

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Auditors' Report

To the Nova Scotia Teachers' Pension Plan Trustee Inc.

We have audited the consolidated statement of net assets available for benefits and accrued pension benefits net of deficiency of the **Province of Nova Scotia – Nova Scotia Teachers' Pension Fund** as at December 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. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 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 December 31, 2006 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Halifax, Nova Scotia
April 24, 2007

Grant Thornton LLP
Chartered Accountants

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

CONTENTS

	Page
Consolidated Statement of Net Assets Available for Benefits and Accrued Pension Benefits Net of Deficiency.....	1
Consolidated Statement of Changes in Net Assets Available for Benefits.....	2
Notes to the Consolidated Financial Statements.....	3

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
CONSOLIDATED STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
AND ACCRUED PENSION BENEFITS NET OF DEFICIENCY
AS AT DECEMBER 31, 2006**

	2006	2005
NET ASSETS AVAILABLE FOR BENEFITS	(000's)	(000's)
Assets		
Investments (Note 4)	\$ 4,813,517	\$ 4,410,160
Receivable from the Province of Nova Scotia (Note 1)	9,501	21,391
Contributions receivable		
Employees'	1,772	810
Employers'	4,267	4,429
Accrued income	14,861	13,162
Net investment transactions outstanding	1,596	-
Prepayment and sundry receivables	2,809	2,332
Cash	<u>3,325</u>	<u>3,041</u>
Total assets	<u>4,851,648</u>	<u>4,455,325</u>
Liabilities		
Real estate mortgages (Note 5)	60,087	42,071
Net investment transactions outstanding	-	230
Accounts payable	<u>33,117</u>	<u>28,581</u>
Total liabilities	<u>93,204</u>	<u>70,882</u>
Net assets available for benefits	<u>\$ 4,758,444</u>	<u>\$ 4,384,443</u>
ACCRUED PENSION BENEFITS NET OF DEFICIENCY		
Accrued pension benefits (Note 6)	\$ 4,916,993	\$ 4,684,101
Deficiency (Note 6)	<u>(158,549)</u>	<u>(299,658)</u>
Accrued pension benefits net of deficiency	<u>\$ 4,758,444</u>	<u>\$ 4,384,443</u>

Approved:

ORIGINAL SIGNED BY J. KIM MACNEIL

ORIGINAL SIGNED BY WILLIAM D. REDDEN

Trustee – Teachers' Pension Plan Trustee Inc.

Trustee – Teachers' Pension Plan Trustee Inc.

See accompanying notes to consolidated financial statements.

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	2006	2005
	(000's)	(000's)
Increase In Assets		
Investment activities (Note 4)	\$ 552,255	\$ 489,036
Interest - Receivable from Province of Nova Scotia	<u>1,190</u>	<u>2,230</u>
	<u>553,445</u>	<u>491,266</u>
Contributions		
Employers' – matched	59,178	56,217
Employees' – matched	59,178	56,217
Employers' – unmatched – Province (Note 3)	-	144,378
Employees' – unmatched	2,158	2,677
Transfers from other pension plans	<u>1,960</u>	<u>1,379</u>
	<u>122,474</u>	<u>260,868</u>
Total increase in assets	<u>675,919</u>	<u>752,134</u>
Decrease In Assets		
Benefits paid	286,360	257,160
Operating expenses (Note 7)	10,513	9,261
Refunds of contributions and interest and transfers to other pension plans	<u>5,045</u>	<u>1,666</u>
Total decrease in assets	<u>301,918</u>	<u>268,087</u>
Increase in Net Assets	374,001	484,047
Net Assets Available for Benefits at Beginning of Year	<u>4,384,443</u>	<u>3,900,396</u>
Net Assets Available for Benefits at End of Year	<u>\$ 4,758,444</u>	<u>\$ 4,384,443</u>

See accompanying notes to consolidated financial statements.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

1. Authority and Description of Plan

The Teachers' Pension Fund (the "Fund") was established by the Teachers' Pension Act (the "Act"). It is the funding vehicle for the Teachers' Pension Plan (the "Plan"), a pension plan which covers public school and community college teachers. 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 Plan agreements.

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 which qualify as eligible investments under the Provincial Finance Act.

The Plan is funded by employee and matching employer contributions of 8.3% of salary up to the Year's Maximum Pensionable Earnings ("YMPE") per the Canada Pension Plan ("CPP") and 9.9% 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 are increased on January 1 of each year at a rate equal to the increase in the Consumer Price Index for Canada less 1%, to a maximum of 6%.

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

- 35 years of service;
- age 50 with 30 years of service (reduced pension);
- age 55 with an age plus pensionable service factor of 85 - "Rule of 85";
- age 55 with two years of service (reduced pension);
- age 60 with 10 years of service;
- age 65 with two years of service.

On July 22, 1994 the Governor in Council authorized an early retirement program (ERP) for Plan members. Each employing school board and participating employer was required to pay into the Fund an amount in respect of each eligible teacher in the employ of the school board or participating employer who retired in accordance with these regulations. At December 31, 2006 the balance outstanding was \$9.5 million (December 31, 2005 - \$21.4 million). Order-in Council 2002-181 dated April 26, 2002 transferred responsibility for making these payments from the school boards to the Province. A new consolidated schedule of payments was set up retroactive to January 31, 2002. The last payment under this schedule will be made on July 31, 2008.

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

1. Authority and Description of Plan (continued)

As part of the June 22, 2005 agreement between the Province and the Nova Scotia Teachers' Union (see note 3), the Province and the Union agreed to joint and equal participation in the governance of the Plan including the sharing of any actuarial surpluses or deficits between the Province and the beneficiaries of the Fund upon the transfer of the Fund to the Trustee. Teachers' Pension Plan Trustee Inc (TPPTI) was incorporated to act as trustee of the Fund and on April 1, 2006, TPPTI became the Trustee of the Nova Scotia Teachers' Pension Fund.

Up to and including March 31, 2006, in the event that there were insufficient funds within the Fund to make all payments required by the Act, the Province of Nova Scotia guaranteed cash flow assistance with respect to the pension benefits in pay. This guarantee was removed as at the effective date for Joint Trusteeship April 1, 2006.

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. 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 dates of the transactions. The market value of foreign investments and cash balances held at period end are translated at the rates in effect at the year end. The resulting gain or loss from changes in these rates is included in current period change in market value of investments.

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

2. Summary of Significant Accounting Policies (continued)

(d) Investments:

- (i) Investments are reported as of trade date and are stated at market value as at the period 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 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.

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

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, prepayment and sundry receivables, cash and accounts payable approximate their carrying amounts due to their short-term nature.

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

2. Summary of Significant Accounting Policies (continued)

(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.

(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.

Due to their short term nature, 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 approximates their fair values. Investments and real estate mortgages are carried at fair value as described in notes 2 and 5 and are subject to interest, currency and credit risks as described in note 4.

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

3. Agreement to Address Unfunded Liability

The Teachers' Pension Partners Board established a committee (2003 Review Committee) to undertake a review of the Plan's financial status. As a result of this review the Province and the Nova Scotia Teachers' Union signed an agreement on June 22, 2005 which tied future indexing provisions to the funded position of the Plan as determined by its actuarial funding valuation. The Province also agreed to contribute \$142 million (plus interest from April 1, 2005) to the Fund. The funds were transferred on June 24, 2005 in the amount of \$144,377,581.

4. 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 employer. A strategy of investing in assets of Canadian and foreign equities, bonds, debentures, mortgages and money market securities is aimed at achieving these objectives.

- (a) Market value of investments and related income before allocating the effects of derivative contracts.

	<u>As at December 31, 2006</u>		<u>For the Year</u>	<u>As at December 31, 2005</u>		<u>For the Year</u>
	Assets (000's)	%	Income * (000's)	Assets (000's)	%	Income * (000's)
Money market	\$ 397,799	8.2	\$ 17,660	\$ 639,968	14.5	\$ 13,097
Fixed income Canadian	1,351,360	28.1	46,602	1,288,873	29.2	90,086
Fixed income US fund	42,338	0.9	2,910	39,643	0.9	(13)
Equities						
Canadian	1,244,563	25.9	195,822	1,336,100	30.3	296,357
US	709,503	14.7	92,440	616,475	14.0	8,150
Other foreign	766,453	15.9	140,416	261,086	5.9	31,392
Real estate – Canadian	214,675	4.5	15,476	153,629	3.5	7,104
Real estate – Pooled fund	72,935	1.5	11,223	62,237	1.4	7,782
Derivatives	13,891	0.3	29,634	12,149	0.3	35,042
Other	-	-	72	-	-	39
	<u>\$ 4,813,517</u>	<u>100.0</u>	<u>\$ 552,255</u>	<u>\$ 4,410,160</u>	<u>100.0</u>	<u>\$ 489,036</u>

* Includes realized gains of \$202.5 million (\$179.9 million - 2005) and unrealized gains of \$187.5 million (\$161.4 million - 2005).

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

4. Investments and Derivatives (continued)

(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.

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 purpose 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.

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

4. Investments and Derivatives (continued)

The following table provides details of the derivative money market-to-equity swap contracts outstanding as at December 31, 2006.

<u>Notional Principal</u>	<u>Original Term</u>	<u>Credit Rating of Counterparty</u>	<u>Equity Index</u>	<u>BA Index</u>	<u>Market Value</u>
(000's)					(000's)
\$ 30,856	1.00 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	\$ 1,143
63,808	1.00 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	1,836
68,750	.75 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	5,456
<u>68,750</u>	<u>.50 yr</u>	<u>AA(low)</u>	<u>S&P/TSE60</u>	<u>CAD-BA-CDOR</u>	<u>5,456</u>
<u>\$ 232,164</u>					<u>\$ 13,891</u>

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.

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

4. Investments and Derivatives (continued)

(c) Market value of investments and related income after allocating the effect of derivative contracts.

	As at December 31, 2006		For the Year	As at December 31, 2005		For the Year
	Assets (000's)	%	Income * (000's)	Assets (000's)	%	Income * (000's)
Money market	\$ 164,367	3.4	\$ 9,957	\$ 444,324	10.1	\$ 8,996
Fixed income Canadian	1,351,360	28.1	46,602	1,288,873	29.2	90,086
Fixed income US fund	42,338	0.9	2,910	39,643	0.9	(13)
Equities						
Canadian	1,491,886	31.0	233,159	1,543,893	35.0	335,500
US	709,503	14.7	92,440	616,475	14.0	8,150
Other foreign	766,453	15.9	140,416	261,086	5.9	31,392
Real estate – Canadian	214,675	4.5	15,476	153,629	3.5	7,104
Real estate – Pooled fund	72,935	1.5	11,223	62,237	1.4	7,782
Other	-	-	72	-	-	39
	<u>\$ 4,813,517</u>	<u>100.0</u>	<u>\$ 552,255</u>	<u>\$ 4,410,160</u>	<u>100.0</u>	<u>\$ 489,036</u>

* Includes realized gains of \$202.5 million (\$179.9 million - 2005) and unrealized gains of \$187.5 million (\$161.4 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.

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

4. 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 summarizes the maturities of fixed income securities as at December 31, 2006:

	2006				2005			
	Within <u>1 year</u>	1 to 5 <u>years</u>	5 to 10 <u>years</u>	Over <u>10 years</u>	<u>Total</u>	effective <u>yield</u>	<u>Total</u>	effective <u>yield</u>
	(000's)	(000's)	(000's)	(000's)	(000's)	%	(000's)	%
Money market	\$ 397,799	-	-	-	\$ 397,799	4.7	\$ 639,968	3.5
Bonds and debentures	20,725	\$ 491,266	\$ 266,109	\$ 435,921	1,214,021	5.0	1,145,097	5.1
Real return bonds	-	-	-	137,339	137,339	3.2	143,776	3.1
Fixed income US Fund	<u>1,143</u>	<u>9,653</u>	<u>28,070</u>	<u>3,472</u>	<u>42,338</u>	7.0	<u>39,643</u>	6.5
Total	<u>\$ 419,667</u>	<u>\$ 500,919</u>	<u>\$ 294,179</u>	<u>\$ 576,732</u>	<u>\$ 1,791,497</u>		<u>\$ 1,968,484</u>	

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

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

4. Investments and Derivatives (continued)

(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. 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 investments denominated in foreign currencies. From time to time some of this exposure will be hedged based on interest rate spreads or other economic fundamentals.

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

<u>Currency</u>	<u>2006</u>	<u>2005</u>
	(000's)	(000's)
Canada	\$ 3,245,449	\$ 3,462,167
United States	788,288	689,787
Euro zone	246,881	50,445
Japan	200,915	90,068
United Kingdom	135,457	31,989
Other	<u>155,022</u>	<u>59,555</u>
Total	<u>\$ 4,772,012</u>	<u>\$ 4,384,011</u>

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

5. Real estate mortgages

Real estate mortgages have various terms to maturity to 2018 with each mortgage secured by a specific real property. Nominal rates range from 5.2% to 8.0%.

Scheduled principal repayments in each of the next five years, beginning January 1, 2007 are as follows:

2007	\$ 4,514
2008	1,945
2009	6,923
2010	878
2011	12,221
Thereafter	<u>31,450</u>
Total	<u>\$ 57,931</u>

For purposes of the Consolidated Statement of Net Assets Available for Benefits and Accrued Pension Benefits Net of Deficiency, real estate mortgages payable are valued at fair values based on prevailing interest rates.

6. Accrued Pension Benefits

Actuarial valuations of the Fund are required every year by the Act, 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 Resources Consulting, performed a valuation as at December 31, 2006 and issued their report in June 2007. The report indicated that the Plan had an unfunded liability of \$158.5 million (December 31, 2005 - \$299.7 million).

The following table reflects the unfunded liability as at December 31, 2006 and as at December 31, 2005.

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
	(000's)	(000's)
Actuarial value of assets:	\$ 4,758,444	\$ 4,384,443
Accrued pension benefits:	<u>4,916,993</u>	<u>4,684,101</u>
Unfunded liability:	<u>(\$ 158,549)</u>	<u>(\$ 299,658)</u>

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

6. Accrued Pension Benefits (continued)

Reconciliation of changes in accrued pension benefits:	For the Year Ended <u>Dec 31, 2006</u> (000's)	For the Year Ended <u>Dec 31, 2005</u> (000's)
Accrued pension benefits at beginning of period	\$ 4,684,101	\$ 4,774,410
Interest on accrued pension benefits at 7.38%	345,570	352,232
Contributions and transfers from other pension plans	122,474	116,490
Net impact of changes in assumptions	76,503	-
Contributions in excess of current service cost	(32,182)	(10,752)
Refunds of contributions and interest and transfers to other pension plans	(5,045)	(1,666)
Benefits paid	(286,360)	(257,160)
Impact of new indexing arrangement on accrued pension benefits	-	(291,596)
Net impact of experience gains and losses relating to accrued pension benefits	<u>11,932</u>	<u>2,143</u>
Accrued pension benefits at end of period	<u>\$ 4,916,993</u>	<u>\$ 4,684,101</u>

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

The major economic and demographic assumptions used in the 2006 valuation have changed from those used in the 2005 valuation, as follows:

	Valuation <u>December 31, 2006</u>	Valuation <u>December 31, 2005</u>
Inflation	2.5% per annum	3.0% per annum
Average Salary Increase	0.0% per annum real plus merit ranging from 0.0% to 2.75%	0.5% per annum real plus merit ranging from 0.0% to 2.75%
Real Rate of Return on Investments	4.25% per annum	4.25% per annum
Average Retirement Age	60% - Retire at earliest date first eligible for an unreduced pension 40% - Retire at the earliest of: - age 65; - 35 years of service; or - age 60 with 10 years of service	60% - Retire at earliest date first eligible for an unreduced pension 40% - Retire at the earliest of: - age 65; - 35 years of service; or - age 60 with 10 years of service
Mortality	UP-94 projected to 2015 using scale AA	GAM-94 projected to 2000 using scale AA

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

6. Accrued Pension Benefits (continued)

As a result of the agreement between the Province of Nova Scotia and the Nova Scotia Teachers' Union signed on June 22, 2005, indexing for pensions put in pay on or after August 1, 2006, as well as those of existing pensioners who opt for the new indexing arrangement, will depend on the funding level of the plan. If the funding level is less than 90%, no indexing will be provided. At a funding level of between 90% and 100%, indexing will be granted at 50% of the increase in the CPI, at the discretion of the Board of Trustees. If the funding level is greater than 100%, indexing will be provided at 100% of the increase in the CPI, to the extent that it does not reduce the funding level to below 100%, in which case pensions will be increased by at least 50% of the increase in the CPI. Regardless of the funding level, indexing credited in July 2006 and July 2007 is guaranteed to be at least 50% of the increase in the CPI. For the purposes of the valuation, it was assumed that indexing would not be paid in years in which it is discretionary.

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.

	<u>2006</u>	<u>2005</u>
	(000's)	(000's)
Plan Administration		
Professional services	\$ 200	\$ 219
Salaries	953	819
Supplies and services	199	226
Travel	17	14
Other	<u>108</u>	<u>84</u>
	<u>\$ 1,477</u>	<u>\$ 1,362</u>
Investment Expenses		
Investment management fees	\$ 8,439	\$ 7,272
Professional services	26	53
Salaries	389	440
Supplies and services	80	105
Travel	6	13
Other	<u>96</u>	<u>16</u>
	<u>\$ 9,036</u>	<u>\$ 7,899</u>
Total Operating Expenses	<u><u>\$ 10,513</u></u>	<u><u>\$ 9,261</u></u>

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

8. Related Party Transactions

Investments held in the Fund include debentures of the Province of Nova Scotia with a total market value of \$18.1 million (0.4% of total assets) as at December 31, 2006 (\$21.7 million (0.5% of total assets) as at December 31, 2005).

9. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year presentation.