Nova Scotia Pension Agency
Pensions Division

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Nova Scotia Public Service Superannuation Plan Annual Report

March 31, 2006

Nova Scotia
Finance
Office of the Minister

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August 1st, 2006

To: **The Members and Beneficiaries of the Nova Scotia Public Service Superannuation Plan**

As Trustee of the Public Service Superannuation Fund, I am pleased to present for your information the annual report of the Fund for the year ended March 31, 2006. The pension plan currently includes 15,189 active members and 10,700 pensioners, and holds assets of $3.542 billion.

The Fund's return on investments has exceeded its actuarial requirement of 7.38% with a return of 13.85% as of the year ended March 31, 2006. These results are very positive and support our goal of enhancing the health of this important pension plan.

The Nova Scotia Pension Agency continues to work diligently to meet your retirement needs & help you to accomplish your financial goals. I look forward to another successful year and welcome your feedback on this report.

Sincerely,

Michael G Baker

Michael G. Baker, Q.C.
Minister

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Profile

Administration Change – *Nova Scotia Pension Agency*

The Nova Scotia Public Service Superannuation Fund was established by the Public Service Superannuation Act. It is the funding vehicle for the Public Service Superannuation Plan, which covers employees of the Province and certain other public sector organizations. The Minister of Finance is trustee of the Fund.

The Nova Scotia Pension Agency was created on February 9, 2006 as a Special Operating Agency of the Government of Nova Scotia. It has absorbed the Pensions and Investments Branch of the Nova Scotia Department of Finance to provide pension administration and investment management services to the Public Service Superannuation Plan.

Staff formerly employed by the Department of Finance's Pensions and Investments Branch are now employed by the Nova Scotia Pension Agency. They continue as civil servants in accordance with the Civil Service Act and Regulations and their collective agreements, and maintain their employment service and associated benefits.

NOVA SCOTIA PENSION AGENCY

Pensions Division – Formerly the Pension Services Group, it is responsible for the day-to-day administration of the Public Service Superannuation Plan and providing client services to active and retired members of the Plan.

Investment Management Division – Responsible for the day-to-day monitoring of asset mix for compliance within asset mix guidelines and recommending asset mix changes. This group is responsible for selecting external fund managers, and managing fixed income portfolios. Support staff are responsible for accounting for all investment transactions.

Highlights

As at December 31	2005	2004
Contributors	15,189	14,920
Pensioners (includes survivors)	10,700	10,378

As at March 31	2006	2005
Net Assets available for benefits (in billions)	$3.542	$3.189

Years Ended March 31	2006	2005
	(in millions)	
Investment - rate of return	13.85%	7.48%
Employee and employer contributions	$95.6	$87.7
Purchases and Transfers In	$3.5	$2.6
Pension Payments	$173.4	$164.1
Refunds and Transfers Out	$10.5	$8.1
Operating Expenses	$8.5	$8.2

The Pension Plan

The plan is a “defined benefit” plan which means that your benefits are calculated based on a formula which incorporates salary and years of service. Members contribute a percentage of salary that is over the long term expected to cover 50% of the cost of the pension. The employer matches members’ contributions.

There are two rates of contribution. The lower rate, 6.4%, is payable on earnings up to and including the Year's Maximum Pensionable Earnings (YMPE), and the higher rate, 8.0%, is payable on earnings in excess of the YMPE. The YMPE is a figure established by the Canada Pension Plan on January 1 of each year. For the year 2005 the YMPE was $41,100 ($42,100 for 2006).

Member Services

Personalized Client Services

Our team of Client Services Consultants is available from 8AM to 4:30PM, Monday through Friday. They may be reached at 424 5070 (Halifax area), 1 800 774 5070 (toll free in NS) or by e-mailing: PensionsInfo@gov.ns.ca.

Our Web Site

You can find our web site at: www.gov.ns.ca/finance/pension. The pages include information on plan provisions, plan legislation, financial statements, actuarial valuations, frequently asked questions and more useful information.

Online Pension Benefit Calculators

Online pension benefit calculator is available on our web site. This calculator enables clients to obtain pension estimates. A link to the calculators may be found on our web site's home page at: www.gov.ns.ca/finance/pension (click on Online Calculators under Tools). Please note the estimates provided by this calculator are for illustrative purposes only. If you are within two years of retirement you should contact us for a more exact estimate.

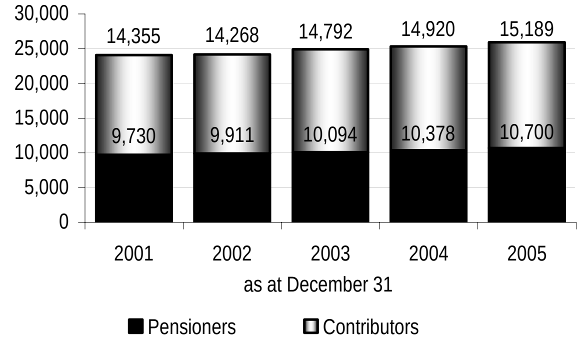
Pension Seminars or Information Sessions

Between the months of September and June, we participate in pension seminars designed to communicate retirement options, qualification for a pension, and other pension plan information. In these seminars we reach new and mid-career members and those nearing retirement. After such presentations our staff are available to take questions and discuss individual pension matters.

Administration Report

Membership

Most people who are employed in the public service of the Province of Nova Scotia are members of the Public Service Superannuation Plan. This includes permanent employees, probationary employees, employees who are designated by Order-in-Council and contract employees if the contract specifies pension plan membership.



Contributors are members who are working and contributing to the plan. Contributors also includes members on Long Term Disability. Pensioners are those who are retired and drawing a pension. The pensioner figures also include survivors.

Plan Revenues

Your benefits are funded from contributions you make to the plan which are matched by your employer. Other sources of funding are derived from purchases of prior service and transfers from other pension plans. The figures in the charts reflect investment income, total contributions to the fund, and purchases and transfers.

	As at March 31 ($) Millions				
	2002	2003	2004	2005	2006
Investment Income	$127.1	($304.8)	$591.7	$243.2	$446.2
Employee and Employer Contributions	$68.1	$73.9	$74.8	$87.7	$95.6
Purchases and Transfers	$6.5	$7.1	$9.16	$2.6	$3.5

Operating Expenses

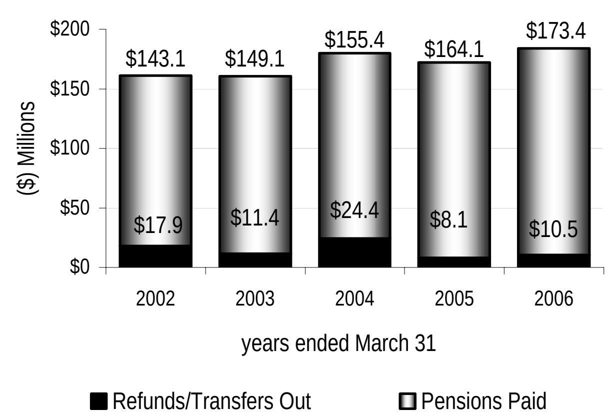
Operating expenses consist of the various costs incurred to manage the investment of the plan and to carry out the day-to-day plan administration.

Investment costs include fees paid to external fund managers as well as the salaries, office expenses of in-house investment personnel and the cost of professional services.

Plan Administration costs include the salaries and office expenses of the personnel in Pension Services Group as well as the cost of professional services such as actuarial valuations. The increase in investment management costs is primarily due to an increased asset base and additional activity in real estate. Investment fees are normally a percentage of the assets under management; therefore, as assets increase so do the associated management fees.

Payments from the Fund

In addition to operating expenses, other payments from the fund include refunds & transfers out and pension payments.



Pension payments for the year ended March 31, 2006 totaled $173.4 million compared to $164.1 million paid for the year ended March 31, 2005. This increase is due to an increase in the number of total pensioners, as well as cost of living adjustments.

Investment Report

Public Service Pension Committee
(formerly Investment Advisory Committee)

This Investment Advisory Committee was disbanded in the fall of 2005. It was a standing committee that provided advice to the Minister of Finance via the Deputy Minister of Finance. This Committee's responsibilities centered on monitoring the overall performance of the Plan, the Statement of Investment Policies and Goals and the performance of external and internal fund managers.

In January of 2006 the Minister, in his capacity as Trustee, established a new committee, the Public Service Pension Committee. It will serve as a forum where stakeholder representatives can discuss issues related to Plan administration and investments and provide advice and recommendations to the Minister.

This new committee was set up with 2 Co-chairs, 8 nominated members, 4 by the Government, 3 by NSGEU and 1 by CUPE. It is presently being expanded by the addition of a retiree representative from the Nova Scotia Government Retired Employees Association and another Government representative.

Investment Management Division

The Investment Management Division consists of seven investment professionals. This group is responsible for the day-to-day monitoring of asset mix for compliance with asset mix guidelines and recommending asset mix changes. In addition, this group is responsible for selecting external fund managers and managing fixed income portfolios. Support staff are responsible for accounting for all investment transactions.

Fund Performance

Average Annual Returns over the period ending March 31, 2006

For the one year period ended March 2006 the fund showed a return of 13.85% versus its benchmark of 14.73% and the target investment return of 7.38%.

Average Annual Returns over the period ending March 31, 2006

	1 year	3 years	5 years	10 years
Fund Return	13.85%	14.64%	6.92%	9.66%
Benchmark Return	14.73%	14.98%	7.09%	8.54%

First Quarter 2006 Economic Overview

Global economies were strong in 2005, and the growth momentum has continued into the first quarter of 2006. They have withstood high energy prices, geopolitical risks, and have benefited from remarkably benign inflationary pressures. There is now a growing confidence that the current global economic expansion may continue for some time to come without much slowdown. The reasons for this optimism include the improving Eurozone economy, continuing strength in China, and the sustained growth in Japan.

Economic growth in the United States has remained intact as the economy appears to have grown at an above-average rate in the first quarter of 2006 and many of the United States economic indicators continue to show either stability or improvement. Despite these positive signals, most market watchers and the United States Federal Reserve are most interested in the inflation measures.

Current data continues to show a lack of any direct evidence of heightened inflation, despite the continued and at times dramatic rise in commodity prices. The year over year core inflation rate for March continued to hold steady at 2.1% keeping core inflation locked in the extremely narrow 2.0% to 2.2% range experienced over the past 12 months. The headline inflation rate in March actually dipped slightly to 3.4% from 3.6% and is still well below last September's peak of 4.7% (in the wake of Katrina). Thus the trend in inflation since Katrina, has been down not up.

When it comes to inflation, the Federal Reserve prefers to look at the core PCE (Personal Consumer Expenditures) Index. This index is currently running at a year over year rate of 1.8%; and below their expected rate for the year of 2.0% (a figure new Federal Reserve Chairman, Ben Bernanke has talked about targeting). This too is down from a previous peak of 2.3% (November 2004). Thus, this index is not showing an inflation problem either at this point.

First Quarter 2006 Economic Overview / cont'd . . .

Despite the positive news on the inflation front, the Federal Reserve twice raised the Federal Funds Rate during the first quarter of 2006 (January 31st by 25 basis points and then again on March 28th by 25 basis points) bringing this benchmark interest rate to 4.75%.

The Federal Reserve has moved into a data dependent mode and has signaled that it is concerned that both the pass through of energy costs and more intensive resource utilization may lead to higher inflation. A decision on whether to stop raising short-term interest rates or to continue hiking them in the coming months hinges on how the United States economy looks at the time. The Federal Reserve will not stop increasing interest rates unless it is convinced that inflation is under control.

Economic growth on the domestic front continues to be remarkably resilient with the Bank of Canada continuing to state that Canada is operating at "full production capacity" which may lead to future inflationary pressure. The Bank of Canada also raised interest rates by 25 basis points twice during the first quarter (January 24th and March 7th) to bring the target for the short-term rate to 3.75%. Similarly to the United States, inflation indicators still illustrate a benign level of inflation with March's year over year CPI remained at 2.2% while the year on year measure of core inflation (CPIX) remained unchanged at 1.7%.

Overseas, economic recovery continues to gain momentum, with Japan and the Euro zone continuing to show encouraging signs. Indices which track manufacturing and services in Euro zone countries have hit new cyclical highs. Data is confirming expectations that the Euro economies are set to accelerate with growth of 2.4% expected up from 1.7% in 2005. The European Central Bank (ECB) acknowledged the improvement in growth and raised its policy rate by another 25 basis points in March, the second rate increase since December 2005 which was the first time rates were increased in five years.

It may be true that the North American economies have peaked and will slow down in the next two years. However, any decline in contribution from these economies is expected to be offset by the improving Eurozone economy, sustained growth in Japan, and the still strong Chinese economy. In fact, the base of world growth broadened last year as the Eurozone countries started growing on their own with the help of strengthening domestic demand. This should in part mitigate any negatives coming from a slowdown in North American economies.

First Quarter 2006 Capital Markets Return

Equity markets around the world increased during the first quarter of 2006, despite continued higher energy prices, the volatile geo-political landscape and some still ongoing concerns about the global economy.

First Quarter 2006 Capital Markets Return / cont'd . . .

The S&P/TSX was up 7.98% during the quarter as late cycle industries such as Industrials and Materials lead the way up 10.7% and 14.7% respectively. Commodities posted mixed performance during the quarter as materials solidly outperformed energy commodities. Zinc, Copper, Nickel, Aluminum, Lead, Gold, and Silver all had impressive returns while oil lagged and natural gas continued to slide. The typically more defensive sectors of the S&P/TSX (consumer staples, utilities, and telecommunications services) continued to struggle and remain the only three industries in negative territory year to date.

After more than three years of addressing the Income Trust debacle, these instruments are now fully represented in the benchmark index as of March 17, 2006. The S&P/TSX Equity-Only Index, which does not include Income Trusts, returned 8.16% for the quarter.

The Canadian dollar continued to benefit from soaring commodity prices. Based on average levels the Loonie is 6.1% stronger year over year and up 1.6% quarter over quarter.

The United States equity market, posted solid gains (S&P 500 +4.21%), but continued to lag markets elsewhere in the world; Japan (Nikkei +6.36%), Global (MSCI EAFE +9.47%) during first quarter of 2006.[1]

After starting the year on a positive note rising 3.1% in the first two weeks of the quarter, the S&P 500 treaded water until the final week of March.

European and Asian equity markets continue to be strong places to invest. Europe is currently the best performing region in the developed world. Strong performance has been driven by a continued positive outlook for European corporations which are currently experiencing record-high operating margins and return on invested capital.

Canadian small caps outperformed their large cap peers recording a 15.58% return as measured by the Nesbitt Burns Small Cap Index and 8.85% as measured by the S&P/TSX Mid/Small Cap Equity-Only Index.

In the United States, small companies (Russell 2000) clearly outpaced large companies (Russell 1000) for recent quarter by over 9.45%.[2]

[1] Local market returns

[2] Local market returns

First Quarter 2006 Capital Markets Return / cont'd . . .

Growth[3] stocks fell behind their Value[4] counterparts in the first quarter, consistent with results that have existed for much of the past five years. S&P 500/Citigroup Value[5] Index posted a 5.8% return for the quarter compared with a 2.61% gain for the quarter in the S&P 500/Citigroup Growth Index.[6]

The Scotia Capital Universe returned -0.43% during the first quarter of 2006 as bond yields moved higher, bond prices down, and the yield curve steepened. The spread between Government of Canada two-year bonds and thirty-year bonds started the year at 19 basis points and ended the quarter at 29 basis points. Long bonds were the worst performing sub-class returning a negative 1.79%.

Provincial bond yield spreads enjoyed a modestly improved tone during the quarter as a result of the early 2006 Canadian federal election outcome and recent provincial budget releases. Corporate spreads widened modestly during the quarter, largely a function of the very heavy issuance of corporate bonds. Issuance has been significantly elevated by the elimination of the Canadian foreign content rules and global issuers' interest in diversifying funding requirements into Canada, thereby giving rise to the Maple bond market.

Fourth Quarter (March 31) and Full Year Public Service Superannuation Fund Performance

Performance for the March 31, 2006 quarter showed a return of 3.76% versus the Fund's benchmark return of 4.52%. Overall performance measured against the Fund's benchmark was impacted by mixed results in active Canadian equity combined with underperformance in actively managed United States and Global equity mandates. Domestic fixed income returns also underperformed the benchmark. For the Fund's fiscal year ended March 31, 2006, the

[3] A strategy whereby an investor seeks out stocks with what they deem good growth potential. In most cases a growth stock is defined as a company whose earnings are expected to grow at an above-average rate than its industry or the overall market.

[4] Value investors actively seek stocks of companies with sound financial statements that they believe the market has undervalued. Typically, these investors select stocks with lower-than-average price-to-book or price-to-earning ratios and/or high dividend yields.

[5] The S&P 500/Barra Growth and Value series became the S&P 500/Citigroup Growth and Value series on December 16, 2005.

[6] Local market returns

Fourth Quarter (March 31) and Full Year Public Service Superannuation Fund Performance / cont'd . . .

Fund showed a return of 13.79% versus it's benchmark return of 14.72% and the target investment return of 7.38%.[7] Returns in the Fund's active mandates have been mixed in part due investment manager style. The Fund tends to outperform in down markets and underperform in upward moving markets that are focused on momentum, and this is consistent with the most recent quarter and fiscal year end results.

Real estate returned 2.32% for the quarter ended December 31, 2005 and has returned 11.22% for the 2005 calendar year. Returns for the Funds' fiscal year ended March 31, 2006 are currently being compiled. Strong returns stem from the income and capital appreciation of the 13 properties that the Fund currently owns. The Fund's investment in the Canadian Real Estate Investment Fund also continues to supply a well-diversified source of return.

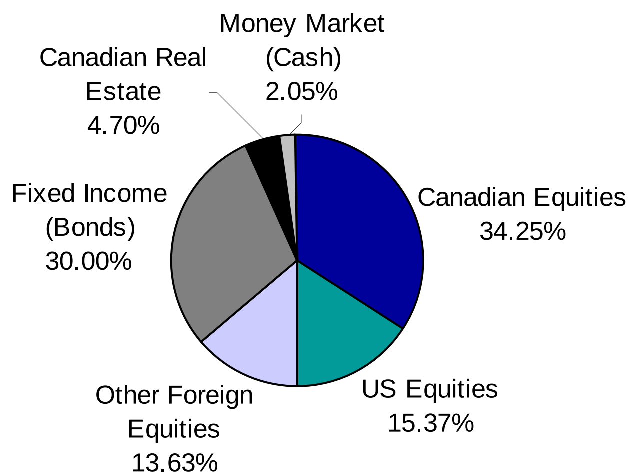
In the Fund's continued efforts to ramp up the real estate allocation, the Fund has recently acquired an additional property. The Canpar Distribution Centre in Toronto was purchased to add to our industrial property holdings. The facility is newly constructed and fully leased on a long-term basis. The building was constructed to LEED environmental standards and was nominated by an industry association for Industrial Development of the Year.

Cash and cash equivalents declined to 2.05% from 7.38% as of the quarter ended December 31, 2005 and are now in line with the Fund's stated long-term asset mix. Cash balances declined significantly in January 2006 as monies were transitioned to new international equity mandates in conjunction with the Fund's stated long-term approved asset mix.

[7] This may vary from the final return calculation as yearly returns for private equity and real estate investments are still being finalized.

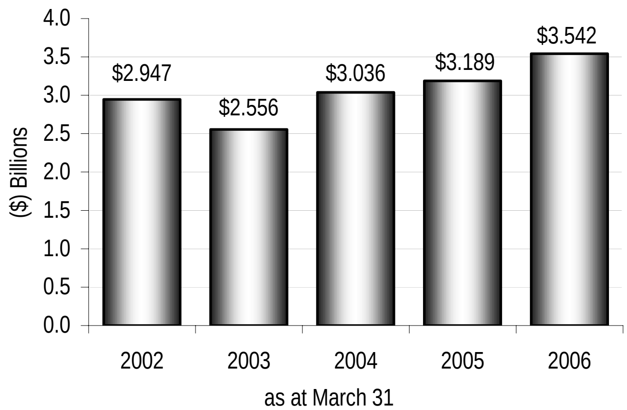
Asset Mix

MARCH 31, 2006



Asset	Quarters Ended March 31, 2006			
	1st June 30/05	2nd Sept 30/05	3rd Dec 31/05	4th Mar 31/06
Canadian Equities	37.5%	35.1%	35.2%	34.25%
US Equities	16.1%	15.2%	15.3%	15.37%
Other Foreign Equities	6.2%	6.3%	6.6%	13.63%
Fixed Income (Bonds)	33.7%	32.6%	31.1%	30.00%
Canadian Real Estate	3.0%	4.0%	4.4%	4.70%
Money Market (Cash)	5.2%	6.9%	7.4%	2.05%

Fund Assets

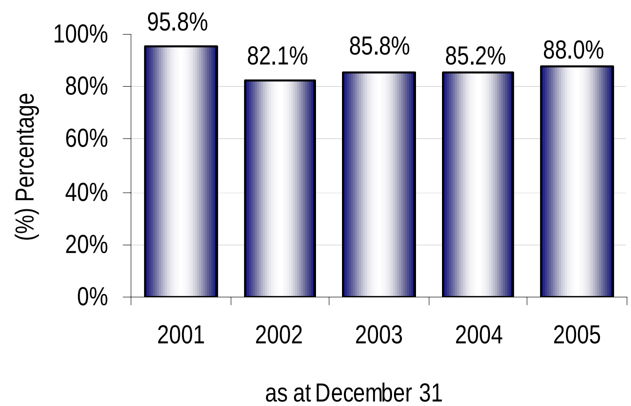


The bar chart shows net assets available for benefits as at March 31, 2006 totaling $3.542 billion.

Top 20 holdings as at March 31, 2006	
Stock	Descending Value
Royal Bank of Canada	$64,796,657
Manulife Financial Corp	$57,507,769
Toronto Dominion Bank	$54,170,596
Bank of Nova Scotia	$49,512,534
Encana Corporation	$39,835,485
Nexen Inc	$34,022,092
Talisman Energy Inc	$31,910,028
Canadian Natural Resources Ltd.	$31,762,695
Canadian National Railway	$24,684,557
Sun Life Financial Inc	$24,143,359
Suncor Energy Inc.	$22,802,462
Petro Canada	$21,792,326
Imperial Oil Ltd.	$21,553,582
Transcanada Corp	$21,102,751
Bank of Montreal	$20,557,958
SNC-Lavalin Group Inc.	$18,501,223
Shell Canada Ltd.	$18,342,384
Great West Life	$15,848,134
Canadian Imperial Bank of Commerce	$15,763,828
BCE Inc.	$15,745,965

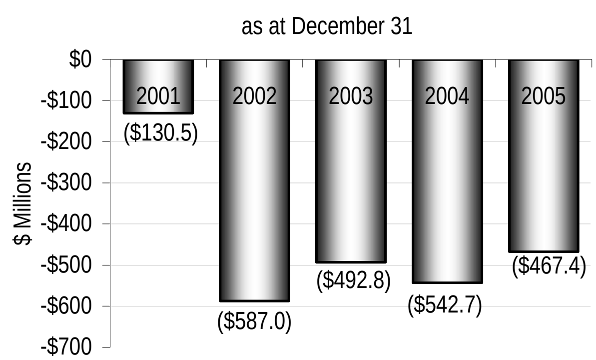
Actuarial Position

Funded Ratio



The funded ratio is equal to assets divided by liabilities, expressed as a percentage. A funded ratio of 100% or more means that the Plan is fully funded, i.e. the Fund's assets are sufficient to cover liabilities, based on current market value and actuarial assumptions. The surplus is equal to the Fund's assets less its liabilities. If liabilities are greater than assets, the Plan has an unfunded liability. The Fund's assets are based on current market value. The Plan's liabilities are equal to the present value of what the fund is expected to pay out in future benefits for service accrued to date, based on actuarial assumptions.

Unfunded Liability



As at December 31, 2002 the actuarial position of the Plan was an unfunded liability of $587.0 million. This historical low point occurred due to poor performance in the financial markets. By December 31, 2005 the unfunded liability had improved to $467.4 million. This was due primarily to favourable investment returns since 2002. For the three years ended December 31, 2005 the average annual rate of return was 11.8%.

The Public Service Superannuation Plan retains the services of an actuarial consulting firm to act as its actuary. The firm of Mercer Human Resource Consulting currently fills this role. Actuarial valuations are performed annually. The Plan's actuaries have noted that current contribution levels do not cover the current service cost (cost of service earned by Plan members each year) even after the 1% increase in June 2004. Unless there is a sustained increase in capital markets, contribution rates may have to rise again in the near future to cover the cost of benefits being earned.

NOVA SCOTIA

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Auditor's Report

To the Members of the Legislative Assembly of Nova Scotia; and
To the Minister of Finance

I have audited the consolidated statement of net assets available for benefits and accrued pension benefits net of deficiency of the Nova Scotia Public Service Superannuation Fund as at March 31, 2006 and the consolidated statement of changes in net assets available for benefits for the year then ended. These consolidated financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these consolidated financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits net of deficiency of the Fund as at March 31, 2006 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

JR Lapointe

Jacques Lapointe, CA•CIA
Auditor General

Halifax, Nova Scotia
June 5, 2006

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
CONSOLIDATED STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED PENSION BENEFITS NET OF DEFICIENCY
AS AT MARCH 31, 2006

	2006	2005
	(000's)	(000's)
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments (Note 3)	$ 3,582,798	$ 3,202,226
Contributions receivable		
Employees'	2,294	3,435
Employers'	2,638	4,084
Accrued income	15,857	14,833
Net investment transactions outstanding	-	5,838
Prepayment and sundry receivables	1,934	473
Cash	3,549	2,083
Total assets	3,609,070	3,232,972
Liabilities		
Real estate mortgages (Note 4)	33,851	17,614
Accounts payable	31,191	26,522
Net investment transactions outstanding	2,264	-
Total liabilities	67,306	44,136
Net assets available for benefits	3,541,764	3,188,836
Actuarial asset value adjustment (Note 5)	276	411
Actuarial value of net assets available for benefits	$ 3,542,040	$ 3,189,247
ACCRUED PENSION BENEFITS NET OF DEFICIENCY		
Accrued pension benefits (Note 6)	$ 3,952,745	$ 3,721,541
Deficiency (Note 6)	(410,705)	(532,294)
Accrued pension benefits net of deficiency	$ 3,542,040	$ 3,189,247

Approved:

Michael G Baker

Trustee - Minister of Finance

See accompanying notes to consolidated financial statements.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED MARCH 31, 2006

	2006	2005
	(000's)	(000's)
Increase In Assets		
Investment activities (Note 3)	$ 446,244	$ 243,207
Contributions		
Employer's – matched	47,807	43,860
Employees' – matched	47,807	43,860
Employees' – unmatched	2,073	1,205
Interest on the purchase of prior years' service	91	564
Transfers from other pension plans	1,380	810
	99,158	90,299
Total increase in assets	545,402	333,506
Decrease in Assets		
Benefits paid	173,445	164,074
Operating expenses (Note 7)	8,548	8,233
Refund of contributions and interest and transfers to other pension plans	10,481	8,139
Total decrease in assets	192,474	180,446
Increase in Net Assets	352,928	153,060
Net Assets Available for Benefits at Beginning of Year	3,188,836	3,035,776
Net Assets Available for Benefits at End of the Year	$ 3,541,764	$ 3,188,836

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 which 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 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 Minister of Finance is trustee of the Fund, which is invested in federal, provincial, municipal and corporate securities that qualify as eligible investments under the Provincial Finance Act.

The Plan is funded by employee and matching employer contributions of 6.4% (5.4% prior to June 2004) of salary up to the Year's Maximum Pensionable Earnings ("YMPE") per the Canada Pension Plan ("CPP") and 8% (7% prior to June 2004) of salary above the YMPE. The basic pension formula is 2% for each year of pensionable service times the number of years of pensionable service. Pensions are integrated with CPP benefits at age 65. Pensions in pay and deferred pensions are increased on January 1 of each year at a rate equal to the increase in the Consumer Price Index for Canada to a maximum of 6%.

Plan members are eligible for a pension upon reaching any of the following criteria:
- age 50 with an age plus pensionable service factor of 80 – "Rule of 80";
- age 55 with two years of service (reduced pension);
- age 60 with two years of service;
- age 65.

Certain pension payments are attributable to previous early retirement programs and other unfunded benefits. They are charged to the Consolidated Fund of the Province and participating employers and are not paid from the Fund. These payments amounted to $16.6 million for the year ended March 31, 2006 (2005 - $16.6 million).

2. Summary of Significant Accounting Policies

(a) Basis of Presentation:

These consolidated financial statements are prepared on the going-concern basis and present the aggregate financial position of the Fund as a separate financial reporting entity. In the event there are insufficient funds within the Fund to make all payments required by the Act, the Province of Nova Scotia guarantees cash flow assistance with respect to the pension benefits in pay. These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(b) Consolidation:

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

(c) Foreign Currency Translation:

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

(d) Investments:

(i) Investments are reported as of trade date and are stated at market value as at year end. Market 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 and equities are valued at quoted market prices.

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

(ii) The derivative contracts held by the Fund at year-end 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.

2. Summary of Significant Accounting Policies (continued)

(iii) Real estate is composed of income producing properties and real estate pooled funds. Unless recently acquired in the current fiscal year, properties, including real estate mortgages, 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.

The fair value of any real estate which has been recently acquired is based on the purchase price.

(e) Investment Income/Loss:

Investment income/loss includes interest, dividends and operating income/loss from real estate, which is recorded on the accrual basis. Also included are gains and losses that have been realized on disposal of investments, and the unrealized appreciation and depreciation in the fair value of investments.

(f) Non-investment Assets and Liabilities:

The fair value of contributions receivable, accrued income, net investment transactions outstanding, sundry receivables, cash and accounts payable approximate their carrying amounts due to their short-term nature.

(g) Contributions:

Basic contributions from employers and members due to the Plan 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 when 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 accrued actuarial liabilities.

2. Summary of Significant Accounting Policies (continued)

(i) 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.

(j) Financial Instruments:

The Fund's financial instruments include cash, contributions receivable, receivable from the Province of Nova Scotia, investments, net investment transactions outstanding, accounts payable and real estate mortgages. It is management's opinion, unless otherwise noted, that the Fund is not exposed to significant interest, currency or credit risks from its financial instruments.

The Fund's short-term financial instruments, consisting of cash, contributions receivable, receivable from the Province of Nova Scotia, net investment transactions outstanding, and accounts payable are carried at cost which, due to their short-term nature, approximates their fair value. Investments and real estate mortgages are carried at fair value as described in note 2 and are subject to interest, currency and credit risks as described in note 3.

3. Investments and Derivatives

The investment objectives of the Plan are to provide long-term security of pension benefits to members and to minimize any increases in contributions required by members and the employers. A strategy of investing in assets of Canadian and foreign equities, bonds, debentures, mortgages and money market securities is aimed at achieving these objectives.

3. Investments and Derivatives (continued)

(a) Market value of investments and related income before allocating the effect of derivative contracts:

	As at March 31, 2006 Asset (000's)	%	For the Year Income (Loss)* (000's)	As at March 31, 2005 Asset (000's)	%	For the Year Income (Loss)* (000's)
Money market	$ 280,322	7.8	$ 9,900	$ 385,743	12.1	$ 7,726
Fixed income						
- Canadian	1,012,487	28.3	55,069	998,597	31.2	53,127
- US Funds	32,790	0.9	698	32,253	1.0	(1,511)
Equities						
- Canadian	1,035,680	28.9	240,076	986,797	30.8	163,797
- US	544,140	15.2	31,957	490,238	15.3	(3,288)
- Other foreign	474,085	13.2	54,472	199,209	6.2	(5,048)
Real Estate						
- Canadian	138,497	3.9	7,556	54,530	1.7	3,598
- Pooled fund	60,997	1.7	7,774	53,696	1.7	4,817
Derivatives	3,800	0.1	38,708	1,163	0.0	19,931
Other	-	-	34	-	-	58
	$ 3,582,798	100.0	$ 446,244	$ 3,202,226	100.0	$ 243,207

* Includes realized gains of $184.3 million ($86.1 million – 2005) and unrealized gains of $131.4 million ($52.8 million – 2005).

(b) Derivative Contracts:

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 strategy.

Money market-to-equity swaps have been used during the year to adjust the asset mix.

3. Investments and Derivatives (continued)

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 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; and
- enters into derivatives only for the purposes of managing risk.

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.

The following table provides details of these derivative contracts outstanding as at March 31, 2006:

Notional Principal	Original Term	Credit Rating of Counter-party	Equity Index	BA Index	Market Value
(000's)					(000's)
$ 66,766	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	$ 2,243
107,460	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	1,557
$ 174,226					$ 3,800

Notional amounts of these derivative contracts represent the volume of outstanding transactions and serve as the basis upon which the return from and the market value of the contracts are determined.

Money market-to-equity swap contracts are denominated in Canadian dollars and are reset quarterly.

3. Investments and Derivatives (continued):

(c) Market value of investments and related income after allocating the effects of derivative contracts:

	As at March 31, 2006		For the Year	As at March 31, 2005		For the Year
	Asset	%	Income *	Asset	%	Income (Loss)*
	(000's)		(000's)	(000's)		(000's)
Money market	$ 105,745	3.0	$ 5,743	$ 230,218	7.2	$ 4,197
Fixed income						
- Canadian	1,012,487	28.3	55,069	998,597	31.2	53,642
- US Funds	32,790	0.9	698	32,253	1.0	(1,511)
Equities						
- Canadian	1,214,057	33.8	282,941	1,143,485	35.7	186,742
- US	544,140	15.2	31,957	490,238	15.3	(3,288)
- Other foreign	474,085	13.2	54,472	199,209	6.2	(5,048)
Real Estate						
- Canadian	138,497	3.9	7,556	54,530	1.7	3,598
- Pooled fund	60,997	1.7	7,774	53,696	1.7	4,817
Other	-	0.0	34	-	-	58
	$ 3,582,798	100.0	$ 446,244	$ 3,202,226	100.0	$ 243,207

*Includes realized gains of $184.3 million ($86.1 million – 2005) and unrealized gains of $131.4 million ($52.8 million – 2005).

(d) 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 foreign currency, interest rate volatility, market and credit risk. The Fund has set formal policies and procedures that establish an asset mix among equity, fixed income and real estate investments, require diversification of investments within categories, and set limits on the size of exposure to individual investments and counterparties. In addition, derivative financial instruments are used, where appropriate, to assist in the management of these risks.

3. Investments and Derivatives (continued):

(i) Interest rate risk:

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

The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets. 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. To meet these liabilities the Plan has established an asset mix policy of approximately 60% equities, 33% fixed income securities and 7% real estate. Long-term equity returns have historically shown high correlation with changes in inflation and salary escalation, while fixed income securities are sensitive to changes in nominal interest rates.

The following breakdown of fixed income securities as at march 31, 2006 is summarized in the following table:

	March 31, 2006						March 31, 2005	
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Average Effective yield	Total	Average effective yield
	(000's)	(000's)	(000's)	(000's)	(000's)	%	(000's)	%
Money market	$ 280,322	-	-	-	$ 280,322	3.8	$ 385,743	2.6
Bonds and debentures	15,306	$ 333,263	$ 203,250	$ 332,715	884,534	5.3	878,104	5.3
Real return bonds	-	-	-	127,953	127,953	3.1	120,493	3.0
US Fixed Income	787	10,558	18,986	2,459	32,790	6.5	32,253	6.7
Total	$ 296,415	$ 343,821	$ 222,236	$ 463,127	$ 1,325,599		$ 1,416,593	

The average effective yield reflects the estimated annual income of a security as a percentage of its year-end market value.

(ii) Market risk:

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market.

3. Investments and Derivatives (continued):

The Fund's policy is to invest in a diversified portfolio of investments, based on criteria established in the Statement of Investment Policies and Guidelines, and to utilize derivative financial instruments, which are designed to mitigate the impact of market risk.

(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.

The Plan limits credit risk by purchasing fixed income securities with a credit rating of "BBB" and higher. In addition, the Plan limits derivative contract risk by dealing with counterparties that have a minimum "A" credit rating.

(iv) Foreign currency risk:

Foreign currency exposure arises from the Plan's holding of equities denominated in foreign currency. From time to time some of this exposure will be hedged based on interest rates or other economic fundamentals.

The Plan's currency exposure from net investment assets as at March 31, 2006 is summarized in the following table.

	March 31, 2006	March 31, 2005
Currency	(000's)	(000's)
Canada	$ 2,506,128	$ 2,477,590
United States	610,995	551,936
Euro Zone	136,850	44,977
Japan	136,475	56,176
United Kingdom	78,455	26,911
Other	96,455	49,503
Total	$ 3,565,358	$ 3,207,093

4. Real Estate Mortgages:

Real estate mortgages are carried at fair value and have various terms to maturity to 2018 with each mortgage secured by a specific real property. Nominal rates range from 5.2% to 7.0%

Scheduled principal repayments in each of the next five years, beginning April 1, 2006 are as follows:

2006	$ 5,136
2007	1,618
2008	839
2009	5,517
2010	566
Thereafter	23,450
Total	$ 37,126

The real estate mortgage payables are valued at fair value based on prevailing interest rates.

5. Actuarial Asset Value Adjustment:

The actuarial asset value adjustment is comprised of the following:

	2006	2005
	(000's)	(000's)
Service buy-back receivable	$ 276	$ 411

This receivable represents the present value of outstanding employee and employer contributions which are due as a result of service buy-backs.

6. Accrued Pension Benefits and Deficiency:

Actuarial valuations of the Fund are carried out annually and provide an estimate of the accrued pension benefits ("Fund liabilities") calculated using various economic and demographic assumptions, based on membership data as at the valuation date. The Plan's consulting actuaries, Mercer Human Resource Consulting, performed a valuation as at December 31, 2005 and issued their report in June 2006. The report indicated that the Plan had an unfunded liability of $471.8 million (December 31, 2004 - $542.7 million). A projection to March 31, 2006, applying the same assumptions, indicated an unfunded liability of $410.7 million (March 31, 2005 - $532.3 million).

At March 31, 2005, an amount of $7.7 million attributable to termination benefits was included in net assets available for benefits. The amount was also included in the actuarial valuation of accrued pension benefits. Consequently, the deficiency of the Fund included the amount twice. The accrued pension benefits and deficiency at March 31, 2005 have been reclassified in the current year's statements to properly reflect this amount. The reconciliation of changes in accrued pension benefits has also been adjusted to reflect this reclassification.

The following table reflects the unfunded liability as at March 31, 2006 and as at March 31, 2005 after the reclassification.

	2006	2005
	(000's)	(000's)
Actuarial value of assets:	$ 3,542,040	$ 3,189,247
Accrued pension benefits:	3,952,745	3,721,541
Unfunded liability:	($ 410,705)	($ 532,294)

Reconciliation of changes in accrued pension benefits:	2006	2005
	(000's)	(000's)
Accrued pension benefits at beginning of year	$ 3,721,541	$3,522,000
Interest on accrued pension benefits at 7.38%	274,557	259,836
Contributions and transfers from other pension plans	99,158	90,299
Current service cost in excess of contributions	11,545	18,500
Net impact of experience gains and losses relating to accrued pension benefits	29,870	3,119
Benefits paid	(173,445)	(164,074)
Refunds of contributions and interest and transfers to other pension plans	(10,481)	(8,139)
Accrued pension benefits at end of year	$ 3,952,745	$3,721,541

6. Accrued Pension Benefits and Deficiency (continued):

The actuarial valuation projects liabilities for each member on the basis of service earned to date and the member's projected five year average salary at the expected date of retirement. The actuaries have used the unit credit method of determining the current cost and actuarial liability.

The major economic and demographic assumptions used in the last valuation are as follows:

	Valuation December 31, 2005	Valuation December 31, 2004
Inflation	3.0% per annum	3.0% per annum
Average Salary Increase	0.5% per annum real plus merit ranging from 0.0% to 2.5%	0.5% per annum real plus merit ranging from 0.0% to 2.5%
Real Rate of Return on Investment	4.25 per annum	4.25% per annum
Average Retirement Age	20% - age 55 or “Rule of 80” 80% - age 60 or 35 years service	20% - age 55 or "Rule of 80" 80% - age 60 or 35 years service
Mortality	1994 Group Annuity Mortality Table projected to 2000 using scale AA	1994 Group Annuity Mortality Table projected to 2000 using scale AA

7. Operating Expenses:

The Fund is charged with administrative and certain other expenses incurred on behalf of the Fund by the Department of Finance. The following is a summary of these operating expenses:

	2006	2005
	(000's)	(000's)
Plan Administration		
Professional services	$ 165	$ 322
Salaries	805	799
Supplies and services	167	303
Travel	6	7
Other	90	108
	$ 1,233	$ 1,539
Investment Expenses		
Investment management fees	$ 6,596	6,138
Professional services	57	60
Salaries	471	376
Supplies and services	114	90
Travel	12	12
Other	65	18
	$ 7,315	$ 6,694
Total Operating Expenses	$ 8,548	$ 8,233

8. Related Party Transactions:

Investments include debentures of the Province of Nova Scotia with total market value of $14.4 million (0.4% of total assets) as at March 31, 2006 ($18.3 million (0.6% of total assets) as at March 31, 2005).

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