

**Nova Scotia Pension Agency
Pensions Division**

1723 Hollis Street
PO Box 371
Halifax NS B3J 2P8
1 800 774 5070 (toll free in NS)
902 424 5070

Nova Scotia Teachers' Pension Plan Annual Report

December 31, 2005





Nova Scotia
Finance

Office of the Minister

PO Box 187, Halifax, Nova Scotia, Canada B3J 2N3 • Telephone 902 424-5720 Fax 902 424-0635 • www.gov.ns.ca

August 1st, 2006

To: The Members and Beneficiaries of the Nova Scotia Teachers' Pension Plan

I am pleased to present for your information the annual report of the Nova Scotia Teachers' Pension Fund for the year ended December 31, 2005, in accordance with Subsection 35(2) of the Regulations under the Teachers' Pension Act. The pension plan currently includes 13,030 active members and 9,797 pensioners, and holds assets of \$4.4 billion.

The Fund's return on investments exceeded its target rate of return of 7.38% with a rate of return of 13.76% for the year ended December 31, 2005. As well, the funded ratio improved again this year to reach a level of 93.6%. This is due in part to the contribution of \$144.4 million made to the Fund by the Province of Nova Scotia in accordance with the 2005 Agreement.

The Nova Scotia Pension Agency continues to work diligently to meet your needs. I look forward to another successful year and welcome your feedback on this report.

Sincerely,

A handwritten signature in cursive script that reads "Michael G. Baker".

Michael G. Baker, Q.C.
Minister

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Profile

	Teachers' Pension Plan Trustee Inc.
	<p>The Nova Scotia Teachers' Pension Fund was established by the Teachers' Pension Act. It is the funding vehicle for the Teachers' Pension Plan, which covers public schools and some Community College teachers. The Trustee of the Fund is responsible for safeguarding the rights and interests of the members and beneficiaries of the pension plans.</p> <p>As a result of the agreement supported by Nova Scotia teachers in the spring of 2005 and approved by the Nova Scotia Teachers' Union and the Province of Nova Scotia, joint trusteeship came into effect April 1, 2006. This means that the Trustee changed from the Minister of Finance as Trustee, to the Teachers' Pension Plan Trustee Inc.</p> <p>A Board of nine directors manages the Trustee. The Board is composed of four persons appointed by the Nova Scotia Teachers' Union, four persons appointed by the Minister of Finance, plus, a neutral chair chosen by mutual agreement between the parties.</p>
	Administration Change – <i>Nova Scotia Pension Agency</i>
	<p>The Trustee retains the services of a plan administrator and investment manager to carry out its administration and investment responsibilities. Currently, these roles are filled by the Nova Scotia Pension Agency.</p> <p>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 Teachers' Pension Plan.</p> <p>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.</p> <p>NOVA SCOTIA PENSION AGENCY</p> <p>Pensions Division – Formerly the Pension Services Group, it is responsible for the day-to-day administration of the Teachers' Pension Plan and providing client services to active and retired members of the Plan.</p> <p>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.</p>

Highlights

AS AT DECEMBER 31	2005	2004
Contributors	13,030	12,964
Pensioners (including survivors)	9,797	9,242
Net Assets available for benefits (in billions)	\$4.384	\$3.900

YEAR ENDED DECEMBER 31	2005	2004
Investment - rate of return (annualized)	13.76%	8.56%

YEARS ENDED DECEMBER 31	2005	2004
	(in millions)	
Employee and employer contributions	\$112.4	\$110.6
Purchases and Transfers In	\$4.1	\$3.5
Pension Payments	\$257.2	\$238.1
Refunds and Transfers Out	\$1.7	\$3.1
Operating Expenses	\$9.3	\$9.2

The Pension Plan

The plan is a "defined benefit" plan, which means that your benefits are calculated based on a formula that 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 Province matches members' contributions.

The Teachers' Pension Board sets contribution rates. There are two rates of contribution. The lower rate, 8.3%, is payable on earnings up to and including the Year's Maximum Pensionable Earnings (YMPE), and the higher rate, 9.9%, 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

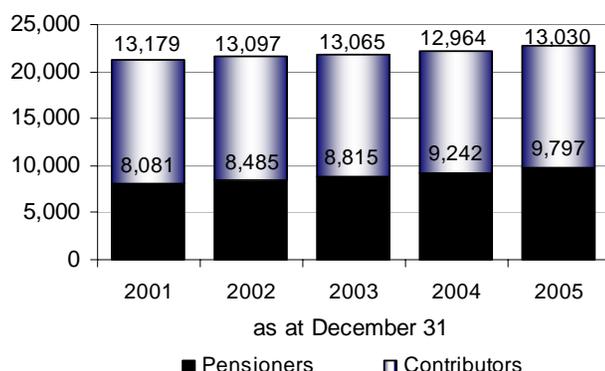
Online pension benefit calculators are available on our web site. These calculators enable clients to estimate the cost to purchase most types of prior service or to obtain pension estimates. A link to the calculators may be found on our web site's home page at: www.gov.ns.ca/finance/pension (click on Online Calculators under Tools). Please note the estimates provided by these calculators are for illustrative purposes only. If you are within two years of retirement you should contact the Nova Scotia Pension Agency 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 teachers who are employed in the public school system and/or community college system in Nova Scotia are required, as a condition of employment, to be members of the Teachers' Pension Plan. Contributors are teachers who are actively teaching and contributing to the plan. Pensioners are members who have retired from teaching and are drawing a pension.

Plan Revenues

Your benefits are funded by the contributions you have made to the plan as well as investment earnings. Your contributions are matched by the Province. In the case of the Atlantic Provinces Special Education Authority (APSEA) and Community College teachers, these institutions make the matching contributions. The figures on the chart reflect investment income, total contributions received by the fund (on an accrual basis) including employee contributions, employer contributions, purchases of prior years of service, and transfers from other pension plans.

	As at December 31				
	(\$ Millions)				
	2001	2002	2003	2004	2005
Investment Income	(\$73.0)	(\$162.1)	\$465.7	\$323.8	\$489.0
Additional Provincial Contributions	\$16.8	\$18.1	\$16.0	-	\$144.4*
Employee and Employer Contributions	\$101.2	\$100.9	\$107.5	\$110.6	\$112.4
Purchases and Transfers	\$3.6	\$3.7	\$2.8	\$3.5	\$4.1

* A review of the Plan's financial status was carried out in 2003. The Teachers' Pension Partners Board established a committee (2003 Review Committee) to undertake this review. From the review was formed an agreement which was supported by Nova Scotia teachers in the spring of 2005 and approved and signed by the Nova Scotia Teachers' Union and the Province of Nova Scotia on June 22, 2005. The agreement 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.

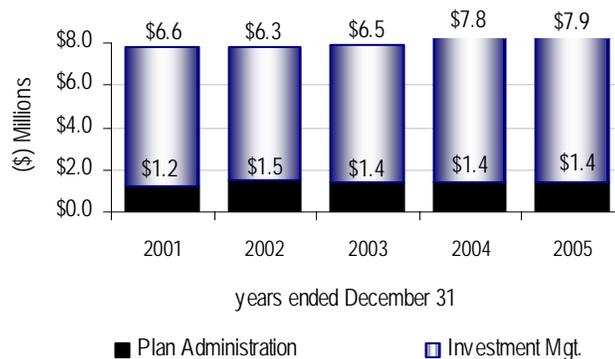
Operating Expenses

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

Investment Management 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 the Pensions Division as well as the cost of professional services such as actuarial valuations.

The increase in investment management costs over the last several years 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.

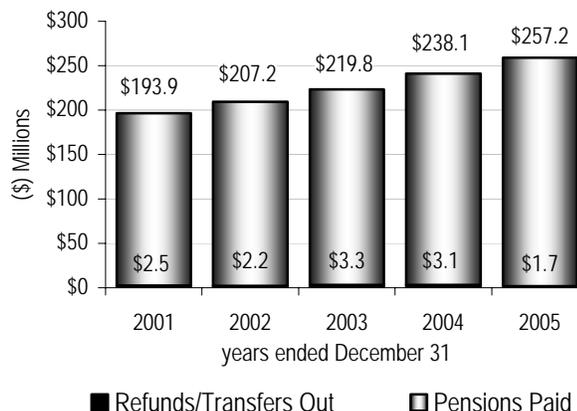


Payments from the Fund

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

Pension payments made in 2005 totaled \$257.2 million compared to \$238.1 million paid in 2004.

This increase is due to an increase in the number of total pensioners, as well as a 0.7% cost of living adjustment effective January 1, 2005.



Investment Report

Investment Management Division

The Investment Management Division comprises 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 December 31, 2005

	1 year	3 years	5 years	10 years
Fund Return	13.76%	14.45%	6.92%	9.66%
Benchmark Return	14.73%	14.98%	7.09%	8.54%

Economic Overview

The United States economy continues to exhibit impressive resilience. The combination of low inflation, strong growth in housing prices, and an improved unemployment picture helped to spur the US consumer in 2005. Hurricanes, surging oil and gas prices, a record trade deficit, and persistent interest rate increases from the Federal Reserve were unable to slow down the United States economic engine. The economy emerged from recent hurricanes in better shape than expected and ended 2005 with strong momentum. United States GDP grew at a 4.1% quarter over quarter annualized rate in third quarter 2005 (the tenth consecutive quarter with growth at or above the 3.0% level); and full year 2005 growth is approximated to be 3.6%.

The Federal Funds rate increased by 200 basis points in 2005 to reach its current level of 4.25%. The steady progression of this benchmark interest rate created concern about future economic growth in the United States but strong economic data such as housing starts and consumption supported the rationale for the increases. In fact, on December 13th, the 25 basis point increase was the thirteenth consecutive hike in this key interest rate since June 2004 as

Fund Performance

Economic Overview / cont'd . . .

the Federal Reserve has attempted to remove excess stimulus from the United States economy put in place after 9/11, the recession, corporate accounting scandals, and the bursting of the stock market bubble.

With United States monetary policy no longer accommodative, and overall conditions tighter, the Federal Reserve may be close to the end of their tightening campaign. The fact that inflation, excluding energy, has remained somewhat constrained is one of the many reasons why investors feel that the Federal Reserve will soon be done increasing interest rates. The Federal Funds rate is expected to increase to 4.5% at the January 2006 meeting and one last rate hike could be implemented in March 2006.

Economic growth on the domestic front has been remarkably resilient as the latest figures indicate that overall Canadian GDP grew at a 3.6% annualized pace in the third quarter of 2005; and is approximated to be 2.9% for full year 2005. Growth in economic activity has shown considerable variation along sector and regional lines. The majority of growth has come from the Canadian energy stronghold: Alberta. Elsewhere in Canada, and in many other exporting industries, the data has pointed to feeble growth.

Given these above imbalances, the Bank of Canada delayed the start of its restrictive monetary policy. With core inflation well below the Bank's median target of 2.0%, the Bank of Canada has been able to be patient with interest rate increases. The key lending rate hit 3.25% in December following a much slower tightening pace than its American counterpart. For most of the year the Bank of Canada maintained the key rate at 2.75%. Consensus is that the Bank of Canada should wrap up its monetary tightening campaign after hiking its key interest rate another 50 basis points to 3.75%.

Overseas, economic recovery continues to gain momentum, with Japan and the euro zone showing encouraging signs. Growth in the euro zone has bounced back from the depths reached in late 2004 and has risen steadily to an annual rate of 2.6% in the third quarter of 2005. Economic growth had not reached 2% since the first quarter of 2004. On December 1, the European Central Bank raised its key interest rate for the first time in more than two years by 25 basis points to 2.25%.

The recovery in Japan shows the promise of staying power. The country recorded strong real economic growth in the first half of 2005 with annualized quarterly gains of 5% or more. Particularly noteworthy is that growth has been driven by private domestic demand rather than exports or public spending.

Fund Performance

Economic Overview / cont'd . . .

In conclusion, the North American and world economies have experienced a period of sustained economic expansion. Global economic growth was about 4.3% in 2005 and is expected to revert towards its long-term trend of approximately 3.5% in 2006. As the main driver of global growth, the United States, - as the expansion of real estate wealth moderates and the stimulus of post hurricane rebuilding comes to an end its economy should decelerate due to the effects of past interest rate hikes and level off at just under 3%. The Canadian economy is expected to follow suit and end 2006 with GDP growth of 2.7%.

These forecasts are not without risk. The growing United States and Chinese trade imbalances, a deceleration in US consumer spending due to higher energy prices and a rapid rise in mortgage rates could entail not just slower spending in the United States but a contraction in spending leading to a hard landing for the North American economies. However, tame inflation expectations should leave room for the North American central banks to quickly change their monetary policy course if necessary to avoid this scenario.

Market Returns

Equity markets around the world increased during the fourth quarter of 2005, despite higher energy prices and concerns about the global economy.

The S&P TSX Composite Index was able to erase large losses in October and ended the quarter up 2.86% led by both the financials (+7.81%) and materials groups (9.86%). Unlike past quarters' performance, energy was down 2.05% in the quarter.

Considering the heavy financial services and energy sector weights in the S&P/TSX it is no surprise that the Canadian market was one of the best performing equity markets worldwide in 2005 with a total return of 24.13%. More than 87% of the S&P/TSX Composite 2005 performance is attributable to both of these sectors. Without these two groups the index would only have been up 3.5% for the year. Additionally, gains were also restricted to a few larger names in the index as the top fifteen stock price gainers were responsible for over 70% of total index gains on the year. However, this marked the third straight year of double-digit gains for this benchmark Canadian index.

The Canadian dollar depreciated slightly during the quarter but closed at approximately 86 cents (1.1624) as compared to approximately 83 cents (1.2097) last year. The United States equity market, while positive (S&P 500 +2.09%), lagged markets elsewhere in the world; Japan (Nikkei +18.7%), Global (MSCI EAFE +4.12%) during fourth quarter 2005.¹

¹ Local market returns

Fund Performance

Market Returns / cont'd . . .

Under pressure all year, the US equity market was unable to benefit from buoying economic data and an otherwise healthy corporate America. Posting a scanty 4.91% 2005 return, the S&P 500 index lagged its peers in Europe, Asia, and Canada.² This underperformance was unusual in both size and timing.

European and Asian markets were good places to invest in 2005. Japanese stocks grew at an extraordinary pace with the Nikkei index returning 40.2% for the year. The turnaround in Japan's stock outlook is a familiar scenario for recently re-elected Prime Minister Koizumi who appears to global investors to be the architect of the country's financial system reform. European equities registered a 23.7% return based on the Bloomberg Europe 500 index. Globally the MSCI EAFE returned 14.02% for the year.³

The impact of energy on overall Canadian equity performance had a visible influence on large company (S&P/TSX 60) domination. The S&P/TSX 60 was up 2.85% for the quarter and 26.29% for the year versus 1.93% for the quarter and 10.60% for the year for the S&P/TSX Small cap index.

In the United States, small companies (Russell 2000) were also outpaced by large companies (Russell 1000) for both the most recent quarter and year.

Value⁴ outperformed growth⁵ during the quarter and the year with the S&P 500/Barra Value Index posting a 2.70% return for the quarter and 6.33% for the year compared with a 1.44% gain for the quarter and 3.46% for the year in the S&P 500/Barra Growth Index.⁶

² Local market returns

³ Local market returns

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 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.

⁶ Local market returns

Fund Performance

Market Returns / cont'd . . .

In Canada, the yield curve has flattened as short-term interest rates have edged higher due to the Bank of Canada increasing its key interest rate to 3.25% without any follow through in the long end of the bond maturity spectrum. In such an environment where the yields on Government of Canada bonds are very similar at all maturities, less risky short-term securities are becoming more attractive at the expense of longer dated issues.

The Scotia Capital Markets Universe bond index was flat for much of the fourth quarter and returned approximately 6.5% for 2005. Despite continuous Bank of Canada interest rate increases, long bonds returned an impressive 13.8% in 2005 while short-term and mid-term returned 2.37% and 5.68% respectively.

Teachers' Pension Fund Performance

Performance for the December 31, 2005 quarter showed a return of 1.67% versus the Fund's benchmark return of 2.37%. Overall performance measured against the Fund's benchmark was impacted by underperformance in active Canadian equity combined with mixed results in actively managed United States and Global equity mandates. Domestic fixed income returns were strong as both internal and externally managed portfolios outperformed their benchmark.

For Fund's fiscal year ended December 31, 2005, the Fund's estimated return is 12.30% versus its benchmark return of 11.50% and the target investment return of 7.38%.⁷ Returns in Canadian equities were a strong contributor to the outperformance. International and US equity returns have been mixed in part due to underperformance by certain active equity mandates versus the benchmark and the strength of the Canadian dollar. The appreciation of the Canadian dollar during the year ultimately had adverse consequences for both US and EAFE⁸ portfolios. The Fund continues to benefit from the strong performance of a number of oil and gas companies including Nexen Inc., Encana Corp., Talisman Energy, Petro-Canada, Suncor Energy Inc., Shell Canada Ltd. and Imperial Oil Ltd.

Real estate returned 3.00% for the third quarter of 2005, and the latest rolling twelve month return is estimated to be 11.20%. The end-of-year returns for real estate 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.

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

⁸ Europe, Australia, Far East - EAFE. An acronym referring to the geographical area that includes these three regions.

Fund Performance

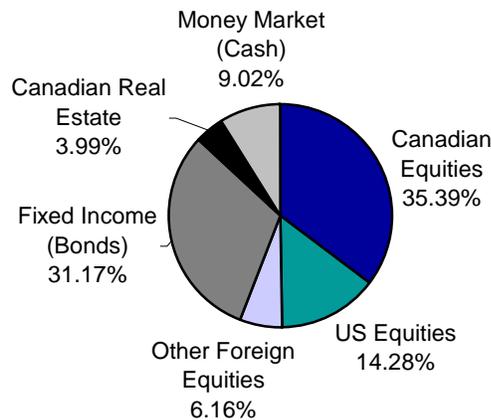
Teachers' Pension Fund Performance / cont'd . . .

In continued efforts to ramp up the real estate allocation, the Fund acquired two additional properties during the fourth quarter. Richview Square in Toronto will be a cornerstone of the Fund's foray into the retail market. The Fund was also able to effectively expand an existing successful asset by purchasing an industrial building that is a natural extension of Summit Centre in Edmonton.

Cash and cash equivalents increased to 9.02% from 8.85% as of the quarter ended December 31, 2005; with cash levels remaining outside of the Fund's stated long-term asset mix at year-end. However, cash balances declined in January 2006 as monies were transitioned to new international equity mandates in conjunction with the Fund's stated long-term approved asset mix.

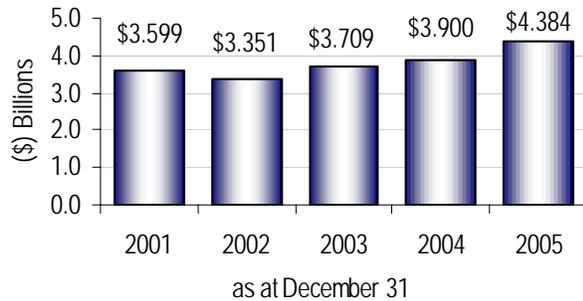
Asset Mix

December 31, 2005



Asset	Quarters Ended in 2005			
	March 31	June 30	Sept 30	Dec 31
Canadian Equities	36.0%	34.5%	35.1%	35.4%
US Equities	14.8%	14.9%	14.1%	14.3%
Other Foreign Equities	6.1%	5.8%	5.9%	6.2%
Fixed Income (Bonds)	34.3%	33.4%	32.4%	31.2%
Canadian Real Estate	2.6%	2.6%	3.6%	4.0%
Money Market (Cash)	6.2%	8.7%	8.9%	9.0%

Fund Assets



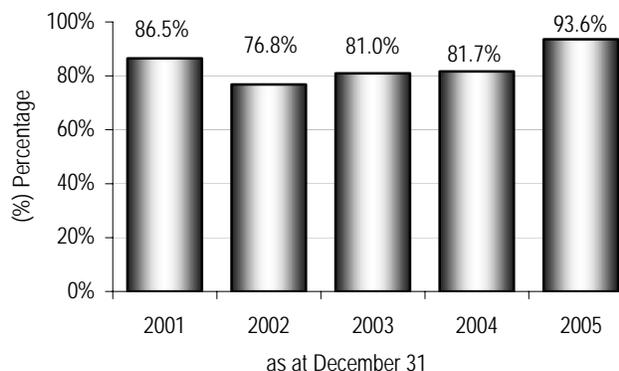
The bar chart shows net assets available for benefits as at December 31, 2005 totaling \$4.4 billion.

Top 20 Holdings	
Stock	Value December 31, 2005 (descending value)
Royal Bank of Canada	\$83,699,813
Manulife Financial Corp	\$74,252,410
Toronto Dominion Bank	\$70,172,434
Bank of Nova Scotia	\$65,976,108
Encana Corporation	\$54,883,683
Talisman Energy Inc	\$50,139,619
Nexen Inc.	\$45,142,342
Sun Life Financial Inc	\$31,197,877
Canadian National Railway	\$29,894,735
Transcanada Corp	\$29,195,771
Canadian Natural Resources Ltd.	\$27,976,749
Petro-Canada	\$26,374,388
Suncor Energy Inc.	\$26,236,981
Bank of Montreal	\$26,122,794
Shell Canada	\$25,849,106
Imperial Oil Ltd.	\$25,220,028
BCE Inc.	\$23,702,892
Canadian Tire Ltd.	\$22,552,134
Great West Life	\$22,015,287
Rogers Communication Inc.	\$21,826,460

Actuarial Position

Funded Ratio

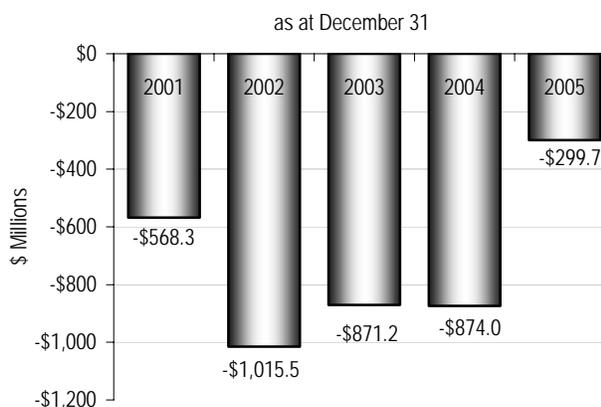
The funded ratio is equal to assets divided by liabilities, expressed as a percentage. A funded ratio of 100% or more means that the Plan is fully funded, i.e. the Fund's assets are sufficient to cover liabilities, based on current market value and actuarial assumptions. The surplus is equal to the Plan's 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

The position of the Plan has improved dramatically over the last three years. As at December 31, 2002 there was an unfunded liability of over \$1 billion. As at December 31, 2005, however, the unfunded liability had improved to less than \$300 million. Most of this improvement occurred in 2005 when the unfunded liability declined by \$574.3 million. This can be attributed to three main factors:



- ◆ The gain on investments in 2005, relative to assumptions was \$194 million;
- ◆ The Government of Nova Scotia made a contribution to the Plan in June 2005 of \$144 million;
- ◆ The liabilities of the Plan decreased by \$291 million as a result of the 2005 Agreement signed between the Province of Nova Scotia and the Nova Scotia Teachers' Union.

Note that other factors are also reflected in the net improvement of \$574.3 million, for example, interest on the unfunded liability, contributions in excess of current service cost, and the impact of other experience gains and losses.

Consolidated Financial Statements

December 31, 2005



Office of the Auditor General

1888 Brunswick Street
Suite 302
Halifax, Nova Scotia,
B3J 3J8

Bus: (902) 424-4046
Fax: (902) 424-4350
E-mail: lapoinjr@gov.ns.ca

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 Teachers' Pension Fund as at December 31, 2005 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 December 31, 2004 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Jacques Lapointe, CA•CIA
Auditor General

Halifax, Nova Scotia
April 13, 2006

**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, 2005**

	2005	2004
NET ASSETS AVAILABLE FOR BENEFITS	(000's)	(000's)
Assets		
Investments (Note 4)	\$ 4,410,160	\$ 3,882,820
Receivable from the Province of Nova Scotia (Note 1)	21,391	36,461
Contributions receivable		
Employees'	810	1,276
Employers'	4,429	4,196
Accrued income	-	11,583
Net investment transactions outstanding	12,932	1,072
Prepayment and sundry receivables	2,332	546
Cash	<u>3,041</u>	<u>1,963</u>
Total assets	<u>4,455,095</u>	<u>3,939,917</u>
Liabilities		
Real estate mortgages (Note 5)	42,071	14,728
Accounts payable	<u>28,581</u>	<u>24,793</u>
Total liabilities	<u>70,652</u>	<u>39,521</u>
Net assets available for benefits	<u>\$ 4,384,443</u>	<u>\$ 3,900,396</u>
ACCRUED PENSION BENEFITS NET OF DEFICIENCY		
Accrued pension benefits (Note 6)	\$ 4,684,101	\$ 4,774,410
Deficiency (Note 6)	<u>(299,658)</u>	<u>(874,014)</u>
Accrued pension benefits net of deficiency	<u>\$ 4,384,443</u>	<u>\$ 3,900,396</u>

Approved:



Trustee - Minister of Finance

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, 2005**

	2005	2004
	(000's)	(000's)
Increase In Assets		
Investment activities (Note 4)	\$ 489,036	\$ 323,776
Interest - Receivable from Province of Nova Scotia	<u>2,230</u>	<u>3,657</u>
	<u>491,266</u>	<u>327,433</u>
Contributions		
Employers' – matched	56,217	55,323
Employees' – matched	56,217	55,323
Employers' – unmatched – Province (Note 3)	144,378	-
Employees' – unmatched	2,677	1,898
Transfers from other pension plans	<u>1,379</u>	<u>1,576</u>
	<u>260,868</u>	<u>114,120</u>
 Total increase in assets	 <u>752,134</u>	 <u>441,553</u>
Decrease in Assets		
Benefits paid	257,160	238,106
Operating expenses (Note 7)	9,261	9,194
Refund of contributions and interest and transfers to other pension plans	<u>1,666</u>	<u>3,082</u>
Total decrease in assets	<u>268,087</u>	<u>250,382</u>
 Increase in Net Assets	 484,047	 191,171
 Net Assets Available for Benefits at Beginning of Year	 <u>3,900,396</u>	 <u>3,709,225</u>
 Net Assets Available for Benefits at End of Year	 <u>\$ 4,384,443</u>	 <u>\$ 3,900,396</u>

See accompanying notes to consolidated financial statements.

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005**

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, 2005 the balance outstanding was \$21.4 million (December 31, 2004 - \$36.1 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 CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005**

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 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 the year-end 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

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005**

2. Summary of Significant Accounting Policies (continued)

(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.

(iii) Real estate is composed of 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, 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.

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005**

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 notes 2 and 5 and are subject to interest, currency and credit risks as described in note 4.

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.

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005**

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, 2005</u>		<u>For the Year</u>	<u>As at December 31, 2004</u>		<u>For the Year</u>
	Asset (000's)	%	Income* (000's)	Asset (000's)	%	Income * (000's)
Money market	\$ 639,968	14.5	\$ 13,097	\$ 594,905	15.4	\$ 9,062
Fixed income Canadian	1,288,873	29.2	90,086	1,142,958	29.4	92,288
Fixed income US fund	39,643	0.9	(13)	39,878	1.0	(1,436)
Equities						
Canadian	1,336,100	30.3	296,357	1,170,589	30.2	183,111
US	616,475	14.0	8,150	584,266	15.0	8,606
Other foreign	261,086	5.9	31,392	233,986	6.0	2,069
Real estate – Canadian	153,629	3.5	7,104	53,498	1.4	2,497
Real estate – Pooled fund	62,237	1.4	7,782	54,947	1.4	4,104
Derivatives	12,149	0.3	35,042	7,793	0.2	23,379
Other	-	-	39	-	-	96
	<u>\$ 4,410,160</u>	<u>100.0</u>	<u>\$ 489,036</u>	<u>\$ 3,882,820</u>	<u>100.0</u>	<u>\$ 323,776</u>

* Includes realized gains of \$179.9 million (\$120.7 million – 2004) and unrealized gains of \$161.4 million (\$76.0 million – 2004)

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

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.

Bond futures are contractual agreements to buy or sell the financial instrument at the contracted date and price. Bond futures have been used to adjust duration and risk profile during the year.

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 CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

4. Investments and Derivatives (continued)

The following table provides details of the derivative money market-to-equity swap Contracts outstanding as at December 31, 2005.

<u>Notional Principal</u> (000's)	<u>Original Term</u>	<u>Credit Rating of Counter-party</u>	<u>Equity Index</u>	<u>BA Index</u>	<u>Market Value</u> (000's)
\$ 25,894	1.0 yrs	AA(low)	S&P/TSE60	CAD-BA-CDOR	\$ 1,312
53,546	1.0 yrs	AA(low)	S&P/TSE60	CAD-BA-CDOR	1,345
<u>115,387</u>	1.0 yrs	AA(low)	S&P/TSE60	CAD-BA-CDOR	<u>9,492</u>
<u>\$ 194,827</u>					<u>\$ 12,149</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 CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005**

4. Investments and Derivatives (continued)

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

	As at <u>December 31, 2005</u>		For the <u>Year</u>	As at <u>December 31, 2004</u>		For the <u>Year</u>
	Asset (000's)	%	Income * (000's)	Asset (000's)	%	Income * (000's)
Money market	\$ 444,324	10.1	\$ 8,996	\$ 375,437	9.7	\$ 5,269
Fixed income Canadian	1,288,873	29.2	90,086	1,142,958	29.4	92,427
Fixed income US fund	39,643	0.9	(13)	39,878	1.0	(1,436)
Equities						
Canadian	1,543,893	35.0	335,500	1,397,850	36.1	210,144
US	616,475	14.0	8,150	584,266	15.0	8,606
Other foreign	261,086	5.9	31,392	233,986	6.0	2,069
Real estate – Canadian	153,629	3.5	7,104	53,498	1.4	2,497
Real estate – Pooled fund	62,237	1.4	7,782	54,947	1.4	4,104
Other	-	-	39	-	-	96
	<u>\$ 4,410,160</u>	<u>100.0</u>	<u>\$ 489,036</u>	<u>\$3,882,820</u>	<u>100.0</u>	<u>\$323,776</u>

* Includes realized gains of \$179.9 million (\$120.7 million - 2004) and unrealized gains of \$161.4 million (\$76.0 million - 2004).

(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 CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005**

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, 2005:

	2005					2004		
	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	\$ 639,968	-	-	-	\$ 639,968	3.5	\$ 594,905	2.5
Bonds and debentures	21,126	\$ 407,639	\$ 340,421	\$ 375,911	1,145,097	5.1	1,010,779	5.5
Real return bonds	-	-	-	143,776	143,776	3.1	132,179	3.3
Fixed income US Fund	<u>951</u>	<u>10,446</u>	<u>24,698</u>	<u>3,528</u>	<u>39,643</u>	6.5	<u>39,878</u>	5.9
Total	<u>\$ 662,045</u>	<u>\$ 418,105</u>	<u>\$ 365,119</u>	<u>\$ 523,215</u>	<u>\$ 1,968,484</u>		<u>\$ 1,777,741</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 CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005**

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 equities denominated in foreign currency. 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, 2005 is summarized in the following table:

<u>Currency</u>	<u>2005</u>	<u>2004</u>
	(000's)	(000's)
Canada	\$ 3,462,167	\$ 3,014,069
United States	689,787	658,464
Euro zone	50,445	49,882
Japan	90,068	69,134
United Kingdom	31,989	31,816
Other	59,555	59,051
Total	<u>\$ 4,384,011</u>	<u>\$ 3,882,416</u>

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005**

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 7.0%.

Scheduled principal repayments in each of the next five years, beginning January 1, 2005 are as follows:

2006	\$ 939
2007	1,974
2008	1,021
2009	6,739
2010	687
Thereafter	<u>28,748</u>
Total	<u>\$ 40,108</u>

The real estate mortgage payables are valued at fair value 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, 2005 and issued their report in May 2006. The report indicated that the Plan had an unfunded liability of \$299.7 million (December 31, 2004 - \$874.0 million).

The following table reflects the unfunded liability as at December 31, 2005 and as at December 31, 2004.

	<u>2005</u> (000's)	<u>2004</u> (000's)
Actuarial value of assets	\$ 4,384,443	\$ 3,900,396
Accrued pension benefits	<u>4,684,101</u>	<u>4,774,410</u>
Unfunded liability	<u>(\$ 299,658)</u>	<u>(\$ 874,014)</u>

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005**

6. Accrued Pension Benefit (continued)

Reconciliation of changes in accrued pension benefits:	<u>2005</u> (000's)	<u>2004</u> (000's)
Accrued pension benefits at beginning of year	\$ 4,774,410	\$ 4,591,045
Interest on accrued pension benefits at 7.38%	352,232	338,704
Contributions and transfers from other pension plans	116,490	114,120
Contributions in excess of current service cost	(10,752)	(10,829)
Refunds of contributions and interest and transfers to other pension plans	(1,666)	(3,082)
Benefits paid	(257,160)	(238,106)
Impact of new indexing arrangement on accrued pension benefits	(291,596)	-
Net impact of experience gains and losses relating to accrued pension benefits	<u>2,143</u>	<u>(17,442)</u>
Accrued pension benefits at end of year	<u>\$ 4,684,101</u>	<u>\$ 4,774,410</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 valuation are as follows:

	<u>Valuation</u> <u>December 31, 2005</u>	<u>Valuation</u> <u>December 31, 2004</u>
Inflation	3.0%	3.0%
Average Salary Increase	0.5% 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 and 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 and 10 years of service
Mortality	1994 Group Annuitant Mortality Table projected to 2000 using scale AA	1994 Group Annuitant Mortality Table projected to 2000 using scale AA

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005**

6. Accrued Pension Benefits (continued)

The major actuarial assumptions and methodology used for the 2005 valuation have remained the same as those used in the 2004 valuation with one exception. 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>2005</u>	<u>2004</u>
	(000's)	(000's)
Plan Administration		
Professional services	\$ 219	\$ 270
Salaries	819	768
Supplies and services	226	215
Travel	14	10
Other	84	97
	<u>\$ 1,362</u>	<u>\$ 1,360</u>
Investment Expenses		
Investment management fees	\$ 7,272	\$ 7,273
Professional services	53	70
Salaries	440	359
Supplies and services	105	104
Travel	13	11
Other	16	17
	<u>\$ 7,899</u>	<u>\$ 7,834</u>
Total Operating Expenses	<u>\$ 9,261</u>	<u>\$ 9,194</u>

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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8. Related Party Transactions

Investments held in the Fund include debentures of the Province of Nova Scotia with a total market value of \$21.7 million (0.5% of total assets) as at December 31, 2005 (\$34.7 million (0.9% of total assets) as at December 31, 2004).

9. Subsequent Event

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. The 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. As a result, the guarantee referenced in note 2(a) is no longer applicable.

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**NOVA SCOTIA PENSION AGENCY
PENSIONS DIVISION
PO BOX 371
HALIFAX, NOVA SCOTIA
B3J 2P8**

**TELEPHONE
902 424 5070
(HALIFAX AREA)
1 800 774 5070
(TOLL-FREE IN NOVA SCOTIA)**

**FAX
902 424 0662**

**E-MAIL
PENSIONSINFO@GOV.NS.CA**