and have a weighted average yield of 4.81% [2007 - 4.74%] as at March 31, 2008.



Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS
(in thousands of dollars, except where noted)

March 31, 2008

8. CAPITAL ASSETS

Capital assets consist of the following:

	2008		2007	
	Cost	Accumulated amortization	Net book value	Net book value
Building improvements	\$ 80,333	\$ 16,591	\$ 63,742	\$ 41,211
Equipment	268,896	190,806	78,090	80,200
Construction in progress	124,176	-	124,176	80,370
	\$ 473,405	\$ 207,397	\$ 266,008	\$ 201,781

Included in equipment are assets under capital leases at a cost of \$16,315 [2007 - \$15,548] and accumulated amortization of \$3,764 [2007 - \$7,483].

Fully depreciated capital assets with a cost of \$7,083 [2007 - \$823] were removed from the accounts in fiscal 2008.

9. BANK INDEBTEDNESS

As at March 31, 2008, the Hospital has a \$75,000 [2007 - \$55,000] unsecured demand operating line of credit. The line of credit bears interest at prime rate less 1.15%. As at March 31, 2008, the Bank's prime interest rate is 5.25% [2007 - 6.00%]. As at March 31, 2008 the bank indebtedness is \$49,647 [2007 - \$22,869] of the facility.



Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS
(in thousands of dollars, except where noted)

March 31, 2008

10. CAPITAL FINANCING

Capital financing consists of the following:

	2008
Energy enhancement construction facility [a]	\$ 35,990
Redevelopment bridge financing facility [b]	7,599
	\$ 43,589

As at March 31, 2008, \$27,765 of capital financing has been used to purchase capital assets.

[a] On September 26, 2007, the Hospital entered into a \$47.5 million financing arrangement for the purpose of financing construction costs related to energy retrofit contracts. There are two separate credit agreements. The first credit agreement, totaling \$28 million, is to finance the related construction costs at the McMaster Hospital Site. The second credit agreement, totaling \$19.5 million, is to finance the related construction costs at the Chedoke, Henderson, and General Hospital Sites.

There are two components to each of these credit agreements. The first component is an Interim Construction Loan ("Facility #1"). This component finances the construction costs over a period of 18 months. It is an uncommitted facility. The second component is a Committed Reducing Take Out Term Facility ("Facility #2"). Financing is obtained under Facility #1 in accordance with a construction draw schedule. At the end of the construction phase, Facility #2 will repay Facility #1 and will itself be repaid over a period of 20 years utilizing operating savings achieved under the Performance Contracts. Borrowing under each facility is by way of bankers acceptances. The Hospital has entered into interest rate swap transactions to hedge the interest risks associated with drawing by way of Bankers Acceptances under each of the facilities. The swaps fix the interest rate for Facility #1 at 4.8%, and Facility #2 at 5.255%. All facilities are unsecured.

The Hospital has in place Interest Rate Swap Agreements [the "Agreements"]. Under the terms of the Agreements, the Hospital agrees with the counterparty to exchange, at specified intervals and for a specified period, its floating interest rate for a fixed interest rate of 4.8% for Facility #1, and 5.255% for Facility #2. The use of the swaps effectively enables the Hospital to convert floating rate interest obligations into fixed rate obligations and thus manage its exposure to interest rate risk. These Agreements have been designated as a hedge. The fair value of the interest rate swap agreements is based on amounts quoted by the Hospital's bank to realize favourable contracts or settled unfavourable contracts, taking into account interest rates at March 31. The interest rate swap agreements are in a net unfavourable position of \$3,833.



Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS
(in thousands of dollars, except where noted)

March 31, 2008

10. CAPITAL FINANCING (continued)

[b] On January 3, 2008, the Hospital entered into an Unsecured Demand Operating Facility for the purpose of bridge-financing costs incurred on the major redevelopment projects, to the extent that there are offsetting funding commitments in place. The credit limit for the facility is \$25 million. It bears an interest rate at prime less 1.0%. As at March 31, 2008, the prime interest rate is 5.25%. As at March 31, 2008 the Hospital has drawn \$7,599 of the facility.

11. LEASE COMMITMENTS

The Hospital has entered into various arrangements for the leasing of computer and medical equipment. The effective average interest rate of the capital leases is 4.5% [2007 - 5%].

The future minimum annual payments under capital and operating leases consist of the following:

	Capital leases	Operating leases
2009	\$ 3,411	\$ 1,916
2010	3,303	1,391
2011	2,914	719
2012	2,643	550
2013	1,052	173
Total minimum lease payments	13,323	4,749
Less interest included in lease payable	1,361	-
Obligations under capital leases	11,962	-
Less current portion	3,064	-
	\$ 8,898	\$ -

12. LONG-TERM DEBT

Long-term debt consists of the following:

	2008	2007
Non-revolving capital loan payable by August 1, 2025 in monthly blended principal and interest installments at a variable rate [a]	\$ 8,251	\$ 8,551
Capital loan payable by April 1, 2011 in monthly principal and interest installments of \$24 at 5.36% per annum [b]	814	1,050
Capital loan payable by September 15, 2011 in monthly principal and interest installments of \$29 at 5.21% per annum [c]	1,120	1,404
	10,185	11,005
Less current portion	864	821
	\$ 9,321	\$ 10,184



Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS
(in thousands of dollars, except where noted)

March 31, 2008

12. LONG-TERM DEBT (continued)

- [a] On July 15, 2005, the Hospital entered into a \$9 million, 20-year financing arrangement for the purpose of financing the construction, acquisition and development costs of parking equipment and improvements of the parking facilities at the Hamilton General Hospital and Henderson General Hospital Sites. The \$9 million facility is comprised of a non-revolving credit facility, and a second facility to hedge the interest risk on the first facility. The second facility fixes the interest rate over the 20-year term at 4.65%. On a monthly basis, the Hospital is required to deposit the Net Profit, as defined, from the parking operations of the General and Henderson sites into a Net Profit account held at the bank. At all times, the Hospital must maintain a minimum balance in the Net Profit Account the greater of \$400 or the total of the next scheduled payment of principal and interest. At March 31, 2008, the balance in the Net Profit Account is \$421 [2007 - \$560] and is included in restricted cash and cash equivalents on the statement of financial position.

As security, the bank has a first ranking specific assignment of all rights, title and interest in and to all Net Profit and any other revenue and income arising from Hamilton General and Henderson Parking Improvements from time to time but expressly excluding payments for monthly parking permits of employees of the Hospital; and a first ranking security agreement in respect of the Net Profit Account. Under the terms of the financing the Hospital is required to comply with certain loan covenants and, at year-end, the Hospital was in compliance with all bank loan covenants.

The Hospital has in place an Interest Rate Swap Agreement [the "Agreement"], which will expire on August 1, 2025. Under the terms of the Agreement, the Hospital agrees with the counterparty to exchange, at specified intervals and for a specified period, its floating interest rate for a fixed interest rate of 4.65%. The use of the swap effectively enables the Hospital to convert floating rate interest obligations into fixed rate obligations and thus manage its exposure to interest rate risk. This Agreement has been designated as a hedge. The fair value of the interest rate swap agreement is based on amounts quoted by the Hospital's bank to realize favourable contracts or settle unfavourable contracts, taking into account interest rates at March 31. The interest rate swap agreement is in a net unfavourable position of \$295 [2007 - unfavourable \$47].

- [b] On March 31, 2006 the Hospital entered into a separate \$1,256, 5-year loan for the purpose of purchasing diagnostic medical equipment. The interest is fixed at a rate of 5.36%. The equipment financed by the loan is pledged as collateral for the loan.
- [c] On September 15, 2006 the Hospital entered into a separate \$1,541, 5-year loan for the purpose of purchasing diagnostic medical equipment. The interest is fixed at a rate of 5.21%. The equipment financed by the loan is pledged as collateral for the loan.



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March 31, 2008

12. LONG-TERM DEBT (continued)

The future minimum annual debt principal repayments over the next five years and thereafter are as follows:

2009	\$	864
2010		909
2011		955
2012		559
2013		379
Thereafter		6,519
	\$	10,185

13. EMPLOYEE BENEFIT PLANS

[a] Multi-employer plan

Substantially all of the employees of the Hospital are eligible to be members of the Hospitals of Ontario Pension Plan [the "Plan"], which is a multi-employer, defined benefit, final average earnings, contributory pension plan. The Plan is accounted for as a defined contribution plan. The Hospital's contributions to the Plan during the year amounted to \$38,199 [2007 - \$35,233] and are included in salaries and employee benefits expense in the statement of operations. The most recent actuarial valuation of the Plan as of December 31, 2007 indicates the Plan has a 1% deficit in disclosed actuarial assets and is fully funded on a solvency basis.

[b] Accrued post-retirement benefits

The Hospital's non-pension post-retirement benefit plans comprise medical, dental and life insurance coverage for certain groups of employees who have retired from the Hospital and are between the ages of 55 and 65. The last actuarial valuation was performed on April 1, 2007.

The sick leave benefit plan for employees was previously amended such that the future accumulation of sick leave credits was discontinued; however, employees are entitled to cash payments on a portion of their accumulated sick bank entitlements upon termination of employment. As at March 31, 2008 the sick leave obligation amounted to \$5,509 [2007 - \$5,863].



Hamilton Health Sciences

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13. EMPLOYEE BENEFIT PLANS (continued)

[b] Accrued post-retirement benefits (continued)

As at March 31, 2008 the Hospital's post-retirement accrued benefit liability is made up of the following:

	2008	2007
Accrued benefit obligation	\$ 38,590	\$ 38,809
Assets	-	-
Net unfunded accrued benefit obligation	38,590	38,809
Unamortized experience losses	(2,352)	(4,918)
Unamortized prior service costs	(6,768)	(7,883)
Accrued benefit liability	\$ 29,470	\$ 26,008

The Hospital's non-pension post retirement benefits expense for the year is \$5,088 [2007 - \$5,102]. It is comprised of the following:

	2008	2007
Accrual for services	\$ 1,804	\$ 1,598
Interest on accrued benefits	2,089	1,990
Actuarial (gains) losses during the year	(2,487)	(4,352)
Adjustment for prior service costs	1,116	1,116
Adjustment for experience (gains) losses	2,566	4,750
	\$ 5,088	\$ 5,102

The significant actuarial assumptions adopted in measuring the Hospital's accrued benefit obligations and expenses for the non-pension post-retirement benefit plans are as follows:

	2008	2007
	%	%
Discount rate	5.75%	4.75%
Expected annual increase in dental care costs	4.00%	4.50%
Expected annual increase in health care costs*	5.00%	4.50%

* The current rate is 9.0%. The rate is presumed to decline by 0.5% increments per annum to an ultimate rate of 5.0%.



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14. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of contributions received for the purchase of capital assets. The changes in the deferred capital contributions balance are as follows:

	2008	2007
Balance, beginning of year	\$ 150,293	\$ 129,369
Add contributions for capital purposes		
MOHLTC grant	35,360	5,331
Research grants	6,791	6,295
SuperBuild interest	4	253
Hamilton Health Sciences Foundation and Hamilton Health Sciences Volunteer Association <i>[notes 19(a) and (b)]</i>	2,385	11,571
Other	15,910	11,836
Less amortization	(14,301)	(14,362)
Balance, end of year	\$ 196,442	\$ 150,293

Included in the above balance are contributions of \$52,833 [2007 - \$37,076] received but not yet used to purchase capital assets.

15. DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent externally restricted grants for research. The changes in the deferred contributions balance are as follows:

	2008	2007
Balance, beginning of year, as restated <i>[note 21]</i>	\$ 157,948	\$ 125,324
Change in accounting policy – financial instruments <i>[note 4]</i>	(651)	-
Externally restricted contributions received	124,292	119,905
Less amount recognized as revenue during the year	(81,358)	(87,281)
Net change in unrealized losses on deferred research balances	522	-
Balance, end of year	\$ 200,753	\$ 157,948

Research revenue of \$108,441 (2007 - \$96,146) consists of externally restricted research grants recognized in income during the year of \$81,358 (2007 - \$87,281) and \$27,083 (2007 - \$8,865) of research revenue internally restricted by the Hospital's Board of Directors.



Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS
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16. NET ASSETS INVESTED IN CAPITAL ASSETS

[a] Net assets invested in capital assets are calculated as follows:

	2008	2007
Capital assets, net	\$ 266,008	\$ 201,781
Less amounts funded by		
Capital financing <i>[note 10]</i>	(27,765)	-
Deferred capital contributions <i>[note 14]</i>	(143,609)	(113,217)
Obligations under capital leases <i>[note 11]</i>	(11,962)	(8,313)
Debt <i>[note 12]</i>	(10,185)	(11,005)
Other	2,700	2,700
	\$ 75,187	\$ 71,946

[b] Net change in invested in capital assets is calculated as follows:

	2008	2007
Purchase of capital assets	\$ 88,925	\$ 65,744
Amounts funded by deferred capital contributions	(44,693)	(28,402)
Amortization of capital assets	(24,698)	(25,519)
Amortization of deferred capital contributions	14,301	14,362
Increase in capital portion of capital financing	(27,765)	-
Increase in obligations under capital leases	(3,649)	(2,026)
Decrease (increase) in long-term debt	820	(910)
	\$ 3,241	\$ 23,249

17. STATEMENT OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

	2008	2007
Accounts receivable	\$ (38,236)	\$ (553)
Inventories	(911)	(2,039)
Prepaid expenses and deposits	(1,081)	821
Accounts payable and accrued liabilities	10,379	5,116
	\$ (29,849)	\$ 3,345



Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS
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March 31, 2008

18. COMMITMENTS AND CONTINGENCIES

- [a] The nature of the Hospital's activities is such that there is usually litigation pending or in progress at any time. With respect to claims as at March 31, 2008, it is management's position that the hospital has valid defenses and appropriate insurance coverage in place, such that there would be no material effect on the financial statements as a result of these claims. In the unlikely event any claims are successful, such claims are not expected to have a material effect on the Hospital's financial position.
- [b] The Hospital participates in the Healthcare Insurance Reciprocal of Canada, a pooling of the public liability insurance risks of its hospital members. All members of the pool pay premiums that are actuarially determined. All members are subject to assessment for losses, if any, experienced by the pool for the year in which they were members. No assessments have been made for the year ended March 31, 2008.
- [c] The Hospital has initiated various construction and renovation projects. A major initiative includes the Henderson Hospital Redevelopment that will provide updated community hospital services and position the acute care service appropriately to support the Juravinski Regional Cancer Centre that shares the site. The Hamilton General Rehabilitation and Acquired Brain Injury is another major initiative, which will consolidate rehabilitation services currently located in several locations throughout the city.

A third major initiative is the construction of the Cardiac Vascular Stroke Research Institute (CVSRI) Research Building, which will bring two existing groups together; Population Health Research Institute (PHRI) and the Henderson Research Centre (HRC). Finally, the McMaster University Medical Center/McMaster Children's Hospital initiative facilitates key principles of patient and family centered care. This project consists of two distinct phases. Phase One includes a Child and Adolescent Mental Health Unit and the expansion of Pediatric Ambulatory Clinics while Phase Two includes the development of a stand alone Pediatric Intensive Care Unit, Pediatric Emergency Department and Ambulatory Surgical Service Improvements.

- [d] The Hospital has contracted for the Henderson Hospital Redevelopment Project. The overall budget for the project including facilities is projected at \$284,239 and will be cost-shared with Ministry of Health and Long-Term Care. The contractor will construct the facilities for a stipulated fixed price of \$198,126 including their financing costs. The contractor has agreed to reach substantial completion by March 2012, and total completion by July 2012. Hamilton Health Sciences repayment of the construction costs and financing will not commence until substantial completion.

The Hospital has contracted for the Hamilton General Rehabilitation and Acquired Brain Injury Project. The overall budget for the project including facilities is \$60,343 and will be cost-shared with Ministry of Health and Long-Term Care. The contractor will construct the facilities for a stipulated fixed price of \$44,986 including their financing costs. The contractor has agreed to reach substantial completion by April 2009. Hamilton Health Sciences repayment of the construction cost and financing will not commence until substantial completion.



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18. COMMITMENTS AND CONTINGENCIES (continued)

These above two projects fall under Infrastructure Ontario's Alternative Financing and Procurement Model. Under this model, the contractor is required to finance project construction until substantial completion at which point the facilities will be transferred to the Hospital. Upon substantial completion, the Hospital will set up the required capital asset as related to construction, as well as any appropriate deferred capital contribution from the Ministry of Health and Long-Term Care. The deferred portion will represent 90% of construction as per the Ministry of Health and Long-Term Care's funding formula (June 2006).

The total capital expenditures commitments for these and other projects outstanding at March 31, 2008 are estimated at \$62,657 [2007 - \$25,290].

19. RELATED PARTY TRANSACTIONS

- [a] The Foundation, an independent organization, raises funds and holds resources solely for the benefit of the Hospital. All amounts received from the Foundation are restricted in use by the Foundation and, accordingly, are accounted for by the Hospital as externally restricted contributions. The Foundation contributed \$1,666 during fiscal 2008 [2007 - \$9,794] for capital and \$1,412 [2007 - \$1,133] for research. As at December 31, 2007, the Foundation had net assets of \$47,496 [2007 - \$33,303]. Included in the Hospital's assets as at March 31, 2008 is \$3,287 [2007 - \$5,572] in accounts receivable from the Foundation.
- [b] The Volunteer Association is an independent organization that raises funds and holds resources for the benefit of the Hospital. All amounts received from the Volunteer Association are restricted and, accordingly, are accounted for as externally restricted contributions. The Volunteer Association contributed \$1,687 [2007 - \$1,777] during the year and has net assets of \$390 [2007 - \$233] as at March 31, 2008. Included in the Hospital's assets as at March 31, 2008 is \$339 [2007 - \$1,277] in accounts receivable from the Volunteer Association.
- [c] The Bay Area Health Trust is a commercial entity dedicated to developing business opportunities in association with the Hospital. The purpose of the Trust is to harness private sector experience, energy and entrepreneurship to benefit the community by supporting profitable business development in the Hospital and health care sector. The beneficiaries of the Trust are the Hospital, the Foundation and McMaster University.



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NOTES TO FINANCIAL STATEMENTS
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19. RELATED PARTY TRANSACTIONS (continued)

Included in the Hospital's results are the following related party transactions with the Trust:

	2008	2007
Statement of financial position		
Accounts receivable	\$ 11,670	\$ 8,303
Capital assets, net	9,378	6,140
Statement of operations		
Investment income	334	724
Amortization of capital assets	191	74
Other non-salary expense	16,468	14,891

The following amounts represent the Trust's assets, liabilities, revenue and expenses as at and for the year ended December 31, 2007 and December 31, 2006:

	December 31, 2007	December 31, 2006
Assets	\$ 72,833	\$ 72,182
Liabilities	72,833	72,182
Revenue	11,799	13,831
Expenses	11,846	13,813
Cash provided by operating activities	(13,856)	11,881
Cash used in investing activities	(980)	(9,616)
Cash provided by financing activities	13,422	(562)

The Trust entered into a financing arrangement for \$63,000, guaranteed by the Hospital, for the purpose of funding the construction of the cogeneration facilities. The financing arrangement consists of \$44,800 at a fixed rate of 6.068% due January 1, 2031 and \$18,200 at a weighted average rate of 5.597% due on January 1st, 2013. At December 31, 2007 the Trust had \$43,515 [2006 - \$31,496] and \$17,633 [2006 - \$12,773], plus the current portion of \$1,278 outstanding, respectively.

At March 31, 2008 the Trust has borrowed \$11,670 [2007 - \$8,303] from the Hospital's facility and are being charged a rate of prime less 1.15%.

The Hospital has entered into a service agreement to buy electricity, hot water, steam, chilled water and compressed air from the Trust.



Hamilton Health Sciences

NOTES TO FINANCIAL STATEMENTS
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20. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair value of the Hospital's financial instruments is not significantly different from their carrying value at March 31, 2008 unless otherwise noted. The Hospital is subject to credit risk with respect to its accounts receivable and the investments are primarily exposed to foreign currency, interest rate, market and credit risks.

The Hospital is subject to interest rate cash flow risk with respect to its floating rate debt. The Hospital has addressed this risk by entering into interest rate swap agreements that fix the interest rates over the term of the associated debt.

21. PRIOR PERIOD ADJUSTMENT

During the year, the Hospital determined that foreign exchange losses on research funding for the years ended March 31, 2006 and prior had been incorrectly allocated to research revenue and subsequently appropriated to Board designated funds. The accumulated losses on continued research programs should have been charged against deferred contributions [note 15]. The error has been recorded retrospectively as follows:

	Increase (Decrease)
Statement of Financial Position:	
Deferred contributions	\$ (21,623)
Board designated	21,623
Statement of Change in Net Assets:	
Net assets (deficit), beginning of year	21,623

22. SUBSEQUENT EVENT

On April 29, 2008 the Boards of St. Peter's Hospital and Hamilton Health Sciences voted unanimously in favour of the amalgamation of St. Peter's Hospital with Hamilton Health Sciences. The formal legal requirements for this amalgamation are underway and subject to approval by the Ministry.