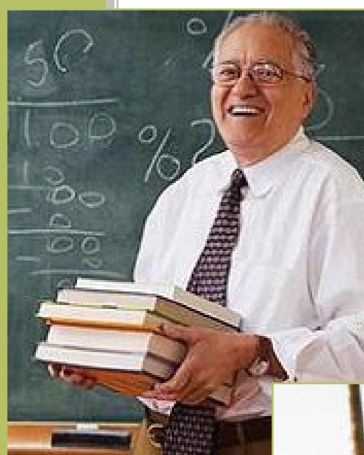
Nova Scotia Teachers' Pension Plan

Annual Report
December 31, 2006



Nova Scotia Pension Agency

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Nova Scotia Pension Agency

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Nova Scotia Teachers' Pension Plan Trustee Inc.

Purdy's Landing, Suite 400, 1949 Upper Water Street, Halifax, NS B3J 3N3
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August 1, 2007

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

On behalf of the Board of Directors of Nova Scotia Teachers' Pension Plan Trustee Inc., I am pleased to present for your information the annual report of the Nova Scotia Teachers' Pension Fund for the year ended December 31, 2006, in accordance with subsection 35(2) of the Regulations under the Teachers' Pension Act. The pension plan currently includes 13,007 active members and 10,626 pensioners, and holds assets of $4.8 billion.

The Fund's return on investments exceeded its target rate of return of 7.38% with a rate of return of 12.75% for the year ended December 31, 2006. As well, the funded ratio improved again this year to reach a level of 96.8%.

I look forward to another successful year and welcome your feedback on this report.

Sincerely

J. Patrick O'Neil, FCA, CMC
Chair
Nova Scotia Teachers' Pension Plan Trustee Inc.

Nova Scotia Teachers' Pension Plan Trustee Inc. was created as a result of a 2005 Agreement between the Province of Nova Scotia and the Nova Scotia Teachers' Union. The Agreement provided for implementation of joint trusteeship for the Teachers' Pension Plan with parties sharing equally in responsibility for administration of the Plan and its investments. Effective April 1, 2006, that responsibility is exercised through the new corporate Trustee. The Trustee's Board of Directors is made up of four representatives of the Nova Scotia Teachers' Union, four representatives of the Minister of Finance, and an independent Chair appointed jointly by the Minister and the Union.

Board of Directors

Chair

J. Patrick O'Neil, FCA, CMC

Provincial Representatives

- J. Kim MacNeil, MPA(M)
  Executive Director
  Environment & Natural Areas Management Division
  Nova Scotia Department of Environment & Labour
- Byron Rafuse, CMA
  Controller
  Nova Scotia Department of Finance
- Brian Stonehouse, P. Eng.
- Paula Wedge, BA, LLB
  Senior Executive Director
  Human Resources & Legal Services
  Nova Scotia Department of Education

Nova Scotia Teachers' Union Representatives

- Lloyd Gesner, BA, LLB, MBA, MEd, CFP
  Program Coordinator,
  Business Administration & Investment Management
  Nova Scotia Community College
- James Kavanaugh, BA, BEd, MEd
- Bill Redden, BA, BEd, MEd(Adm), RPA
  Executive Director
  Nova Scotia Teachers' Union
- Brad Rowe, CFA
  Investment Practice Leader
  Johnson Inc.

The Nova Scotia Pension Agency was created on February 9, 2006 as a Special Operating Agency of the Government of Nova Scotia. It absorbed the Pensions and Investments Branch of the Nova Scotia Department of Finance to provide pension administration and investment management services to the following Nova Scotia public sector pension plans:

- Teachers' Pension Plan
- Public Service Superannuation Plan
- Members of the Legislative Assembly Pension Plan
- Sydney Steel Corporation Superannuation Fund

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.

With assets under management of $8.6 billion the Nova Scotia Pension Agency provides investment management and administrative services to the Teachers' Pension Plan, the Public Service Superannuation Plan, the Members of the Legislative Assembly Pension Plan and the Sydney Steel Corporation Superannuation Fund.

The Pension Plans under administration are defined benefit plans. Membership of the various plans includes public school teachers, employees of the Province of Nova Scotia, universities, community college, health care workers, and Sydney Steel Corporation pensioners who are former Steelworkers, CUPE members and salaried workers.

The goal of the Nova Scotia Pension Agency is to demonstrate to plan members and pensioners that we will serve them to the best of our abilities. This is reflected in the following key objectives:

- Generating a long-term rate of return on investments to support the Pension Plan;
- Continuing to improve our service and communications to our members and pensioners;
- Maintaining a staff complement consisting of the best in the fields of investment management, pension administration, accountancy, and other experts that come from both the public and private sectors.

Nova Scotia Pension Agency Contacts

John Traves, Q.C.
Chief Executive Officer
Phone 902-424-3746

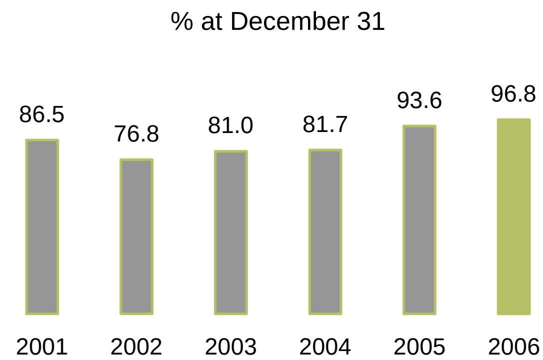
Kim Blinn
Director of Pensions
Phone 902-424-8415

Elizabeth Vandenberg, MA(Econ), CFA
Director of Investments
Phone 902-424-2715

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 values and actuarial assumptions. The surplus is equal to the Plan's asset 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.

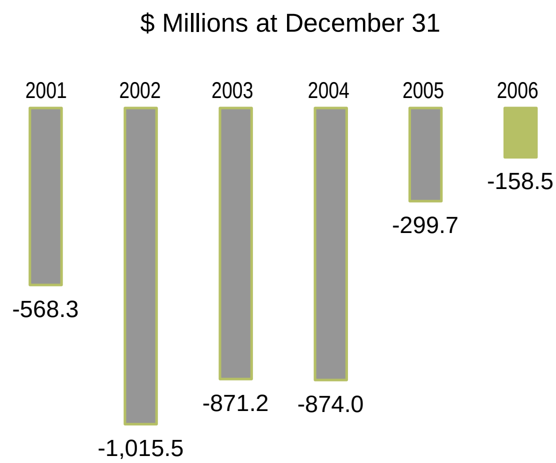


Unfunded Liability

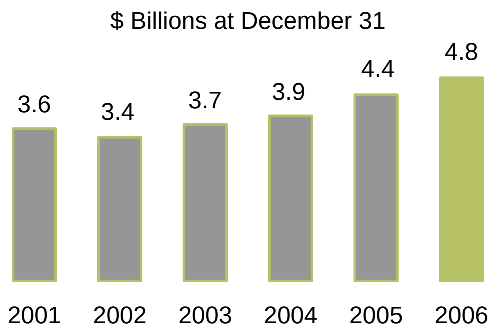
The position of the Plan has improved dramatically over the last four years. As at December 31, 2002, there was an unfunded liability of over $1 billion. By December 31, 2006, however, the unfunded liability had decreased to $159 million. Most of this improvement occurred within the last two years, due primarily to two factors:

- The gain on investments from December 31, 2004 to December 31, 2006, relative to actuarial assumptions, was $420 million.
- The 2005 Agreement between the Province of Nova Scotia and the Nova Scotia Teachers' Union resulted in a contribution by the Province to the Plan of $144 million, as well as a decrease in the liabilities of the Plan of $291 million, a result of a contribution by Plan members in the form of changes to rules regarding inflation indexing. These contributions produced a net improvement of $435 million.

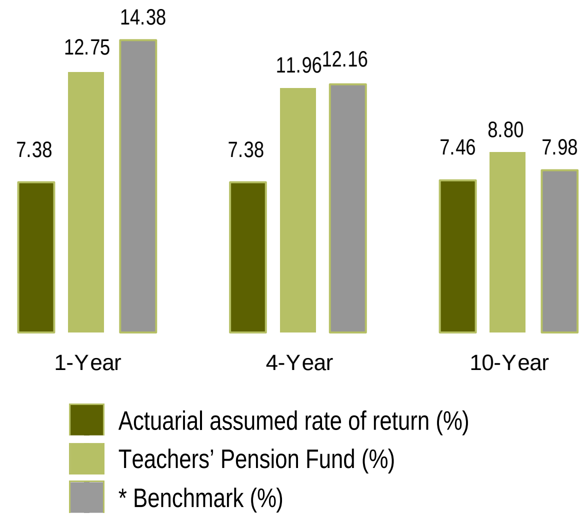
Other factors are also reflected in the total net improvement of $715 million over the two-year period, including interest on the unfunded liability, contributions in excess of current service cost, changes in actuarial assumptions, and the impact of other experience gains and losses.



Net Assets Available for Benefits

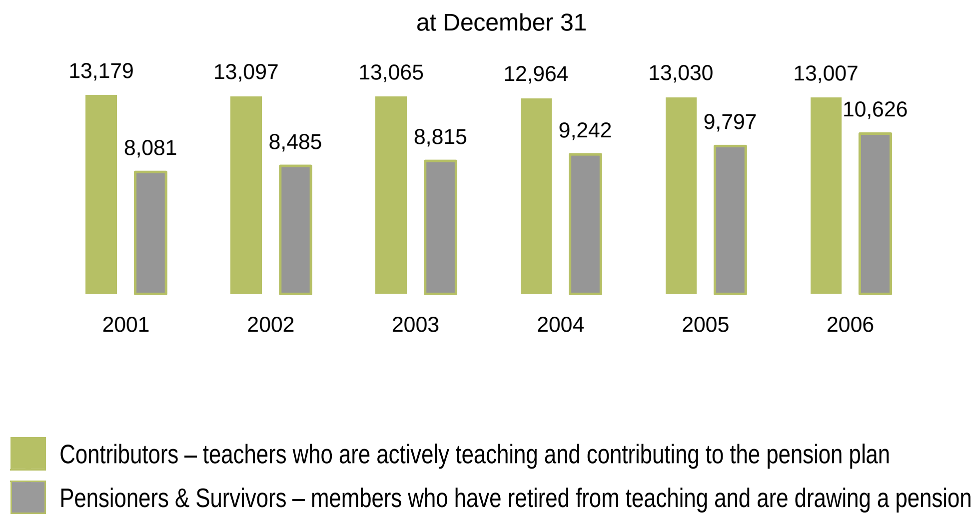


Investment Performance (%)



** See Page 14 for the definition of Benchmark.*

Change in Contributor and Pensioner Membership



Personalized Client Services

Members and pensioners can reach a member of our team to answer any of their questions regarding their pension plan. Our hours of operation are 8AM to 4:30PM, Monday through Friday.

Web Site – Coming Soon!

Watch for the launch of our new website. There are vast improvements to navigation, overall content and feel, and language friendliness. Our new website address will be www.novascotiapension.ca.

This image shows a partial snapshot of the new home page.

Member and Pensioner Newsletters

Pension News is our semi-annual newsletter produced in the summer and winter. Our hope is that it fulfils its purpose and provides some useful information that our clientele may not otherwise be aware of. There is a version for active members and a separate version especially for pensioners. Pension News is mailed directly to member and pensioner home addresses, and it can also be viewed or downloaded from our website (click on Teachers' Plan, then Publications.)

Online Pension Benefit Calculators

Our online calculators can be found on our website by clicking on Teachers' Plan, then Calculators. These calculators enable clients to estimate the cost to purchase most types of prior service or to obtain a pension estimate. Please note the estimates provided by these calculators are for illustrative purposes only. If a member is within two years of retirement he or she should contact the Nova Scotia Pension Agency for a more exact estimate.

Pension Seminars and Information Sessions

Between the months of September and June, the Nova Scotia Pension Agency participates 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 as well as those nearing retirement. After such presentations our staff are available to take questions and discuss individual pension matters.

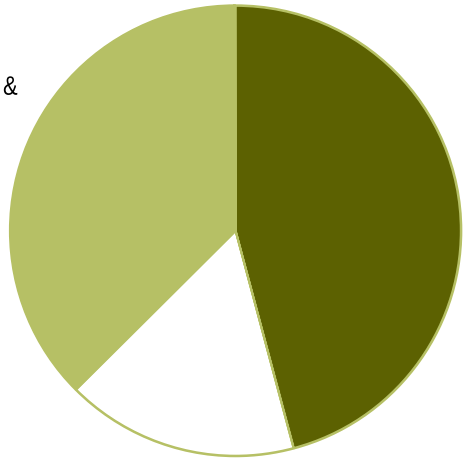
Membership Data

Active Teachers = 13,007
46% of membership

Pensioners & Survivors = 10,626
37% of membership

* Inactive Teachers = 4,807
17% of membership

* An inactive teacher is one who has made contributions to the Plan but is no longer teaching and contributing.

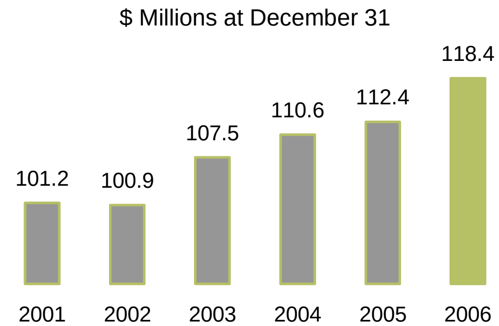


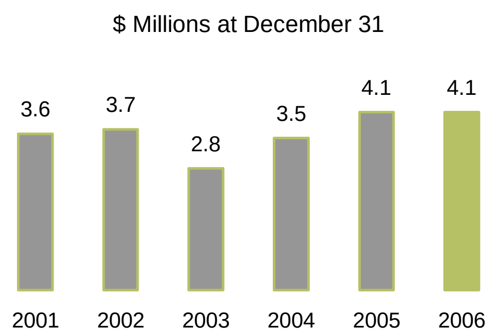
	December 31, 2005	December 31, 2006
Active Teachers		
Number	13,030	13,007
Percentage of membership	46%	46%
Average pensionable earnings for year	$53,086	$53,174
Average years of pensionable service	12.7 years	11.4 years
Average age	43.1	42.2
Pensioners and Survivors		
Number	9,797	10,626
Percentage of membership	37%	37%
Average annual lifetime pension	$24,337	$24,991
*Average annual bridge benefit	$7,785	$8,034
Average age	67.2	67.0
Inactive Teachers		
Number	4,915	4,807
Percentage of membership	17%	17%
Average annual pension	$921	$919
Average age	44.2	44.4

* The bridge benefit is added to the lifetime pension to form the total annual pension benefit paid. As its name suggests, the bridge benefit is only meant as a bridge payment between the date of retirement and age 65 at which time it ceases (at age 65 most members are eligible to receive the Canada Pension Benefit from the federal government).

Employee & Employer Contributions

Pension benefits are partially funded by contributions made to the Plan. The Province matches member contributions. In the case of the Atlantic Provinces Special Education Authority (APSEA) and Community College teachers, these institutions make the matching contributions. The chart reflects the contributions made by employees and employers for the period ending December 31 of each year.



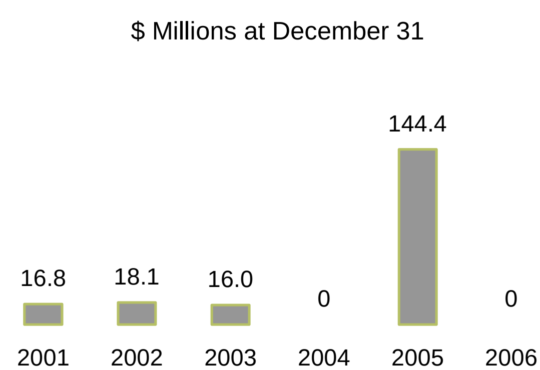


Purchases & Transfers

When a member purchases prior service or has service transferred via reciprocal transfer from another defined benefit pension plan, those contributions are made to the Teachers' Pension Fund. The chart represents purchases and transfers made by members of the pension plan for the periods ending December 31 of each year.

Additional Provincial Contributions

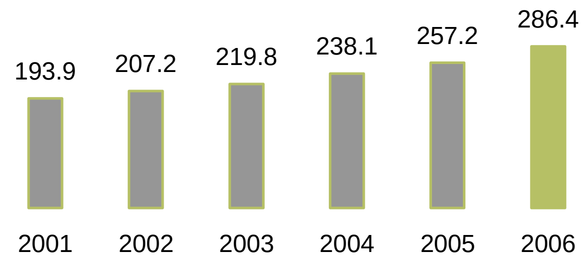
The Additional Provincial Contributions for 2005 were higher than usual due to the $142 million paid to the Fund by the Province of Nova Scotia under the terms of the 2005 Agreement. The goal of the 2005 Agreement was to ensure a healthy future for the pension plan.



Pensions Paid

Pension payments made in 2006 totaled $286.4 million compared to $257.2 million paid in 2005. This increase is due to an increase in the total number of pensioners, as well as the cost of living adjustment.

$ Millions at December 31

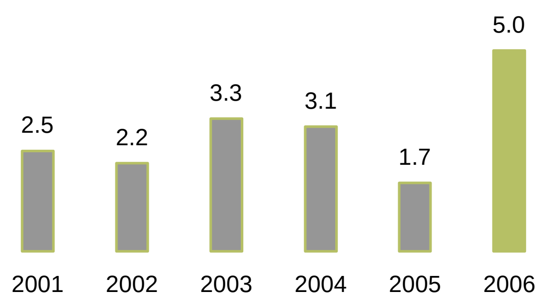


Refunds and Transfers Out

A member who has stopped working as a teacher has three options available to choose from:

- A refund of contributions (depending on the amount of pensionable service and the time period in which the contributions were made);
- A transfer to another pension plan or retirement savings plan;
- A deferred pension payable as early as age 55.

$ Millions at December 31

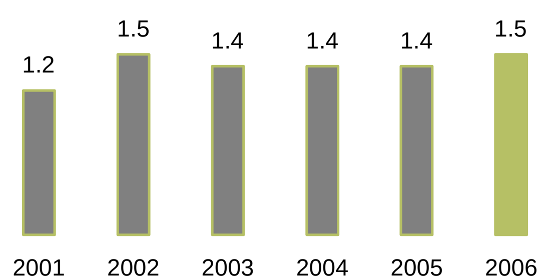


Plan Administration Expenses

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

Plan administration costs include the salaries and office expenses of the personnel as well the cost of professional services such as actuarial valuations and audits

$ Millions at December 31



Economic Conditions

2006 saw another solid year of growth in general for the global economy. The Chinese and Indian economies continued to lead the way by achieving significant growth while growth in Europe and Japan could be termed solid. Countries in North America, however, saw their economies begin to slow down significantly as the impact of the downturn in the US housing market, consecutive interest rate increases by the US central bank over the past couple of years and softness in certain trade-dependent sectors in Canada took hold.

The combination of a strong global economy, relatively low bond yields, corporate takeovers/ buyouts, and healthy corporate balance sheets allowed global equity markets to post solid gains once again. Despite softness in the North American economies, equity markets as represented by the TSX Composite and the S&P 500 gained 20.2% and

15.3% (in Canadian dollars), respectively. European and Asian equity markets also posted strong gains as the MSCI EAFE (Europe, Asia and the Far East) increased 26.4% (in Canadian dollars).

The effect of volatile commodity prices and concerns over the US current account deficit resulted in volatile currency markets over the past year. Despite the volatility of the Canadian dollar it was supported throughout the year by budget and trade surpluses at home and the foreign takeover of Canadian companies.

Inflation was relatively low and stable throughout much of the year but with economies close to capacity and tight labour markets many central banks increased short term-interest rates. The Canadian bond market, as measured by the Scotia Capital Universe, posted a 4.1% gain in 2006.

Going forward, inflation concerns, higher interest rates and modest corporate earning gains may constrain bond and equity markets especially relative to the experience of the past four years and may lead to more volatile markets.

Goal of the Fund

As per the Fund's Statement of Investment Policies and Goals, the goal of the Fund is to invest assets in consideration of the long term interest of the beneficiaries and specifically to achieve, within acceptable levels of volatility and risk, a rate of return in excess of the actuarial assumed rate of return and the return of a designated policy asset mix, the benchmark.

Policy and Actual Asset Mix

The policy asset mix is the long-term asset mix of the Fund and is chosen to meet the Fund's long-term requirements. It is re-evaluated periodically to help ensure that this is achieved. Currently the policy asset mix target weightings are:

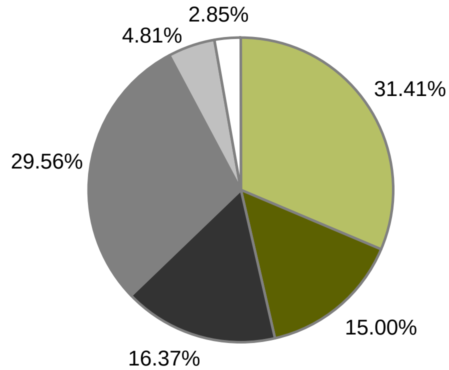
Canadian Equity	30%	Fixed Income	31%
US Equity	15%	Real Estate	7%
International Equity	15%	Cash	2%

Holdings of Canadian Equity, US Equity, International Equity and Fixed Income have a range around each of these targets of +/- 5%. Real Estate has a range of +/- 3%.

At year end, equities totaled 62.8% of the total portfolio. Canadian equities accounted for 31.4%, US equities accounted for 15.0% and International Equities accounted for 16.4% of total assets. Fixed Income as represented by Canadian real return bonds, US high yield bonds and Canadian domestic bonds were 29.6% of the total portfolio. Real Estate as represented by Canadian office, industrial, retail and multi-family residential holdings were 4.8% of total assets. Cash was 2.9% of total assets.

Asset Class	Dec 31, 2005 %	Dec 31, 2006 %
Canadian Equity (%)	35.39	31.41
U.S. Equity (%)	14.28	15.00
International Equity (%)	6.16	16.37
Fixed Income (Bonds) (%)	31.17	29.56
Canadian Real Estate (%)	3.99	4.81
Money Market (Cash) (%)	9.01	2.85

Asset Mix for Year Ended December 31, 2006

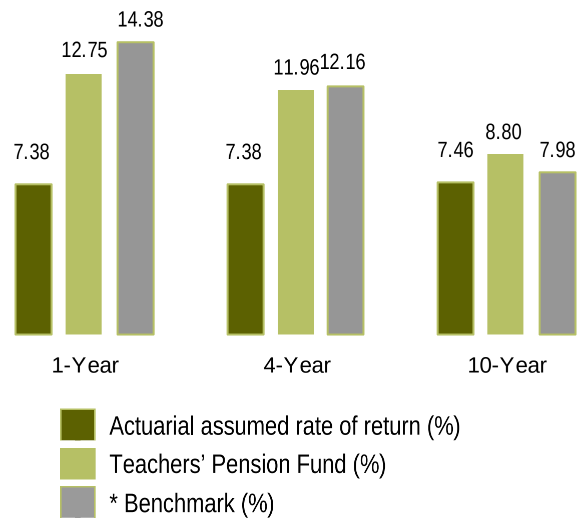


Investment Themes Over the Past Year

There were three major investment themes over the past year for the Fund: 1) increase the allocation to International equity holdings; 2) reduce Canadian equity holdings and; 3) increase the investment in Real Estate. The reasoning behind these themes was the reduction of portfolio risk through further diversification. These themes led to the increase of the International Equity allocation to 16.4% at December ’06 from 6.2% at December ’05; a decrease of Canadian Equity holdings from 35.4% at December ’05 to 31.4% at December ’06 and; an increase of the Real Estate allocation from 4.0% to 4.9%. Further increases to Real Estate holdings were hampered by the high valuations in this asset class experienced throughout the year.

Investment Results

The return of the Fund from December ’05 to December ‘06 was 12.75%. This was well ahead of the actuarial assumed rate of return of 7.38% during this time period but behind the benchmark return of 14.4% for the same time period. The reason for the underperformance versus the benchmark was largely due to the underperformance of Canadian Equities. Most investment managers under contract to the Fund in this particular asset class had a difficult time keeping up with the TSX Composite Index which experienced strong gains as a result of upward movements of resources and financial shares that dominate the Index and its performance.



** See Page 14 for the definition of Benchmark.*

Benchmark

The benchmark is a point of reference for measuring performance. The benchmark is calculated using the policy asset mix target weightings and the performance of an acceptable broad market index.

Going Forward

The Fund will continue to concentrate on the theme of reducing the risk of the Fund by further diversifying the investments through additional investment in real estate, provided conditions are suitable, and by examining new investment strategies.

Grant Thornton LLP
Chartered Accountants
Management Consultants

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

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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	3,325	3,041
Total assets	4,851,648	4,455,325
Liabilities		
Real estate mortgages (Note 5)	60,087	42,071
Net investment transactions outstanding	-	230
Accounts payable	33,117	28,581
Total liabilities	93,204	70,882
Net assets available for benefits	$ 4,758,444	$ 4,384,443
ACCRUED PENSION BENEFITS NET OF DEFICIENCY		
Accrued pension benefits (Note 6)	$ 4,916,993	$ 4,684,101
Deficiency (Note 6)	(158,549)	(299,658)
Accrued pension benefits net of deficiency	$ 4,758,444	$ 4,384,443

Approved:

ORIGINAL SIGNED BY J. KIM MACNEIL

Trustee – Teachers' Pension Plan Trustee Inc.

ORIGINAL SIGNED BY WILLIAM D. REDDEN

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	1,190	2,230
	553,445	491,266
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	1,960	1,379
	122,474	260,868
Total increase in assets	675,919	752,134
Decrease in Assets		
Benefits paid	286,360	257,160
Operating expenses (Note 7)	10,513	9,261
Refund of contributions and interest and transfers to other pension plans	5,045	1,666
Total decrease in assets	301,918	268,087
Increase in Net Assets	374,001	484,047
Net Assets Available for Benefits at Beginning of Year	4,384,443	3,900,396
Net Assets Available for Benefits at End of Year	$ 4,758,444	$ 4,384,443

See accompanying notes to consolidated financial statements.

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 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 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.

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.

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.

	As at December 31, 2006		For the Year	As at December 31, 2005		For the Year
	Asset (000's)	%	Income* (000's)	Asset (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
	$ 4,813,517	100.0	$ 552,255	$ 4,410,160	100.0	$ 489,036

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

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.

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.

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

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.

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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
	Asset (000's)	%	Income * (000's)	Asset (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
	$ 4,813,517	100.0	$ 552,255	$ 4,410,160	100.0	$ 489,036

* 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.

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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 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	effective yield	Total	effective yield
	(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	1,143	9,653	$ 28,070	3,472	42,338	7.0	39,643	6.5
Total	$ 419,667	$ 500,919	$ 294,179	$ 576,732	$1,791,497		$ 1,968,484	

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

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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:

Currency	2006	2005
	(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	155,022	59,555
Total	$ 4,772,012	$ 4,384,011

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	31,450
Total	$ 57,931

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.

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

6. Accrued Pension Benefit (continued)

	For the Year Ended Dec 31, 2006	For the Year Ended Dec 31, 2005
Reconciliation of changes in accrued pension benefits:	(000's)	(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	11,932	2,143
Accrued pension benefits at end of period	$ 4,916,993	$ 4,684,101

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 December 31, 2006	Valuation December 31, 2005
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 and 10 years of service
Mortality	UP-94 projected to 2015 using scale AA	GAM-94 projected to 2000 using scale AA

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.

	2006	2005
	(000's)	(000's)
Plan Administration		
Professional services	$ 200	$ 219
Salaries	953	819
Supplies and services	199	226
Travel	17	14
Other	108	84
	$ 1,477	$ 1,362
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	96	16
	$ 9,036	$ 7,899
Total Operating Expenses	$ 10,513	$ 9,261

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.

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