Public Accounts

VOLUME 1—FINANCIAL STATEMENTS

NOVA SCOTIA

For the fiscal year ended

March 31, 2006

The Honourable Michael G. Baker, Q.C.
Minister of Finance

NOVA SCOTIA

Finance

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NOVA SCOTIA

Public Accounts

VOLUME 1–FINANCIAL STATEMENTS

for the fiscal year ended March 31, 2006

Contents

Message from the Minister

I am pleased to present the Province of Nova Scotia's Public Accounts for the fiscal year 2005–06.

We have worked hard to bring financial stability to provincial finances over the last few years, and our continued progress is evident in the financial statements for 2005–06.

As expected, Nova Scotia ended the year in a surplus position, with revenues exceeding expenses by $228.1 million. This is the fifth consecutive year that the Province of Nova Scotia has brought in a balanced budget and recorded a surplus in its year-end financial statements.

Nova Scotia remains ahead of schedule on its debt reduction plan. As at March 31, 2006, net direct debt was $12.2 billion, $66.0 million lower than the prior year. The net direct debt is scheduled to drop again in 2007–08.

Revenues were higher than budgeted, primarily due to higher offshore revenues. This allowed government to invest more in a number of strategic priorities, including university funding, energy conservation, and health-care services.

At the same time, Nova Scotia's economic growth has been steady, with real GDP in 2005 of 1.3 per cent and the highest employment levels since 1976, at 443,100 jobs.

These financial and economic trends are very positive for the province and have contributed to upgrades in our credit ratings from our major bond rating agencies.

The March 31, 2006 financial statements are compliant with generally accepted accounting principles, and have received an unqualified audit opinion from the Auditor General.

I am pleased to see such positive results for the province.

Hon. Michael G. Baker, Q.C.

NOVA SCOTIA

Introduction

In accordance with the Provincial Finance Act, the Minister of Finance for the Province of Nova Scotia produces financial statements annually to report on the operating results and financial condition of the province. These are general-purpose financial statements, meant to meet the needs of a variety of users, and are presented as the last section of this publication. They are prepared on a consolidated basis, meaning that they include the financial information for the departments of government as well as Crown corporations, boards, and other entities controlled by the government.

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) for the public sector. For purposes of the province's financial statements, this means the accounting recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by other CICA and International Federation of Accountants accounting standards or pronouncements.

The 2005–06 *Public Accounts Volume 1—Financial Statements* commences with the Financial Statement Discussion and Analysis (FSD&A) section, a reporting practice recommended by PSAB. This section presents comparative Financial Highlights of the Consolidated Financial Statements, including all the entities owned or controlled by the government, as well as financial highlights for the Consolidated Fund on its own. The FSD&A also includes an overview and highlights of provincial debt and the Nova Scotia economy.

The Consolidated Fund is the level at which the annual estimates are prepared in detail for approval by the government. Therefore, the selected highlights of the Consolidated Fund include more-detailed information and budget-to-actual analyses on revenues, expenses, tangible capital assets, and additional appropriations. The Consolidated Fund comprises all departments and public service units of the Nova Scotia provincial government, but excludes other governmental units and government business enterprises controlled by the province.

There are two additional publications in the Public Accounts suite of annual financial reports. *Volume 2—Agencies and Funds* consists of reproductions of the financial statements of various agencies, boards, governmental units, government business enterprises, and trust funds. *Volume 3—Supplementary Information* is produced in accordance with the Provincial Finance Act as a record of the payments made by the Consolidated Fund in the fiscal year for salaries, travel, grants, and expenses.

NOVA SCOTIA

Financial Statement Discussion and Analysis

Financial Highlights of the Consolidated Financial Statements

These financial highlights are based on information from the consolidated financial statements for 2005–06, as presented on pages 53–95 of this publication.

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED DEFICITS

The main purpose of the Consolidated Statement of Operations and Accumulated Deficits is to show the province's revenues and expenses for the year ended March 31, 2006, and the comparative fiscal year. In accordance with the Provincial Finance Act, the province is required each year to ensure that expenses do not exceed revenues. Under generally accepted accounting principles (GAAP), a year-end surplus reduces accumulated deficits.

Provincial Surplus

The provincial surplus is the net financial result of the year's operations. In 2005–06, the provincial surplus was $228.1 million, which was $58.0 million higher than the year before and $164.8 million higher than the budget.

As shown below, both revenues and expenses have increased significantly from the prior year resulting in an increase in the Provincial Surplus by year end.

Provincial Surplus				**Variance**	
($ thousands)	**Estimate 2005–06**	**Actual 2005–06**	**Actual 2004–05 (as restated)**	**Actual vs Estimate**	**Actual vs Actual**
Total Revenue	7,550,295	7,806,461	7,347,818	256,166	458,643
Total Expenses	(7,487,012)	(7,578,343)	(7,177,659)	(91,331)	(400,684)
Provincial Surplus	**63,283**	**228,118**	**170,159**	**164,835**	**57,959**

Surplus per capita increased by $62 from $182 to $244. On a per capita basis, the province earned $489 more revenue but spent $427 more per person in the year.

Per Capita ($)	**2005–06**	**2004–05 (as restated)**	**Variance Increase**
Total Revenue per capita	8,323	7,834	489
Total Expenses per capita	(8,079)	(7,652)	427
Provincial Surplus per capita	244	182	62
Population was 938,000 in 2005–06 and 2004–05.			

Revenue

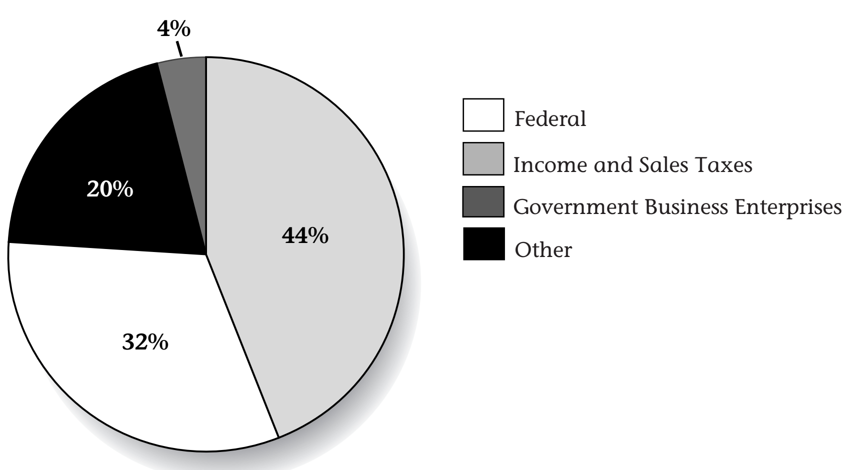
The sources of revenue have remained consistent with the prior year, whereby income and sales taxes together with equalization and other federal contributions make up 76 per cent of total revenue (76 per cent in 2004–05). The remaining balance is earned from a variety of sources and controlled entities. Growth in revenue from taxes and federal contributions, is attributable to the Consolidated Fund. More detailed information on these increases is provided in the analysis on page 25 of this publication.

Revenue ($ thousands)	**Estimate 2005–06**	**Actual 2005–06**	**Actual 2004–05 (as restated)**	**Variance Increase (Decrease) Actual vs Estimate**	**Actual vs Actual**
Income Taxes	1,903,745	1,929,957	1,791,325	26,212	138,632
Sales Taxes	1,519,438	1,483,575	1,472,773	(35,863)	10,802
Federal Equalization	1,343,527	1,343,527	1,321,774	—	21,753
Other Federal Contributions	1,197,252	1,133,727	1,049,310	(63,525)	84,417
Other	1,239,699	1,570,256	1,363,129	330,557	207,127
Total Revenue from Governmental Units	7,203,661	7,461,042	6,998,311	257,381	462,731
Net Income from Government Business Enterprises	346,634	345,419	349,507	(1,215)	(4,088)
Total Revenue	**7,550,295**	**7,806,461**	**7,347,818**	**256,166**	**458,643**

Revenue	Percentage of Total		Revenue per Capita ($)	
	Actual 2005–06	Actual 2004–05 (as restated)	Actual 2005–06	Actual 2004–05 (as restated)
Income Taxes	25%	24%	2,058	1,910
Sales Taxes	19%	20%	1,582	1,570
Federal Equalization	17%	18%	1,432	1,409
Other Federal Contributions	15%	14%	1,209	1,119
Other	20%	19%	1,674	1,453
Total Revenue from Governmental Units	96%	95%	7,955	7,461
Net Income from Government Business Enterprises	4%	5%	368	373
Total Revenue	**100%**	**100%**	**8,323**	**7,834**

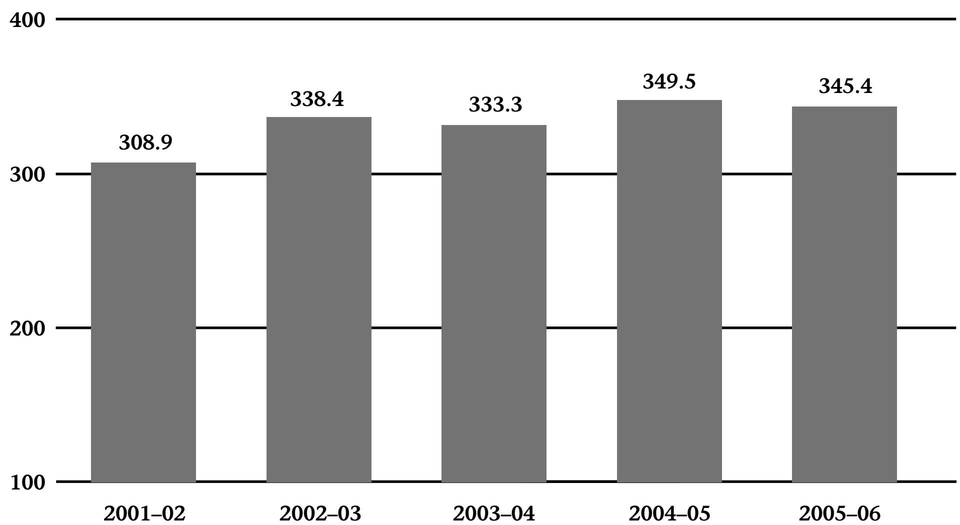
Population was 938,000 in 2005–06 and 2004–05.

Revenue By Source 2005–06

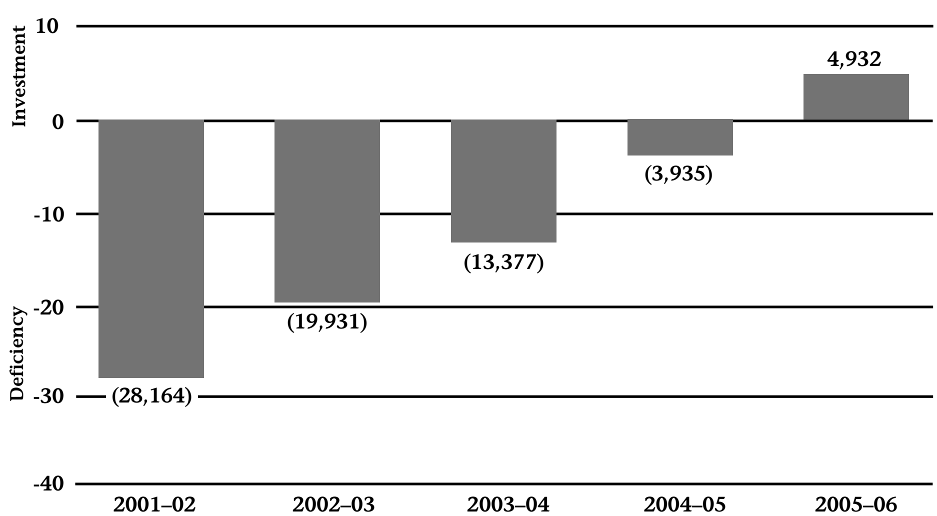


Net income from government business enterprises over the past five years has grown by 11.8 per cent to just under $350 million. During the same period, the province's financial position for these entities has improved by 117.5 per cent from a deficiency of $28 million to a net investment of $4.9 million.

Net Income from GBEs
2001–02 to 2005–06
($ millions)



Investment (Deficiency) in GBEs
2001–02 to 2005–06
($ thousands)



Expenses

The sources of expenses have remained consistent with the prior year, with the health and education sectors making up 59 per cent of total expenses (59 per cent in 2004–05). Expenses have increased $400 million over the 2004–05 fiscal year, of which Health and Education and Universities accounted for almost three-quarters of the increase with a combined increase of $299 million. This increase is offset by a decrease in debt servicing costs of $49 million due to the reduction in unmatured debt.

Expenses				**Variance Increase (Decrease)**	
($ thousands)	**Estimate 2005–06**	**Actual 2005–06**	**Actual 2004–05 (as restated)**	**Actual vs Estimate**	**Actual vs Actual**
Health	2,810,829	2,845,437	2,634,045	34,608	211,392
Education and Universities	1,581,395	1,652,539	1,565,283	71,144	87,256
Community Services	882,252	813,611	793,641	(68,641)	19,970
Transportation and Public Works	273,292	276,489	261,562	3,197	14,927
Debt Servicing Costs	1,017,065	1,017,693	1,066,973	628	(49,280)
Other Expenses	922,179	972,574	856,155	50,395	116,419
Total Expenses	**7,487,012**	**7,578,343**	**7,177,659**	**91,331**	**400,684**

Expenses	**Percentage of Total**		**Expense per Capita ($)**	
	Actual 2005–06	**Actual 2004–05 (as restated)**	**Actual 2005–06**	**Actual 2004–05 (as restated)**
Health	37%	37%	3,033	2,808
Education and Universities	22%	22%	1,762	1,669
Community Services	11%	11%	867	846
Transportation and Public Works	4%	4%	295	279
Debt Servicing Costs	13%	15%	1,085	1,137
Other Expenses	13%	11%	1,037	913
Total Expenses	**100%**	**100%**	**8,079**	**7,652**

Population was 938,000 in 2005–06 and 2004–05.

Presentation of Estimates

The original Estimates reflect the consolidated results in a format that facilitates departmental management of revenue and expense transactions of the Consolidated Fund, as well as the debate and appropriations process in the House of Assembly. In order to present comparative Estimates on the Consolidated Statement of Operations and Accumulated Deficits as well as in the preceding pages of variance analyses, the original Estimates have been restated to a comparative basis.

The following table illustrates how this is merely a reorganization of the components within the original Estimates to gross up revenues and expenses for the results of all entities within the government reporting entity. Note that the change in presentation causes no impact on the provincial surplus as it is already stated in accordance with generally accepted accounting principles.

BUDGETARY SUMMARY — ESTIMATES ONLY

Reconciliation to Consolidated Financial Statements Format
For the Year Ended March 31, 2006

	Original Estimate	Reclassification Adjustments	Consolidation Adjustments	Public Accounts Statement 2
Revenue				
Provincial Sources	3,836,604	182,281	(37,679)	3,981,206
Federal Sources	2,260,976	225,650	54,153	2,540,779
Other Revenue	—	72,413	489,666	562,079
Sinking Fund and Public Debt Retirement Fund Earnings	—	119,597	—	119,597
Total Revenue	**6,097,580**	**599,941**	**506,140**	**7,203,661**
Expenses				
Agriculture and Fisheries	44,113	12,773	—	56,886
Community Services	716,174	117,588	48,490	882,252
Education	1,074,377	39,221	253,271	1,366,869
Education–Assistance to Universities	206,711	7,815	—	214,526
Energy	9,619	1,195	—	10,814
Environment and Labour	27,947	16,637	—	44,584
Finance	16,858	1,458	—	18,316
Health	2,559,740	111,250	139,839	2,810,829
Justice	107,847	94,625	316	202,788
Natural Resources	63,098	2,407	1,138	66,643
Public Service	183,455	12,634	19,786	215,875
Service Nova Scotia and Municipal Relations	96,384	43,815	3,504	143,703
Tourism, Culture and Heritage	42,383	6,354	2,521	51,258
Transportation and Public Works	263,954	9,254	84	273,292
Restructuring	83,615	3,318	—	86,933
Pension Valuation Adjustment	—	24,379	—	24,379
Debt Servicing Costs	—	1,017,065	—	1,017,065
	5,496,275	1,521,788	468,949	7,487,012
Pension Valuation Adjustment	24,379	(24,379)	—	—
Debt Servicing Costs	1,017,065	(1,017,065)	—	—
Sinking Fund Earnings	(119,597)	119,597	—	—
Total Expenses	**6,418,122**	**599,941**	**468,949**	**7,487,012**
Deficit from Governmental Units, on an Expense Basis	**(320,542)**	**—**	**37,191**	**(283,351)**
Adjustments for Governmental Units				
Consolidated Fund Consolidation Adjustments	37,461	—	(37,461)	—
Health and Hospital Boards Operations	—	—	—	—
School Boards Operations	—	—	—	—
Special Purpose Funds	(958)	—	958	—
Other Organizations	688	—	(688)	—
Total Adjustments	**37,191**	**—**	**(37,191)**	**—**
Net Income from Government Business Enterprises	346,634	—	—	346,634
Provincial Surplus, on an Expense Basis	**63,283**	**—**	**—**	**63,283**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Consolidated Statement of Financial Position reports the balances of financial assets, liabilities, and non-financial assets. It discloses the balances of net direct debt as a key measure of the province's financial position and accumulated deficits as a secondary measure.

Net Direct Debt

Net direct debt is the difference between the province's liabilities and financial assets. It represents the amount of liabilities to be funded from future revenues and taxation. As at March 31, 2006, net direct debt was $12.2 billion, $66.0 million lower than the prior year.

Accumulated Deficits

The accumulated deficits represent the difference between the province's liabilities and both the financial and the non-financial assets. Further, it is the sum of all surpluses and deficits incurred to date, calculated according to current accounting policies. The accumulated deficits of $8.8 billion at the end of 2005–06 were reduced from $9.0 billion at the end of 2004–05.

Net Direct Debt and Accumulated Deficits ($ thousands)	**Actual 2005–06**	**Actual 2004–05 (as restated)**	**Variance**
Financial Assets	2,350,751	2,223,949	126,802
Liabilities	(14,589,921)	(14,529,123)	60,798
Net Direct Debt	(12,239,170)	(12,305,174)	66,004
Non-Financial Assets	3,429,880	3,267,766	162,114
Accumulated Deficits	**(8,809,290)**	**(9,037,408)**	**228,118**

This translates into a reduction in net direct debt of $71 per person and a reduction in accumulated deficits of $243 per person. These reductions are due to the fiscal surplus realized in the past year. Net direct debt and accumulated deficits expressed as a percentage of gross domestic product have decreased by 2 percentage points each.

Per Capita ($)	2005–06	2004–05 (as restated)	Variance (Decrease)
Net Direct Debt per capita	(13,048)	(13,119)	(71)
Accumulated Deficits per capita	(9,392)	(9,635)	(243)
Population (000s)	938	938	
Gross Domestic Product			
Net Direct Debt vs GDP	37%	39%	(2)
Accumulated Deficits vs GDP	27%	29%	(2)
GDP at market prices (000s)	32,772,000	31,363,000	

Financial Assets

Financial assets consist of assets available to discharge existing liabilities or to finance future operations. Financial assets have remained reasonably consistent with the prior year. Loans receivable increased by $49.3 million over the previous year. This was primarily due to an increase of $31.2 million in infrastructure loans to municipalities from Municipal Finance Corporation. Farm loans accounted for an increase of $9.6 million and the Nova Scotia Gas Market Development Fund loaned $7.6 million to assist the expansion of a distribution system to homes and businesses in the province.

Financial Assets ($ thousands)	Actual 2005–06	Percentage of total	Actual 2004–05 (as restated)	Percentage of total	Variance Increase (Decrease)
Cash and Short-term Investments	391,861	17%	405,212	18%	(13,351)
Accounts Receivable and Advances	830,248	35%	747,654	34%	82,594
Loans Receivable	1,081,131	46%	1,031,834	46%	49,297
Other Financial Assets	47,511	2%	39,249	2%	8,262
Total Financial Assets	**2,350,751**	**100%**	**2,223,949**	**100%**	**126,802**

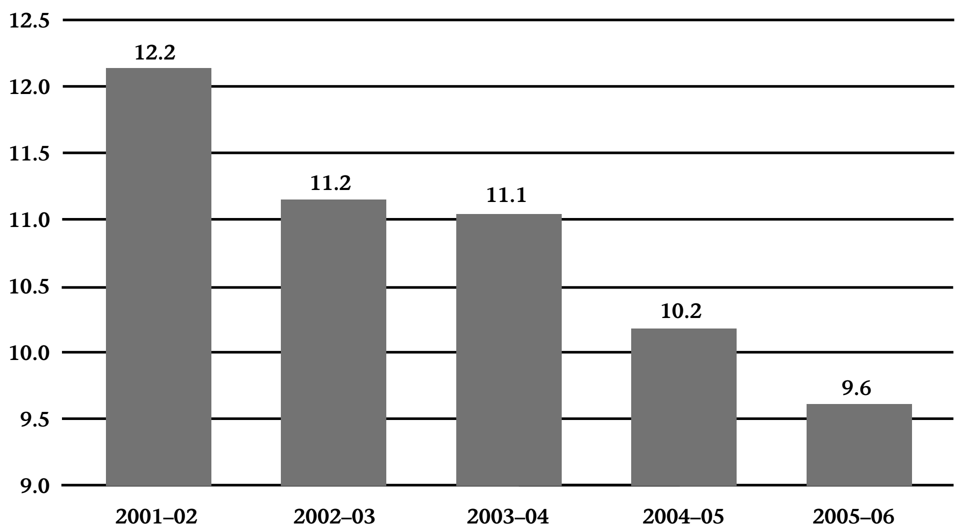
Liabilities

Liabilities consist of debts or monetary obligations owing at March 31 to be paid in the future with cash or other assets. Total composition of liabilities by category has remained reasonably consistent with the prior year except that a $582.2 million decline in unmatured debt of governmental units was offset by a $785.6 million increase in deferred revenue. The changes in these two categories pertained primarily to the Consolidated Fund. The $830 million Offshore Accord payment from the federal government was used to repay borrowings but also resulted in a net increase of $772.9 million ($830 million less $57.1 million recognized as revenue in the year) in deferred revenue. There were some other significant amounts of restricted inflows that were recorded as deferred revenue until purpose restrictions are met, including $20.4 million received for Early Learning Childcare programs and $17.4 million received in advance for the Nova Scotia Gas Tax Agreement program for municipalities, offset by a $18.2 million reduction in the previous year's Wait Times Reduction deferral.

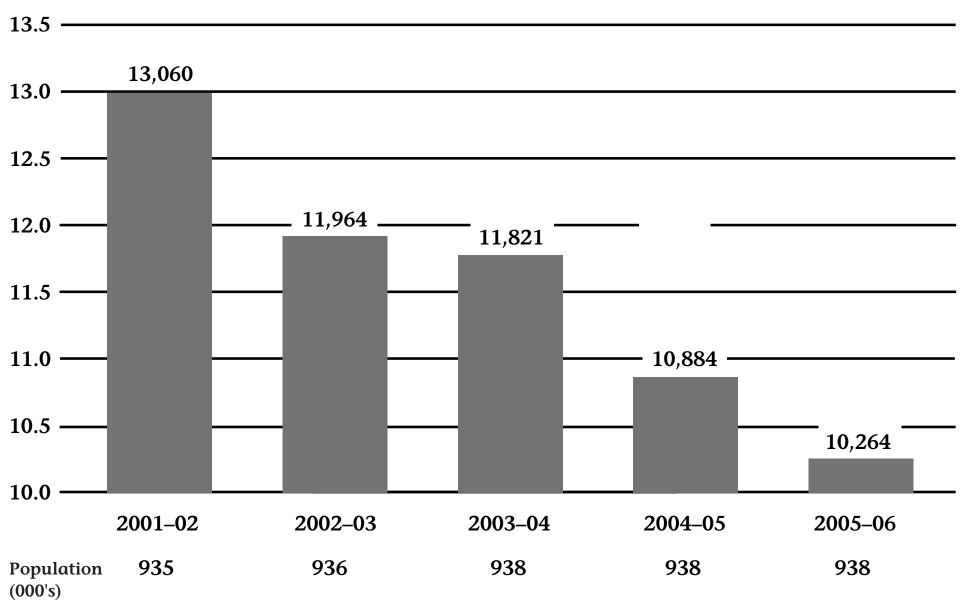
Liabilities ($ thousands)	**Actual 2005–06**	**Percentage of total**	**Actual 2004–05 (as restated)**	**Percentage of total**	**Variance Increase (Decrease)**
Bank Advances and Short-term Borrowings	900,106	6%	1,048,388	7%	(148,282)
Accounts Payable and Accrued Liabilities	1,316,426	9%	1,299,672	9%	16,754
Deferred Revenue	1,031,818	7%	246,259	2%	785,559
Unmatured Debt of Governmental Units	9,627,323	66%	10,209,570	70%	(582,247)
Federal Equalization Payable Loan	120,322	1%	120,322	1%	—
Pension, Retirement and Other Obligations	1,302,682	9%	1,363,820	9%	(61,138)
Other Liabilities	291,244	2%	241,092	2%	50,152
Total Liabilities	**14,589,921**	**100%**	**14,529,123**	**100%**	**60,798**

A $2.6 billion decrease in unmatured debt over the past 5 years has resulted in a reduction of $2,796 on the per capita debt load.

Unmatured Debt
2001–02 to 2005–06
($ billions)



Unmatured Debt Per Capita
2001–02 to 2005–06
($)



Non-Financial Assets

Non-financial assets are a component of the province's financial position, as assets to be used during the provision of services in the future. Non-financial assets consist primarily of tangible capital assets but also include supplies inventories and prepaid expenses. In 2005–06, supplies inventories held by departments of the Consolidated Fund have been recorded for the first time as assets, with the change in accounting policy being applied retroactively. See Note 2 on page 85 for further explanations of this accounting change.

Non-Financial Assets ($ thousands)	**Actual 2005–06**	**Percentage of total**	**Actual 2004–05 (as restated)**	**Percentage of total**	**Variance Increase (Decrease)**
Tangible Capital Assets	3,366,236	98%	3,206,830	98%	159,406
Inventories of Supplies	47,560	1%	46,054	1%	1,506
Prepaid Expenses	16,084	1%	14,882	1%	1,202
Total Non-Financial Assets	**3,429,880**	**100%**	**3,267,766**	**100%**	**162,114**

Tangible Capital Assets

The net book value (cost less accumulated amortization) of tangible capital assets is a major asset to the province, totalling $3.4 billion at the end of 2005–06 ($3.2 billion in 2004–05). The Buildings and Land Improvements asset class includes a large portion of capital assets pertaining to provincially owned buildings, schools, and hospitals. The Assets under Capital Lease category includes a significant number of leased schools, the correctional forensic facility, the ambulance fleet, as well as a large network of communication infrastructure.

Tangible Capital Assets (Net Book Value) ($ thousands)	**Actual 2005–06**	**Actual 2004–05**	**Actual 2003–04**	**Actual 2002–03**	**Actual 2001–02**
Land	545,986	538,975	533,666	514,617	502,168
Buildings and Land Improvements	1,431,083	1,354,013	1,258,025	1,169,569	1,088,697
Assets under Capital Leases	344,432	368,602	393,370	421,828	450,337
Roads, Bridges and Highways	446,418	350,698	280,179	212,620	175,465
Machinery, Computers and Equipment	238,733	222,699	214,241	211,633	193,770
Other	359,584	371,843	384,547	389,769	400,222
Total Tangible Capital Assets	**3,366,236**	**3,206,830**	**3,064,028**	**2,920,036**	**2,810,659**

Tangible Capital Assets (Net Book Value) Increase (Decrease) From Prior Year ($ thousands)	**Actual 2005–06**	**Actual 2004–05**	**Actual 2003–04**	**Actual 2002–03**	**Actual 2001–02**
Land	7,011	5,309	19,049	12,449	430
Buildings and Land Improvements	77,070	95,988	88,456	80,872	82,686
Assets under Capital Leases	(24,170)	(24,768)	(28,458)	(28,509)	53,569
Roads, Bridges and Highways	95,720	70,519	67,559	37,155	16,678
Machinery, Computers and Equipment	16,034	8,458	2,608	17,863	(6,608)
Other	(12,259)	(12,704)	(5,222)	(10,453)	(10,016)
Total Tangible Capital Assets	**159,406**	**142,802**	**143,992**	**109,377**	**136,739**

As shown on Schedule 7, page 76, current year acquisitions totalled $385.8 million ($343.1 million in 2004–05). Additions to the Buildings and Land Improvements category totalled $143.8 ($154.2 million in 2004–05), of which $31.3 million belongs to district health authorities and $54.2 million was school construction. The investment in Roads, Bridges and Highways was $140.2 million ($105.1 million in 2004–05). In the year, additions to Machinery, Computers and Equipment were $79.3 million ($66.0 million), of which $35.9 million is attributable to district health authorities and $31.7 million to the Consolidated Fund.

Investment in tangible capital assets of the various asset classes, and in total, has remained reasonably consistent with the prior year as shown below, with the exception of the increasing investment in provincial roads, bridges, and highways. The capital lease category is showing a decline due to the move from leased schools to construction of provincially owned schools.

Tangible Capital Assets (Net Book Value) Percentage of Total By Category	**Actual 2005–06**	**Actual 2004–05**	**Actual 2003–04**	**Actual 2002–03**	**Actual 2001–02**
Land	16%	17%	17%	18%	18%
Buildings and Land Improvements	43%	42%	41%	40%	39%
Assets under Capital Leases	10%	11%	13%	15%	16%
Roads, Bridges and Highways	13%	11%	9%	7%	6%
Machinery, Computers and Equipment	7%	7%	7%	7%	7%
Other	11%	12%	13%	13%	14%
Total Tangible Capital Assets	**100%**	**100%**	**100%**	**100%**	**100%**

CONSOLIDATED STATEMENT OF NET DIRECT DEBT

Details of the changes in net direct debt that are reported on this statement include the surplus for the year as well as changes in non-financial assets. In 2005–06, net direct debt decreased by $66.0 million. The $228.1 million provincial surplus more than offset the $159.4 million net investment in tangible capital assets. Other small changes impacting the balance of net direct debt were the increases of $1.5 million in supplies inventory and $1.2 million in prepaid expenses.

CONSOLIDATED STATEMENT OF CASH FLOW

The Province records its transactions on an accrual basis in accordance with generally accepted accounting principles (GAAP), the timing of which may vary from when actual cash is paid or received. This statement details the increase or decrease in the Province's net cash position in terms of sources and uses of cash identified within the following activities: operating, investing, capital, and financing.

During 2005–06, the province's cash position decreased by $13.4 million. A cash inflow of $1.4 billion was received from debentures issued and sinking fund withdrawals. Additionally, operations generated $796.4 million positive impact. These inflows were more than offset by $1.8 billion of debt repayment and $385.8 million in acquisitions of tangible capital assets during the current year.

Cash Flow By Category

($ thousands)	Actual 2005–06	Actual 2004–05 (as restated)	Variance Increase (Decrease)
Operating	796,368	777,934	18,434
Investing	(57,611)	(101,876)	44,265
Capital	(371,957)	(338,258)	(33,699)
Financing	(380,151)	(471,560)	91,409
Net Inflows (Outflows)	**(13,351)**	**(133,760)**	**120,409**

RISK

The province is subject to various forms of risk inherent in the nature of certain financial statement elements and financial markets. Exposure to risk from the use of accounting and other estimates in recording certain transactions is discussed in Note 1(d) of the consolidated financial statements. Financial risks, including foreign currency risk and interest rate risk, are discussed on page 40 in the section called Debt Review of the Consolidated Fund.

NOVA SCOTIA

Selected Highlights of the Consolidated Fund

BUDGETARY SUMMARY

($ thousands)

	Actual 2004–05 (as restated)	Estimate 2005–06	Actual 2005–06
Consolidated Fund			
Ordinary Revenue	5,854,911	6,097,580	6,262,163
Less: Net Program Expenses	5,185,422	5,496,275	5,566,267
Pension Valuation Adjustment	6,221	24,379	29,994
Net Debt-Servicing Costs	890,440	897,468	863,410
	6,082,083	6,418,122	6,459,671
	(227,172)	(320,542)	(197,508)
Consolidation and Accounting Adjustments for the Consolidated Fund and Governmental Units			
Consolidated Fund Consolidation Adjustments	2,309,970	37,461	2,496,242
Health and Hospital Boards Operations	(1,390,144)	—	(1,507,414)
School Boards Operations	(798,504)	—	(832,660)
Special Purpose Funds	5,305	(958)	4,030
Other Organizations	(78,803)	688	(79,991)
	47,824	37,191	80,207
Net Income from Government Business Enterprises			
Nova Scotia Gaming Corporation	170,031	160,900	155,335
Nova Scotia Liquor Corporation	170,034	177,070	181,217
Other Enterprises	9,442	8,664	8,867
	349,507	346,634	345,419
Provincial Surplus	170,159	63,283	228,118

Notes on Restated Figures

The accounting policies used to prepare the 2005-06 consolidated financial statements are the same as those used in the previous year except as noted in Note 2 of the consolidated financial statements. The 2004-05 actuals have been restated for these changes. Further, gain on disposal of crown assets of $2.8 million for 2004-05 has been reclassified from ordinary revenue to net program expenses to conform to the format used for 2005-06.

Due to the timing of certain accounting changes made in 2005-06, the 2005-06 estimates did not include the impact of those accounting changes. To ensure comparability between the 2005-06 estimates and the 2005-06 actuals, it would be necessary to make the following adjustments to the estimates:

1) Increase the net program expenses estimate by $0.7 million to reflect the impact of the inventory policy implemented by the Consolidated Fund during the year; and
2) Increase the gross debt-servicing costs by $0.1 million and decrease the pension valuation adjustment by $0.1 million for retirement allowances for non-teaching staff of the Halifax Regional School Board and the Chignecto Central Regional School Board.

REVENUES — CONSOLIDATED FUND

In total, revenue for fiscal 2005–06 increased by $164.6 million or 2.7 per cent over the estimate. The major portion of the increase, $137.1 million, resulted from increased petroleum royalties of $93.9 million and offshore licences forfeitures of $43.2 million.

The listing below contains the current and prior year actual, the current year estimate, and the current year estimate versus actual variance. The analysis that follows this chart includes explanations, by revenue source, for the most significant variances.

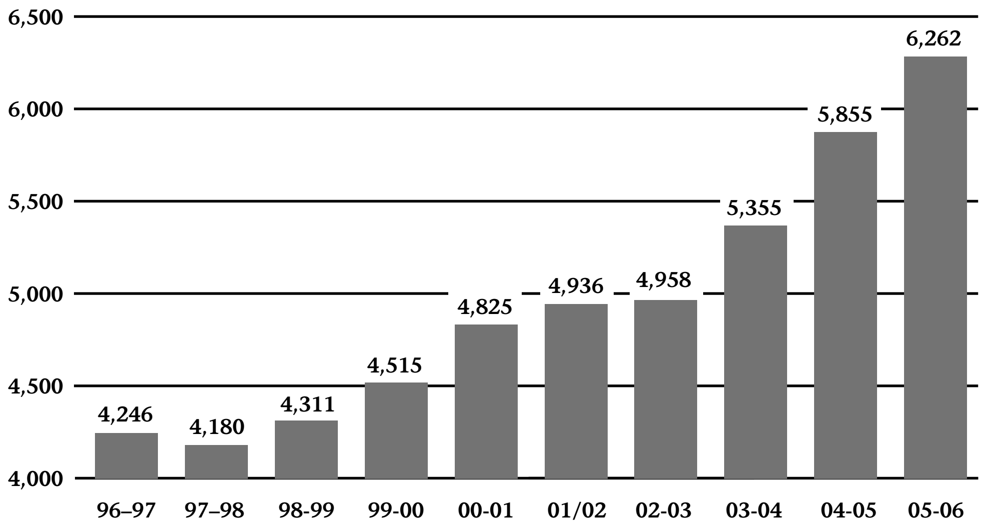
REVENUES ($ thousands)	**Actual 2004–05 (as restated)**	**Estimate 2005–06 (as restated)**	**Actual 2005–06**	**Variance Increase (Decrease) Estimate vs Actual**
Provincial Sources				
Personal Income Tax	1,462,250	1,553,568	1,568,449	14,881
Corporate Income Tax	329,075	350,177	361,508	11,331
Harmonized Sales Tax	1,031,066	1,068,935	1,057,772	(11,163)
Tobacco Tax	178,285	177,567	163,617	(13,950)
Motive Fuel Taxes	249,246	256,895	248,252	(8,643)
Interest Revenues	70,513	72,413	81,139	8,726
Registry of Motor Vehicles	86,688	87,716	88,173	457
Petroleum Royalties	28,202	30,000	123,850	93,850
Offshore Licences Forfeitures	61,000	—	43,208	43,208
Other Provincial Sources	246,900	239,333	243,622	4,289
Prior Years' Adjustments—Provincial Sources	(63,278)	—	16,420	16,420
Total—Provincial Sources	**3,679,947**	**3,836,604**	**3,996,010**	**159,406**
Federal Sources				
Equalization Payments	1,321,774	1,343,527	1,343,527	—
Canada Health Transfer	484,528	578,410	581,015	2,605
Canada Social Transfer	244,867	257,408	254,964	(2,444)
Health Reform Fund	44,035	—	—	—
Wait Times Reduction Funding	18,348	18,201	18,201	—
Offshore Offset	34,000	4,000	4,000	—
Offshore Accord	—	57,100	57,100	—
Statutory Subsidies	2,319	2,330	2,319	(11)
Prior Years' Adjustments—Federal Sources	25,093	—	5,027	5,027
Total—Federal Sources	**2,174,964**	**2,260,976**	**2,266,153**	**5,177**
Total—Revenues	**5,854,911**	**6,097,580**	**6,262,163**	**164,583**

Notes on Restated Figures

Gain on disposal of crown assets of $2.8 million for 2004-05 has been reclassified from revenue to net program expenses to conform to the format used for 2005-06 consolidated financial statements.

NOVA SCOTIA

Revenues – Consolidated Fund
1996–97 to 2005–06
($ millions)



Variance Analysis – Actual Compared With Estimate

Personal Income Tax

Personal income tax (PIT) revenue exceeded the 2005–06 Estimate by $14.9 million as a result of a 1.6 per cent increase in national taxable income, partially offset by a decrease in the Nova Scotia share of 0.04 per cent, and an increase in Nova Scotia's yield of 0.02 per cent.

Corporate Income Taxes

Corporate income tax revenue (CIT) exceeded the 2005–06 Estimate by $11.3 million or 3.2 per cent as a result of a 7.4 per cent increase in national corporate taxable income, partially offset by a 0.03 per cent decrease in the provincial share.

Harmonized Sales Taxes

Harmonized sales tax revenue (HST) was $11.2 million lower than the 2005–06 Estimate due to slightly lower consumer expenditures partially offset by gains in public sector and housing expenditures.

Tobacco Tax

Tobacco tax revenue was $14.0 million or 7.9 per cent lower than the 2005–06 Estimate. Taxable cigarette consumption declined by 2.8 per cent over the past year contributing to the revenue decline.

Motive Fuel Tax

Motive fuel tax revenue was $8.6 million or 3.4 per cent lower than the 2005–06 Estimate. Increased prices of crude oil, particularly from August 2005 onward, had a negative impact on estimated consumption. This was partially offset by an increase in labour income and a stronger Canadian dollar relative to the US dollar.

Interest Revenues

Interest revenue exceeded the 2005–06 Estimate by $8.7 million due mainly to the purchase of $112 million of MFC debentures in 2005–06.

Petroleum Royalties

Offshore petroleum royalties were $93.9 million higher than in the 2005–06 Estimate as a result of higher natural gas prices. Higher prices allowed working interest holders to achieve predetermined return thresholds, thereby resulting in higher royalty rates.

Offshore Licences Forfeitures

In 2005–06 licence holders forfeited $43.2 million in exploration licences. Forfeiture is not unusual given the unpredictable nature of the offshore industry. The province's accounting recognition policy is to record forfeiture revenue when a notice of forfeiture is given.

Prior Year Adjustments—Provincial Sources

Prior year adjustments of $16.4 million primarily reflect increased personal and corporate income tax entitlements based on updated national statistics.

Equalization

Nova Scotia's share of equalization entitlements for 2005–06 was $1.3 billion, or 12.2 per cent of the national total. In 2005–06, the total national entitlement for equalization was legislated at $11 billion. To determine the allocation to the provinces, the federal government continues to use the equalization formula (RTS) to calculate equalization share and fiscal capacity in a given year. The 2005–06 calculation uses the estimates of 2002–03, 2003–04, and 2004–05.

The provincial allocation is then calculated on the basis of 50 per cent of a three-year moving average of provincial equalization share and 50 per cent of a three-year moving average of per capita fiscal capacity. Provincial entitlements, according to the above calculation, are set in legislation as set down in the federal Budget Implementation Act, 2005.

Canada Health Transfer

Canada health transfer revenues are $2.6 million higher than the 2005–06 Estimate due mainly to a $3.0 million impact of updated tax point data partially offset by a $0.9 million decrease related to a slight decline in population share from 2.94 to 2.935 per cent.

Canada Social Transfer

Canada social transfer revenues are $2.4 million under the 2005–06 Estimate. This decline is largely driven by a $4.0 million revenue deferral to 2006–07 plus a $0.3 million decrease due to a decline in population share from 2.940 to 2.935 per cent, partially offset by a $2 million increase related to updated tax points.

Wait Times Reduction

Nova Scotia's share of wait times reduction revenue for 2005–06 is $18.2 million. The total federal transfer to each province for this initiative was based on their share (equal per capita) of the national population. Nova Scotia's share is just over 2.9 per cent.

Offshore Accord

On January 28, 2005, the Government of Canada and the Government of Nova Scotia reached an agreement on offshore revenues.

Nova Scotia's Offshore Revenue Agreement with the federal government represents the fulfilment of a 1980s agreement between the two levels of government that promised that

- Nova Scotia would be the primary beneficiary of its own offshore revenues.
- Equalization revenue would not erode the fiscal benefit to the province from our offshore but rather that our offshore revenues would be protected from such erosion.
- The federal government would pursue its constitutional commitment under Section 36(1) of the Constitution Act to advance economic development within provinces.

The agreement allows the province to retain 100 per cent of offshore revenues for all offshore projects for the first 16 years and provides a prepayment of $830 million for the first 8 years. In addition, the province will receive guaranteed transition payments if Nova Scotia comes off equalization during the 16-year period. The federal and provincial governments are also committed to a legislative review of the agreement prior to its expiration date in 2020.

The Equalization Offshore Offset is the mechanism, established in federal legislation, that the province uses to draw down the $830 million over eight years. The calculation is based upon the difference between Nova Scotia's equalization entitlement with the province's Offshore out of the formula and its entitlement with the Offshore in the formula at 70 per cent. Based on this formula, $57.1 million of the $830 million was recognized as revenue in 2005–06 as budgeted.

Prior Year Adjustments—Federal Sources

Prior year adjustments include increased Canada health and social transfer entitlements based on updated national statistics.

NET PROGRAM EXPENSES — CONSOLIDATED FUND

Overall, Net Program Expenses exceeded the original budget by $70.0 million, or 1.3 per cent during fiscal 2005–06.

The listing below contains the current and prior year actuals, the current year estimate, and the current year variance of estimate versus actual. The analysis that follows this chart includes explanations, by department, for the most significant variances.

NET PROGRAM EXPENSES

($ thousands)

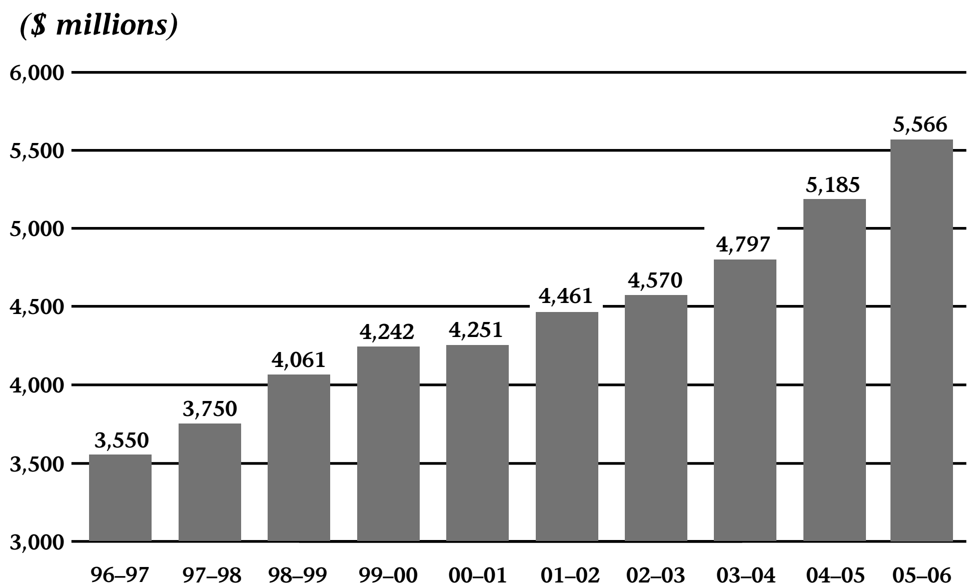
Departments	Actual 2004–05 (as restated)	Estimate 2005–06	Actual 2005–06	Variance Increase (Decrease) Estimate vs Actual
Agriculture and Fisheries	49,290	44,113	48,343	4,230
Community Services	704,440	716,174	711,464	(4,710)
Education	1,010,804	1,074,377	1,071,822	(2,555)
Assistance to Universities	227,117	206,711	223,828	17,117
Energy	6,835	9,619	20,615	10,996
Environment and Labour	25,656	27,947	27,059	(888)
Finance	12,312	16,858	15,296	(1,562)
Health	2,369,271	2,559,740	2,572,511	12,771
Justice	97,802	107,847	104,761	(3,086)
Natural Resources	54,844	63,098	63,742	644
Public Service	163,166	183,455	200,766	17,311
Service Nova Scotia and Municipal Relations	101,949	96,384	108,123	11,739
Tourism, Culture and Heritage	50,975	42,383	44,803	2,420
Transportation and Public Works	252,265	263,954	267,826	3,872
Restructuring Costs	61,450	83,615	85,665	2,050
(Gain) Loss on the Disposal of Assets	(2,754)	—	(357)	(357)
Total Net Program Expenses	**5,185,422**	**5,496,275**	**5,566,267**	**69,992**

Additional appropriations require approval by the Governor-in-Council within 90 days of the issuance of these Public Accounts. These amounts are summarized by appropriation on page 39.

Notes on Restated Figures

The accounting policies used to prepare the 2005–06 consolidated financial statements are the same as those used in the previous year except as noted in Note 2 of the consolidated financial statements. The 2004–05 actuals have been restated for these changes. Further, gain on disposal of crown assets of $2.8 million for 2004–05 has been reclassified from ordinary revenue to net program expenses to conform to the format used for 2005-06.

Net Program Expenses – Consolidated Fund 1996–97 to 2005–06



Variance Analysis — Actual Compared With Estimate

Agriculture and Fisheries

During the fiscal year, additional spending included $2.8 million to support the pork industry and $1.5 million to meet Nova Scotia's program commitments under the Canadian Agriculture Income Stabilization Risk Management Program.

Community Services

Overall, departmental expenses were $4.7 million less than budget. Net expenses in the Housing Services division exceeded the budget by $14.8 million as a result of increased demand for the social housing programs, increased energy and maintenance costs for public housing, and an additional investment in social housing programs. These additional investments were offset, in part, by savings in the Affordable Housing program, as there was greater-than-anticipated private-sector participation.

The Family and Children's Services division recorded savings of $9.0 million through lower-than-anticipated provincial spending on early childhood programs, reduced demand for special needs and emergency placements, and administrative savings. Further, there was lower-than-expected spending in the Early Childhood Development Initiatives, which was offset by a corresponding reduction in the revenue received from the federal government in fiscal 2005-06 under the Canada Social Transfer.

A net reduction of $9.8 million from budget was achieved in the Employment Support and Income Assistance division through continuing declines in income assistance and the Nova Scotia Child Benefit caseloads. These savings more than offset an additional investment of $1.0 million in the wheelchair program.

Education

Overall, the actual for the department was $2.5 million under budget. The major increases in spending included $1.25 million for the matching contributions to the Teachers' Pension Plan, which was required as a result of pension escalation and the purchase of pensionable service; an additional $1.0 million in funding for the regional library boards that was approved by the Executive Council during the fiscal year; and the cost of the demolition of the former vocational school located on the Reeves Street property in Port Hawkesbury, costing $0.7 million.

The cost increases incurred were more than offset by savings of $3.3 million in the Student Assistance programs and $1.7 million in funding for the public education system, as well as a reduction in wages due to vacancies and administrative efficiencies.

Assistance to Universities

The 2005–06 actual for this appropriation was $17.1 million over budget as a result of the following: the payment of $11.8 million to the universities as a result of an amendment to the Memorandum of Understanding with the universities on tuition cost containment; $4.8 million for the Nova Scotia College of Art and Design, which is the province's contribution to the renovations of the premises leased by the college from the Halifax Port Authority at Shed 21; and $0.6 million for the one-time costs related to the master's degree in physiotherapy at Dalhousie.

Energy

Additional funding approved in the year included $6.1 million for the Smart Choices Energy program; $5.2 million in grants to fund research and development through two partnerships with a number of the universities; and $0.8 million for the core laboratory of the Canada-Nova Scotia Offshore Petroleum Board. These increases were partially offset by $1.0 million in departmental savings.

Environment and Labour

Vacancies and administrative efficiencies throughout the department more than offset the lower-than-anticipated revenues from "fees and other charges" and increased grants paid by the department.

Finance

A reduction in wages due to vacancies, administrative efficiencies, and lower amortization costs resulted in actual expenses that were $1.6 million lower than the budget.

Health

Overall, spending by the department increased by $12.8 million over the original budget. The additional funding, which was approved during the fiscal year, included $11.2 million for the district health authorities (DHAs), primarily for oncology drugs, bone marrow transfers for out-of-province patients, the operating costs related to the 21 new beds at the Valley Regional Hospital, and other cost pressures facing the DHAs.

Other funded cost increases included $9.6 million for the Long Term Care sector for the new alternative level of care beds and deferred maintenance; $6.1 million in physician payments as a result of increasing some emergency rooms from level three to level four and fee-for-service utilization increases; and $4.9 million for Home Care Services because of increased utilization.

A reduction in utilization in the Pharmacare Program, lower usage of plasma products by the Canadian Blood Services, utilization savings in a variety of other program areas, vacancy management and other operational savings throughout the department partially offset the increases noted above.

Justice

Overall, the actual for the department's expenses were $3.1 million under budget. The $5.0 million insurance settlement and funds from the Institutional Abuse Program as a result of lower claims and counselling awards, an increase in probate fees, and vacancies and operational savings in various divisions of the department more than offset the spending increases incurred throughout the fiscal year.

The additional spending included the following: the Nunn Commission cost $0.8 million in fiscal 2005–06; the department paid off the mortgage on the Waterville Youth Centre at a cost of $1.8 million in order to achieve future savings; the province's share of the contract with the RCMP increased by $0.8 million as a result of the latest increase in

RCMP salaries; $0.5 million in additional funding was required for increased salaries for judges and justices of the peace based on the recommendations of the Judges' Salary Tribunal; and the arbitration hearing concerning three employees at the Shelburne Youth Centre cost $0.3 million.

Natural Resources

Vacancies and administrative efficiencies throughout the department only partially offset the impact of the settlement of a grievance with a group of employees in the department.

Public Service

The significant variances of the Public Service divisions include the following:

Emergency Measures Organization of Nova Scotia

Disaster relief claims from the May 2005 flooding in Shelburne, Queens, and Lunenburg counties plus a disallowed claim under the federal Disaster Financial Assistance Agreement related to the 1999–2000 floods in Cumberland and Queens counties contributed to the increased expenses, along with additional salary and ancillary costs related to the increased disaster relief activity.

Government Contributions to Benefit Plans

Based on the year-end valuations, there was a $2.6 million negative adjustment in the province's liabilities for workers' compensation self-insurance and chronic pain, and the vacation pay accrual. Further, there was a $0.5 million increase in the premiums paid to the pensioners' consolidated health plan. These increases have been more than offset by a $6.6 million decrease in the province's liabilities for long-term disability benefits, which resulted from the updated actuarial valuation.

Human Rights Commission

Additional legal costs associated with the various hearings that the Human Rights Commission was required to conduct in fiscal 2005–06 were totally offset by the savings in salaries from vacancies.

Legislative Services

The $3.2 million spent on the enumeration conducted in the summer of 2005 was partially offset by the savings achieved as a result of the reduction in Legislature activities during the fiscal year.

Nova Scotia Business Inc.

The actual expenses were $7.1 million under budget, primarily due to a reduction in the requirements for strategic investment funds through the payroll rebates.

Nova Scotia Securities Commission

There were administrative efficiencies achieved throughout the commission's operations during the fiscal year.

Office of Economic Development

Overall, expenses of the Office of Economic Development (OED) reflect an increase of $17.6 million over the original budget. The governmental units that OED provides support to received additional funding for the following initiatives: the Waterfront Development Corporation received $5.7 million for the acquisition of the Lunenburg waterfront lands; the grant to the Nova Scotia Innovation Corporation was increased by $0.5 million to fund the Ocean Nutrition expansion agreement; and the Trade Centre Limited received $0.8 million for renovations at the World Trade and Convention Centre.

Also, additional funding approved during the fiscal year included the following initiatives: the Nova Scotia Research and Innovation Trust Fund received $5.0 million; there was a $4.7 million increase in funding for innovation incentives and the loan valuation allowance; Nova Scotia's contribution to the Commonwealth Games domestic and international bids was $2.1 million; the transfer of the Shelburne Youth Facility land to the Southwest Shore Regional Development Authority cost $1.9 million; and $1.6 million was approved for various regional economic development projects.

The additional spending was partially offset by the following: a $1.1 million decrease in the operating and capital grants to Cape Breton Rail; a $0.7 million decrease in program grants; a $0.6 million reduction in funding for the Economic Diversification Agreement as the program is winding down; and salary and operational savings of $2.3 million throughout the department.

Office of Health Promotion

Spending increased by $6.5 million for recreational facility development grants during fiscal 2005–06. The additional spending was partially offset by various operational savings.

Service Nova Scotia and Municipal Relations

Overall, spending increased by $11.7 million over the original budget. The Keep the Heat Program cost $14.0 million, and $0.7 million in additional funding was provided for various initiatives during the fiscal year. These additional expenses were offset, in part, by salary savings due to staff turnover and the management of vacant positions and general savings in operating expenses totalling $3.0 million.

Tourism, Culture and Heritage

During the fiscal year, additional funding was made available for museum grants for repairs and maintenance and for grants to cultural organizations.

Transportation and Public Works

Overall, spending increased by $3.9 million over the original budget. There was $2.5 million in additional funding approved during the fiscal year for the summer maintenance program. Other increases that were one-time expenses include $3.0 million for the write-down of assets such as the Shelburne Youth Centre, obsolete parts, and the transfer of roads to the Halifax Regional Municipality and increased surface maintenance costs due to flooding in Bridgewater. The additional spending was partially offset by salary savings due to staff turnover and the management of vacant positions and to general savings in operating expenses.

Restructuring Costs

Wage settlements that exceeded the original budget more than offset the savings in workforce adjustment costs and government restructuring and the receipt of additional unallocated recoveries.

TANGIBLE CAPITAL ASSETS — CONSOLIDATED FUND

Under the province's Tangible Capital Assets policy, a percentage of the original cost of an asset is charged to expenses in each year of the useful life of the asset. This charge is called amortization, which does not commence until the asset is available for use. Departments are required to budget for tangible capital asset purchases and the resulting amortization from the acquisition of these assets.

The cost of the estimated purchases of tangible capital assets is voted separately in the Capital Purchase Requirements appropriation, and the departmental details are noted below.

CAPITAL PURCHASES

($ thousands)

Departments	Estimate 2005–06	Actual 2005–06	Variance Increase (Decrease)
Agriculture and Fisheries	460	684	224
Community Services	3,000	2,747	(253)
Education	90,502	93,608	3,106
Energy	—	33	33
Environment and Labour	105	17	(88)
Finance	4,700	5,213	513
Health	14,985	14,759	(226)
Natural Resources	2,100	2,374	274
Public Service	85	270	185
Service Nova Scotia and Municipal Relations	2,364	2,276	(88)
Tourism, Culture and Heritage	821	840	19
Transportation and Public Works			
Highways and Bridges	142,227	149,010	6,783
Buildings and Infrastructure	18,651	18,538	(113)
	280,000	290,369	10,369

Overall, spending in the Capital Purchase Requirements appropriation increased by $10.4 million, in fiscal 2005–06, primarily as a result of the approval of additional funding for highway construction and adjustments in the construction schedules for new schools, and additions and alterations to existing schools.

AMORTIZATION

($ thousands)

Departments	Estimate 2005–06	Actual 2005–06	Variance Increase (Decrease)
Agriculture and Fisheries	675	691	16
Community Services	272	291	19
Education	44,457	44,390	(67)
Energy	—	1	1
Environment and Labour	49	35	(14)
Finance	2,860	2,103	(757)
Health	11,212	10,408	(804)
Justice	1,332	1,332	—
Natural Resources	967	984	17
Public Service	60	50	(10)
Service Nova Scotia and Municipal Relations	1,252	1,169	(83)
Tourism, Culture and Heritage	578	571	(7)
Transportation and Public Works	62,831	63,041	210
	126,545	**125,066**	**(1,479)**

This schedule reflects the amortization charged to operations related to the tangible capital assets that were acquired in prior years, as well as the charges related to the acquisitions made during fiscal 2005–06.

ADDITIONAL APPROPRIATIONS

Relative to the Appropriations Act, 2005 for the fiscal year ended March 31, 2006 ($ thousands)

R#*	Net Program Expenses	Estimate	Actual	Variance	Additional Appropriation Required
1	Agriculture and Fisheries	44,113	48,343	4,230	4,230
2	Community Services	716,174	711,464	(4,710)	—
3	Education	1,074,377	1,071,822	(2,555)	—
4	Assistance to Universities	206,711	223,828	17,117	17,117
5	Energy	9,619	20,615	10,996	10,996
6	Environment and Labour	27,947	27,059	(888)	—
7	Finance	16,858	15,296	(1,562)	—
9	Health	2,559,740	2,572,511	12,771	12,771
10	Justice	107,847	104,761	(3,086)	—
11	Natural Resources	63,098	63,742	644	644
12	Communications Nova Scotia	4,091	3,961	(130)	—
13	Emergency Measures Organization of Nova Scotia	1,008	4,281	3,273	3,273
14	Executive Council	22,254	22,119	(135)	—
15	FOIPOP Review Office	254	216	(38)	—
16	Government Contributions to Benefit Plans	8,050	4,546	(3,504)	—
17	Human Rights Commission	1,843	2,033	190	190
18	Legislative Services	20,384	21,693	1,309	1,309
19	Nova Scotia Advisory Council on the Status of Women	834	823	(11)	—
20	Nova Scotia Business Inc.	29,993	22,854	(7,139)	—
21	Nova Scotia Police Commission	343	276	(67)	—
22	Nova Scotia Securities Commission	1,654	1,289	(365)	—
23	Nova Scotia Utility and Review Board	3,087	3,087	—	—
24	Office of Economic Development	45,273	62,902	17,629	17,629
25	Office of Health Promotion	23,919	30,455	6,536	6,536
26	Office of the Auditor General	2,657	2,639	(18)	—
27	Office of the Ombudsman	1,152	1,091	(61)	—
28	Public Prosecution Service	15,680	15,585	(95)	—
29	Senior Citizen's Secretariat	979	916	(63)	—
30	Service Nova Scotia and Municipal Relations	96,384	108,123	11,739	11,739
31	Tourism, Culture and Heritage	42,383	44,803	2,420	2,420
32	Transportation and Public Works	263,954	267,826	3,872	3,872
33	Restructuring Costs	83,615	85,665	2,050	2,050
Other Appropriations					
8	Debt-Servicing Costs	1,017,065	987,805	(29,260)	—
34	Pension Valuation Adjustment	24,379	29,994	5,615	5,615
35	Capital Purchase Requirements	280,000	290,369	10,369	10,369
36	Sinking Fund Instalments and Serial Retirements	91,272	89,120	(2,152)	—

Note: Section 28 (3) of the Provincial Finance Act requires that any additional spending authority required must be approved by the Governor-in-Council no later than 90 days after the tabling of the Public Accounts.

* Refers to the Resolution Number in the Appropriations Act, 2005.

Debt Review of the Consolidated Fund

In fiscal 2005–06, the Province of Nova Scotia posted a surplus of $228.1 million. The net direct debt of the province as of March 31, 2006, was $12.2 billion, a decrease of $66.0 million from the net direct debt at the end of fiscal 2004–05. The province's net direct debt to gross domestic product ratio decreased to 37.4 per cent at March 31, 2006, from 39.2 per cent a year earlier.

Credit Ratings

The province's credit rating remained under review for an upgrade by three major bond-rating agencies over the past year. On August 14, 2006, Dominion Bond Rating Services (DBRS) increased its rating of the province to "A" with a stable outlook from "A (low)." DBRS cited ongoing fiscal prudence, applying the $830.0 million Offshore Accord payment to the debt, low and reducing debt-to-GDP ratio, joint trusteeship of the Teachers Pension Plan, and expected revenue growth as the rationale for the change. On August 2, 2006, Moody's Investors Service Inc. upgraded the province's rating to "A1" from a previous rating of "A2." On September 18, 2006, Standard and Poor's upgraded the province's rating from "A" to "A+" with a stable outlook. These rating upgrades are all positive developments for the province.

Credit Ratings September 2006

Province	Rating Agency		
	Moody's Investors Service Inc.	Standard and Poor's	Dominion Bond Rating Service
Nova Scotia	A1	A+	A
Newfoundland and Labrador	A2	A	A (low)
Prince Edward Island	A1	A	A (low)
New Brunswick	Aa3	AA-	A (high)
Quebec	Aa3	A+	A (high)
Ontario	Aa2	AA	AA
Manitoba	Aa2	AA-	A (high)
Saskatchewan	Aa2	AA	A (high)
Alberta	Aaa	AAA	AAA
British Columbia	Aa1	AA+	AA
Canada	Aaa	AAA	AAA/AA (high)

Capital Markets Issuance Initiatives

The Province of Nova Scotia borrowed $931.8 million in fiscal year 2005–06, an increase over the budget estimate of $340.0 million. This increase in borrowing was due in part to pre-financing to take advantage of low long-term interest rates, the refinancing of $255.0 million of debt issues called by the province during the fiscal year, and government's financing of $112.0 million for the Nova Scotia Municipal Finance Corporation.

The province's $931.8 million borrowing program comprised three 30-year domestic public issues totalling $650.0 million, seven domestic retail structured notes issued under the province's medium-term note program totalling $190.0 million, and the roll-over of a $91.8 million Canada Pension Plan Investment Board debt issue.

FINANCIAL RISK MANAGEMENT

Foreign Currency Risk

In order to more fully access global capital markets, the Province of Nova Scotia has the ability to borrow in currencies other than the Canadian dollar. GAAP requires that all financial amounts in the financial statements be presented in Canadian funds. Conversion of foreign currency amounts outstanding is calculated annually at March 31. This results in a foreign currency gain or loss from year to year as the currency exchange rates fluctuate. As described in Note 1c on page 83, the foreign exchange gains or losses on long-term financial items are amortized over the remaining life of the item. At March 31, 2006, unamortized foreign exchange was a net gain of $91.4 million.

The province has reduced its exposure to foreign currency debt in recent years through the use of derivatives and by the accumulation of US dollar–denominated assets held in sinking funds. All of the province's remaining foreign currency exposure is to US dollars. As at March 31, 2006, the province's foreign currency exposure stood at 13.1 per cent on a gross basis (down from 16.2 per cent at March 31, 2005), and 8.9 per cent net of USD sinking funds.

Interest Rate Risk

As a net debtor in financial markets, the province is exposed to the risks posed by varying interest rates. The province is exposed to interest rate risk as maturing debenture issues are refinanced at current market rates. Some exposure to fluctuating short-term rates is maintained as a policy variable on the debt portfolio. The province has set exposure limits on interest rate risk and maintains control over this exposure through the active management of its gross debt and asset portfolios.

The debt portfolio's exposure to floating interest rates declined to 15.5 per cent for the fiscal year ended March 31, 2006. This level is at the low end of the province's 10.0 to 30.0 per cent floating rate exposure policy range. With 86.5 per cent of the total principal in fixed-rate form, there will be stability in debt-serving costs in future years. At March 31, 2006, the average term to maturity of the gross debt portfolio stood at 10.9 years, 1.2 years longer than a year earlier.

Net Debt-Servicing Costs — Consolidated Fund

Net debt-servicing costs of the Consolidated Fund in fiscal 2005–06 were $863.4 million, a decrease of $27.0 million from the previous year and $34.1 million lower than the estimate.

Net debt-servicing costs were lower than budget, mainly due to a $42.9 million savings in long-term debt interest. Interest on pension, retirement and other obligations increased by $11.8 million due to an increase of $20.0 million for updated indexing assumptions of the Teachers' Pension Plan, offset by small variances from budget for the other obligations in this category.

Net Debt-Servicing Costs
($ millions)

	Actual 2004–05 (as restated)	**Estimate 2005–06**	**Actual 2005–06**	**Variance Increase (Decrease) Estimate vs Actual**
Debt-Servicing Costs				
Interest on Long-Term Debt	869,966	859,306	816,450	(42,856)
General Interest	46,584	44,120	45,946	1,826
Interest on Pension, Retirement and Other Obligations	117,125	113,639	125,409	11,770
Gross Debt-Servicing Costs	1,033,675	1,017,065	987,805	(29,260)
Less: Sinking Fund Earnings	(143,235)	(119,597)	(124,395)	(4,798)
Net Debt-Servicing Costs	**890,440**	**897,468**	**863,410**	**(34,058)**

Debenture Debt

The Consolidated Fund's net debenture debt (outstanding debentures less sinking funds and the Public Debt Retirement Fund) was $8.9 billion in Canadian dollar equivalent at the rate of exchange in effect on March 31, 2006. Of this amount, $91.4 million represents the difference between the value of the foreign currency debt and the net hedged value on March 31, 2006. This amount will fluctuate from year to year based on exchange rates in effect at year-end.

The Province of Nova Scotia provides sinking fund instalments for certain term debt issues. Annual sinking fund instalments generally range from 1.0 per cent to 3.0 per cent of the original issue, but may vary slightly from year to year based on actual and anticipated rates of return on sinking fund assets. Instalments are designed to fully fund the issue over the life of the issue. Sinking funds are treated as trust funds and are used solely for debt retirement. Sinking funds related to US dollar debt are invested in US dollar–denominated securities.

Outstanding Debentures — (CDN$ Equivalents)
($ millions)

	Actual 2004–05	**Actual 2005–06**
Debentures Payable in Canadian Dollars		
Canada Pension Plan Investment Fund	1,079	1,079
Other Issues	9,140	8,310
United States Dollars	2,143	1,580
	12,362	10,969
Less: Sinking Funds and Public Debt Retirement Fund	(2,599)	(2,095)
Net Debenture Debt	**9,763**	**8,874**

Borrowing Powers

Long-term debt issued by way of debentures and medium-term notes is subject to a legislative authority to borrow through the Appropriations Act. Unused portions of these authorities carry forward to be used in future years. In fiscal 2005–06, the province borrowed (face value) $931.8 million in long-term debentures, which was applied to authority remaining from 2003–04.

Statement of Borrowing Powers
as at March 31, 2006
($ thousands)

	Actual 2004–05	Actual 2005–06
Balance of Authority from Previous Fiscal Years	1,479,694	1,943,932
Authority Approved for the Fiscal Year	1,000,000	—
Total Authority at Beginning of Fiscal Year	2,479,694	1,943,932
Less: Authority Used in the Previous Fiscal Year	535,762	
Less: Authority Used in the Current Fiscal Year:		
Promissory Note P93		35,000
Promissory Note P94		25,000
Promissory Note P95		30,000
Promissory Note P96		30,000
Promissory Note P97		25,000
Promissory Note P98		25,000
Promissory Note P99		20,000
Debenture Series B7		200,000
Debenture Series B7 (reopen)		150,000
Debenture Series B8		300,000
Debenture Series CP42		91,752
Total		931,752
Balance of Authority at End of Fiscal Year	**1,943,932**	**1,012,180**

Additional Borrowing Powers

Cape Breton Industrial Assistance Act, Chapter 60, R.S.N.S. 1989

Housing Act, Chapter 211, R.S.N.S. 1989

Housing Development Corporation Act, Chapter 213, R.S.N.S. 1989

Municipal Finance Corporation Act, Chapter 301, R.S.N.S.1989

Sydney Steel Corporation Act, Chapter 456, R.S.N.S 1989

The Economy

ECONOMIC INDICATORS

Economic indicators for the calendar year 2005 form the basis of the following discussion for the year ended March 31, 2006. The data for both 2005 and 2006 are Department of Finance forecasts as of June 8, 2006 (F). The 2006 forecast is provided without any further analysis, for information purposes only.

	2001	2002	2003	2004	2005 (Forecast)	2006 (Forecast)
Gross Domestic Product at Market Prices ($ millions)	25,909	27,079	28,715	29,879	31,363	32,772
Annual % Change	5.1	4.5	6.0	4.1	5.0	4.5
Gross Domestic Product at Market Prices (Chained 1997 $ millions)	23,700	24,702	24,925	25,271	25,587	26,238
Annual % Change	3.2	4.2	0.9	1.4	1.3	2.5
Personal Income ($ millions)	23,107	23,766	24,442	25,237	26,347	27,432
Annual % Change	3.4	2.9	2.8	3.3	4.4	4.1
Consumer Price Index Nova Scotia (Annual % Change)	1.8	3.0	3.4	1.8	2.8	2.9
Population (000s of persons)	932	935	936	938	938	938

Sources: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB
Statistics Canada Quarterly Demographics Statistics, Cat. No. 91-002-XPB
Nova Scotia Department of Finance

ECONOMIC PERFORMANCE

Output

The Nova Scotia economy continued to grow in 2005, with an estimated real GDP growth rate of 1.3 per cent, down by 0.1 percentage point from 2004. Growth was mostly driven by strong domestic demand, with imports growing at a faster pace than exports, along with higher prices putting downward pressure on real GDP growth. The nominal GDP growth rate, adjusted for higher prices, was 5.0 per cent.

Final domestic demand is estimated to have increased by 5.2 per cent. Supporting this growth was steady consumer spending along with solid growth from capital investments.

Residential capital expenditures were up 4.3 per cent. Most of this growth was driven by the 8.6 per cent increase in renovations, while housing starts were up slightly at 1.2 per cent.

Capital expenditures on machinery and equipment were up 9.6 per cent, reflecting to some degree the rapid rise of the Canadian dollar. Non-residential construction was up 6.0 per cent. Government spending on goods and services increased by 6.0 per cent in 2005, following an increase of 4.5 per cent in 2004.

Exports of goods and services were up 3.7 per cent, as compared to 3.9 per cent in 2004. Continued growth for the North American economy helped to counter the dampening impacts of the higher exchange rate. A 4.8 per cent increase in total imports resulted in a higher trade deficit in 2005, putting downward pressure on economic growth. More imports reflect the value of the higher exchange rate, as firms purchased more machinery and equipment. This increase in machinery and equipment investment will help improve productivity in the long run.

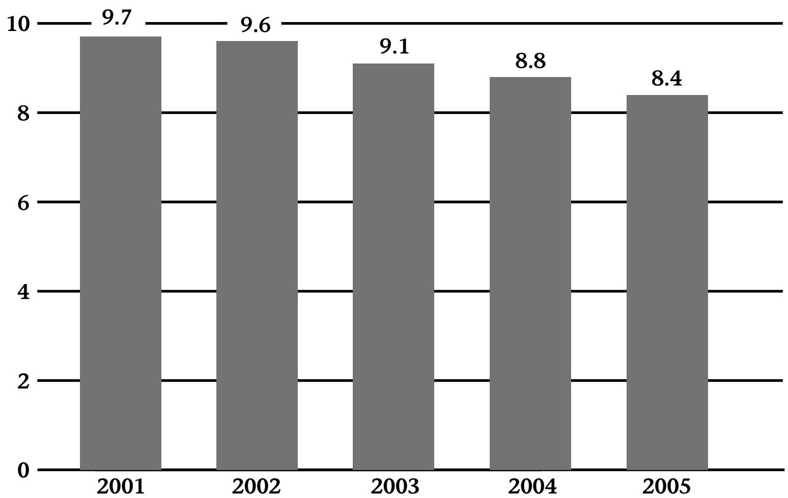
Labour Markets

Employment increased in 2005 by 0.2 per cent to 443,100 jobs, the highest employment level in Nova Scotia since 1976. There was a net gain of 900 new jobs, but the labour force declined by 0.2 per cent. All of those new jobs were full time. The decline in the labour force was also noted in the participation rate, for people employed or actively seeking employment, which decreased by 0.5 percentage points to 63.6 per cent in 2005.

With employment growing at a faster pace than the labour supply, the unemployment rate dropped in 2005 to 8.4 per cent, compared to 8.8 per cent for 2004.

Unemployment Rate
2001 to 2005

(Per cent)



Source: Statistics Canada, 2005 Labour Force Historical Review, Cat. No. 71F0004XCB, February 2006.

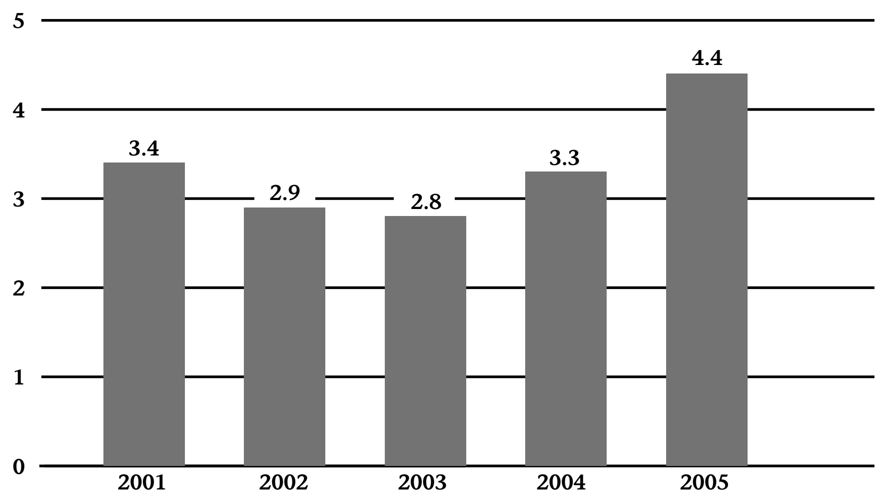
Consumer Spending and Income

Personal expenditures on goods and services increased 4.6 per cent in 2005, up slightly from 4.4 per cent in 2004, while retail sales were up 2.9 per cent. The additional consumer spending was concentrated in non-durable goods and services, with each reporting an increase of 4.6 per cent and 5.4 per cent respectively.

Nova Scotians experienced strong personal income growth in 2005, at 4.4 per cent, compared to a 3.3 per cent in 2004. Growth of labour income, the largest share of personal income, was higher than in 2004 (5.4 per cent compared to 2.9 per cent), but this increase was partially offset by lower personal transfer payments.

Personal Income Growth 2001 to 2005

(Per cent)



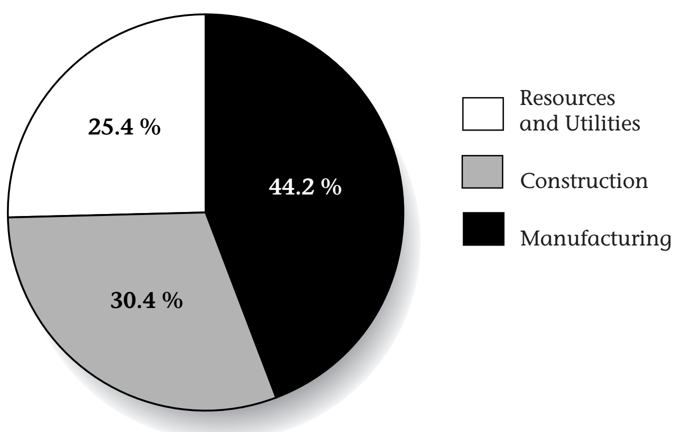
Source: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB

INDUSTRY EMPLOYMENT PERFORMANCE

Goods Industries

Employment in goods-producing industries declined 2.7 per cent in 2005, accounting for 20.6 per cent of the total employment in the Nova Scotia economy in 2005.

Employment by Goods Industries 2005 (As a Percentage of Total Goods Industries Employment)



Source: Statistics Canada, 2005 Labour Force Historical Review, Cat. No. 71F0004XCB, February 2006.

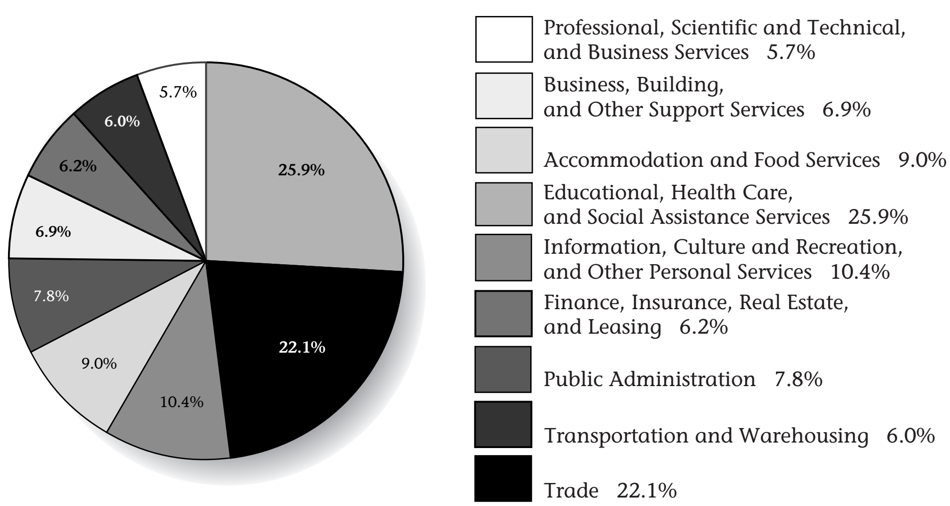
The construction sector saw employment decrease 1.8 per cent. Employment growth in the manufacturing sector was down 7.6 per cent, despite the 5.6 per cent increase in manufacturing shipments. The agriculture, forestry, and fishing sectors all reported increases (7.4 per cent, 10.8 per cent, and 3.9 per cent respectively). Meanwhile, the mining, oil, and gas extraction sector saw about 400 new jobs, reflecting an increase of 6.1 per cent in real GDP growth for the sector.

Services Industries

Nova Scotia is predominantly a service-sector economy, with 79.4 per cent of Nova Scotia's employment in 2005. Most of the employment growth in 2005 occurred in services industries, which registered a 1.0 per cent gain in employment.

The educational, health care, and social assistance services sector is the largest component of the services sector, with 25.9 per cent of the employment. Employment for health care and social assistance reported an increase of 4.5 per cent. Educational services declined by 1.9 per cent during 2005. The trade sector (retail and wholesale) is the next largest sector, with 22.1 per cent of total employment in the service industries. This sector experienced an employment increase of 4.1 per cent in 2005. Employment in the wholesale sector was up 9.0 per cent, followed by an increase of 2.8 per cent for the retail sector.

Employment by Service Industries 2005 (As a Percentage of Total Service Industries Employment)



Source: Statistics Canada, 2005 Labour Force Historical Review, Cat. No. 71F0004XCB, February 2006.

Accommodation and food services had a 1.6 per cent increase in employment, reflecting the continued gains from tourism in 2005, while employment in other services (repair, laundry, and other personal services) grew by 2.0 per cent. Employment in public administration showed a slight increase of 0.7 per cent in 2005.

Employment decreases in 2005 were evident in transportation and warehousing; finance, insurance, real estate, and leasing; professional, scientific, and technical services; business, building, and other support services; educational services; and information, culture, and recreation, which reported a drop of 1.9 per cent, 1.8 percent, 0.5 per cent, 3.2 per cent, 1.9 per cent, and 4.8 per cent respectively.

Consolidated Financial Statements

NOVA SCOTIA
Finance

Statement of Responsibility for the Consolidated Financial Statements of the Province of Nova Scotia

Responsibility for the integrity, objectivity, and fair presentation of the consolidated financial statements of the Province of Nova Scotia rests with the government. These financial statements are prepared on behalf of the Minister and Deputy Minister of Finance by the Controller in accordance with the accounting principles recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by other CICA and International Federation of Accountants accounting standards or pronouncements.

The consolidated financial statements include a Consolidated Statement of Financial Position, a Consolidated Statement of Operations and Accumulated Deficits, a Consolidated Statement of Change in Net Direct Debt, and a Consolidated Statement of Cash Flow. They present fairly, in all material respects, the financial position and the results of operations for the year ended. The government is responsible for maintaining a system of internal accounting and administrative controls in order to provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded, and financial records are properly maintained.

Under the mandate in section 9 of the Auditor General Act, the Auditor General of Nova Scotia provides an independent opinion on the consolidated financial statements prepared by the government.

Byron Rafuse, CMA
Controller

NOVA SCOTIA

Office of the Auditor General

AUDITOR'S REPORT

To the Members of the Legislative Assembly of Nova Scotia

I have audited the consolidated statement of financial position of the Province of Nova Scotia as at March 31, 2006 and the consolidated statements of operations and accumulated deficits, change in net direct debt and cash flow for the year then ended. These statements are the responsibility of the Government of Nova Scotia, represented by the Minister of Finance. 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 misstatements. 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 financial statements present fairly, in all material respects, the financial position of the Province of Nova Scotia as at March 31, 2006 and the results of its operations, changes in net direct debt and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for the public sector.

J R Lapointe

Jacques R. Lapointe, CA•CIA
Auditor General

Halifax, Nova Scotia
July 31, 2006

STATEMENT 1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at March 31, 2006

($ thousands)

	2006	2005 (as restated)
Financial Assets		
Cash and Short-term Investments (Note 3)	391,861	405,212
Accounts Receivable and Advances	830,248	747,654
Inventories for Resale	4,043	4,095
Loans Receivable (Schedule 3)	1,081,131	1,031,834
Investments (Schedule 3)	43,468	35,154
	2,350,751	2,223,949
Liabilities		
Bank Advances and Short-term Borrowings	900,106	1,048,388
Accounts Payable and Accrued Liabilities	1,316,426	1,299,672
Deferred Revenue (Note 4)	1,031,818	246,259
Accrued Interest	204,736	229,381
Unmatured Debt of Governmental Units (Schedule 4)	9,627,323	10,209,570
Unamortized Foreign Exchange Translation Gains	91,444	22,259
Unamortized Premiums and Discounts	(4)	(14,483)
Federal Equalization Repayable Loan (Note 6)	120,322	120,322
Pension, Retirement and Other Obligations (Note 7)	1,302,682	1,363,820
Deficiency in Government Business Enterprises (Schedule 6)	(4,932)	3,935
	14,589,921	14,529,123
Net Direct Debt	(12,239,170)	(12,305,174)
Non-Financial Assets		
Tangible Capital Assets (Schedule 7)	3,366,236	3,206,830
Inventories of Supplies	47,560	46,054
Prepaid Expenses	16,084	14,882
	3,429,880	3,267,766
Accumulated Deficits	(8,809,290)	(9,037,408)

Trust Funds under Administration (Note 8)	8,055,963	7,199,734
Worker's Compensation Board (Note 8)	1,002,494	939,467
Total Trust and Trust-Like Funds Under Administration	**9,058,457**	**8,139,201**

Accounting Changes (Note 2)
Contingencies and Contractual Obligations (Note 12)
Subsequent Events (Note 13)
Comparative Figures (Note 14)

The accompanying notes and schedules are an integral part of these Financial Statements.

NOVA SCOTIA

STATEMENT 2

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED DEFICITS

for the fiscal year ended March 31, 2006

($ thousands)

	Estimate 2006	Actual 2006	Actual 2005 (as restated)
Revenue (Schedule 1)			
Provincial Sources	3,981,206	4,161,257	3,909,695
Federal Sources	2,540,779	2,477,254	2,371,084
Prior Years' Adjustments –			
Federal/Provincial Fiscal Arrangements	—	21,447	(38,186)
Other Revenue	562,079	676,689	612,483
Sinking Fund and Public Debt Retirement Fund Earnings	119,597	124,395	143,235
Total Revenue	7,203,661	7,461,042	6,998,311
Expenses (Schedule 2)			
Agriculture and Fisheries	56,886	62,689	62,503
Community Services	882,252	813,611	793,641
Education	1,366,869	1,420,581	1,330,088
Assistance to Universities	214,526	231,958	235,195
Energy	10,814	21,331	10,307
Environment and Labour	44,584	80,207	78,061
Finance	18,316	16,147	25,146
Health	2,810,829	2,845,437	2,634,045
Justice	202,788	202,834	190,141
Natural Resources	66,643	72,661	60,386
Public Service	215,875	224,318	188,708
Service Nova Scotia and Municipal Relations	143,703	140,993	137,005
Tourism, Culture and Heritage	51,258	53,465	60,773
Transportation and Public Works	273,292	276,489	261,562
Restructuring Costs	86,933	75,069	39,658
Pension Valuation Adjustment	24,379	29,254	6,221
Loss (Gain) on Disposal of Crown Assets	—	(6,394)	(2,754)
Debt Servicing Costs (Note 10)	1,017,065	1,017,693	1,066,973
Total Expenses (Note 9)	7,487,012	7,578,343	7,177,659
Deficit from Governmental Units, on an Expense Basis	(283,351)	(117,301)	(179,348)
Net Income from Government Business Enterprises (Schedule 6)	346,634	345,419	349,507
Provincial Surplus, on an Expense Basis	63,283	228,118	170,159
Accumulated Deficits, Beginning of Year			
As Previously Reported		(9,066,929)	(9,232,222)
Accounting Changes (Note 2)		29,521	24,655
As Restated		(9,037,408)	(9,207,567)
Accumulated Deficits, End of Year		(8,809,290)	(9,037,408)

The accompanying notes and schedules are an integral part of these Financial Statements.

STATEMENT 3

CONSOLIDATED STATEMENT OF CHANGE IN NET DIRECT DEBT

for the fiscal year ended March 31, 2006

($ thousands)

	2006	2005 (as restated)
Net Direct Debt, Beginning of Year		
As Previously Reported	(12,308,407)	(12,327,824)
Accounting Changes (Note 2)	3,233	2,998
As Restated	(12,305,174)	(12,324,826)
Changes in the Year		
Provincial Surplus, on an Expense Basis	228,118	170,159
Acquisition of Tangible Capital Assets	(385,796)	(343,075)
Amortization of Tangible Capital Assets	212,551	195,456
Disposals and other Adjustments to Tangible Capital Assets	13,839	4,817
Increase in Inventories of Supplies	(1,506)	(6,651)
Decrease (Increase) in Prepaid Expenses	(1,202)	(1,054)
Total Changes in the Year	66,004	19,652
Net Direct Debt – End of Year	(12,239,170)	(12,305,174)

The accompanying notes and schedules are an integral part of these Financial Statements.

NOVA SCOTIA

STATEMENT 4

CONSOLIDATED STATEMENT OF CASH FLOW

for the fiscal year ended March 31, 2006

($ thousands)

	2006	2005 (as restated)
Cash Inflow (Outflow) from the following activities:		
Operating:		
Provincial Surplus, on an Expense Basis	228,118	170,159
Sinking Fund and Public Debt Retirement Fund Earnings	(124,395)	(143,235)
Foreign Exchange Amortization	5,963	1,145
Amortization of Tangible Capital Assets	212,551	195,456
Net Income from Government Business Enterprises	(345,419)	(349,507)
Profit Distributions from Government Business Enterprises	336,552	340,065
Net Change in Other Items (Note 11)	482,998	563,851
	796,368	777,934
Investing:		
Repayment of Loans	166,843	167,367
Advances and Investing	(224,454)	(269,243)
	(57,611)	(101,876)
Capital:		
Acquisition of Tangible Capital Assets	(385,796)	(343,075)
Proceeds from Disposal of Tangible Capital Assets	7,209	3,465
Loss on Disposal of Tangible Capital Assets	6,630	1,352
	(371,957)	(338,258)
Financing:		
Debentures Issued	788,471	461,715
Proceeds from Federal Equalization Repayable Loan	—	120,322
Foreign Currency Swaps and Adjustments	7,632	26,138
Sinking Fund Installments	(54,840)	(75,098)
Proceeds from Sinking Funds for Debt Repayment	657,700	500,000
Repayment of Debentures and Other Long-term Obligations	(1,779,114)	(1,504,637)
	(380,151)	(471,560)
Cash (Outflows) Inflows	(13,351)	(133,760)
Cash Position, Beginning of Year	405,212	538,972
Cash Position, End of Year	391,861	405,212
Cash Position Represented by		
Cash and Short-Term Investments	391,861	405,212

The accompanying notes and schedules are an integral part of these Financial Statements.

SCHEDULE 1

REVENUE

for the fiscal year ended March 31, 2006

($ thousands)

	2006	2005 (as restated)
Provincial Sources		
Income Taxes	1,929,957	1,791,325
Sales Taxes	1,483,575	1,472,773
Petroleum Royalties	123,850	28,202
Other Provincial Revenue	623,875	617,395
	4,161,257	3,909,695
Federal Sources		
Equalization Payments	1,343,527	1,321,774
Canada Health and Social Transfers	835,979	729,395
Other Federal Payments	297,748	319,915
	2,477,254	2,371,084
Prior Years' Adjustments – Federal/Provincial Fiscal Arrangements		
Provincial Sources	16,420	(63,279)
Federal Sources	5,027	25,093
	21,447	(38,186)
Other Revenue	676,689	612,483
Sinking Fund and Public Debt Retirement Fund Earnings	124,395	143,235
Total Revenue	7,461,042	6,998,311

NOVA SCOTIA

SCHEDULE 2

EXPENSES

for the fiscal year ended March 31, 2006

($ thousands)

	2006	2005 (as restated)
Agriculture and Fisheries		
Department of Agriculture and Fisheries	62,369	62,319
CIDA Ghana/Africa Project	320	184
Nova Scotia Blueberry Institute Fund	—	—
	62,689	62,503
Community Services		
Department of Community Services	718,982	709,596
Mainstream 1992 Fund	—	—
Nova Scotia Housing Development Corporation	94,629	84,045
	813,611	793,641
Education		
Department of Education	275,520	249,755
Annapolis Valley Regional School Board	112,696	104,118
Cape Breton Victoria Regional School Board	125,270	128,035
Chignecto-Central Regional School Board	169,012	160,333
Conseil Scolaire Acadien Provincial	37,399	34,005
Halifax Regional School Board	358,178	342,499
Nova Scotia Community College	144,283	128,563
Nova Scotia Government Acadian Bursary Program Fund	—	—
P3 Schools Capital and Technology Refresh Fund	—	29
Scotia Learning Centre Technology Refresh	2,325	—
South Shore Regional School Board	61,984	39,436
Southwest Regional School Board	—	35,381
Strait Regional School Board	73,435	70,988
Tri County Regional School Board	60,479	36,946
	1,420,581	1,330,088
Assistance to Universities	231,958	235,195
Energy		
Department of Energy	21,186	8,440
Nova Scotia Market Development Initiative Fund	145	1,867
Pengrowth Nova Scotia Energy Scholarship Fund	—	—
	21,331	10,307

SCHEDULE 2

EXPENSES (CONTINUED)

for the fiscal year ended March 31, 2006

($ thousands)

	2006	2005 (as restated)
Environment and Labour		
Department of Environment and Labour	39,848	39,193
Nova Scotia Environmental Trust Fund	—	—
Resource Recovery Fund Board Incorporated	40,359	38,868
	80,207	78,061
Finance		
Department of Finance	16,666	13,786
Nova Scotia Government Fund Limited	99	112
Nova Scotia Hurricane Juan Recovery Fund	53	183
Nova Scotia Pension Agency	—	—
Sydney Steel Corporation	111	15
3052155 Nova Scotia Limited	(782)	11,050
	16,147	25,146
Health		
Department of Health	1,170,846	1,081,956
Annapolis Valley District Health Authority	91,730	83,602
Cape Breton District Health Authority	198,819	193,036
Capital District Health Authority	625,767	581,911
Colchester East Hants Health Authority	54,664	51,877
Cumberland Health Authority	48,423	44,047
Gaming Addiction Treatment Trust Fund	—	—
Guysborough Antigonish-Strait Health Authority	57,597	54,173
Insured Prescription Drug Plan	159,542	146,087
Izaak Walton Killam Health Centre	167,670	150,275
Nova Scotia Gaming Foundation	744	2,089
Nova Scotia Health Research Foundation	5,065	4,617
Pictou County Health Authority	60,725	55,661
Provincial Drug Distribution Program	71,814	63,357
South Shore District Health Authority	56,672	52,407
South West Nova District Health Authority	75,359	68,950
	2,845,437	2,634,045
Justice		
Department of Justice	184,525	173,691
CorFor Capital Repairs and Replacement Fund	—	—
Nova Scotia Legal Aid Commission	18,309	16,450
	202,834	190,141

SCHEDULE 2

EXPENSES (CONTINUED)

for the fiscal year ended March 31, 2006

($ thousands)

	2006	2005 (as restated)
Natural Resources		
Department of Natural Resources	66,659	57,450
Acadia Coal Company Limited Fund	2	—
Coal Research Agreement Fund	275	—
Crown Land Mine Remediation Fund	—	33
Crown Land Silviculture Fund	2,542	—
Nova Scotia E 911 Cost Recovery Fund	2,981	2,669
Habitat Conservation Fund	202	119
Partnership Trust Fund	—	15
Scotia Benefits Fund	—	—
Species-at-Risk Conservation Fund	—	—
Sustainable Forestry Fund	—	100
	72,661	60,386
Public Service		
Public Service	176,878	144,088
Nova Scotia Business Incorporated	22,257	20,269
Nova Scotia Film Development Corporation	3,713	3,030
Nova Scotia Innovation Corporation	5,740	5,032
Trade Centre Limited	13,340	12,001
Waterfront Development Corporation Limited	2,390	4,288
	224,318	188,708
Service Nova Scotia and Municipal Relations		
Department of Service Nova Scotia and Municipal Relations	140,376	135,659
Nova Scotia Coordinate Referencing System Trust Fund	—	—
Nova Scotia Municipal Finance Corporation	617	1,346
	140,993	137,005
Tourism, Culture and Heritage		
Department of Tourism, Culture and Heritage	50,140	57,552
Art Gallery of Nova Scotia	3,325	3,221
	53,465	60,773
Transportation and Public Works		
Department of Transportation and Public Works	276,489	261,562
Sydney Tar Ponds Agency	—	—
	276,489	261,562

SCHEDULE 2

EXPENSES (CONTINUED)
for the fiscal year ended March 31, 2006
($ thousands)

	2006	2005 (as restated)
Restructuring Costs	75,069	39,658
Pension Valuation Adjustment	29,254	6,221
Loss (Gain) on Disposal of Crown Assets	(6,394)	(2,754)
Debt Servicing Costs		
Consolidated Fund	971,253	1,018,887
Annapolis Valley District Health Authority	309	292
Annapolis Valley Regional School Board	253	254
Cape Breton District Health Authority	1,059	925
Cape Breton Victoria Regional School Board	383	394
Capital District Health Authority	5,326	4,939
Chignecto-Central Regional School Board	1,225	1,268
Colchester East Hants Health Authority	207	189
Conseil Scolaire Acadien Provincial	59	57
Cumberland Health Authority	138	134
Guysborough Antigonish-Strait Health Authority	262	257
Halifax Regional School Board	1,886	1,957
Izaak Walton Killam Health Centre	1,402	1,310
Nova Scotia Business Incorporated	—	65
Nova Scotia Government Fund Limited	321	451
Nova Scotia Housing Development Corporation	30,047	30,676
Nova Scotia Legal Aid	134	121
Nova Scotia Municipal Finance Corporation	1,834	3,285
Pictou County Health Authority	242	228
Resource Recovery Fund Board	3	7
South Shore District Health Authority	242	229
South Shore Regional School Board	128	69
South West Nova District Health Authority	348	330
Southwest Regional School Board	—	68
Strait Regional School Board	326	338
Tri-County Regional School Board	95	65
Waterfront Development Corporation Limited	211	178
	1,017,693	1,066,973
Total Expenses	7,578,343	7,177,659

NOVA SCOTIA

SCHEDULE 3

LOANS AND INVESTMENTS

as at March 31, 2006

($ thousands)

	Loans and Investments	Provisions	Net 2006	Net 2005 (as restated)
Loans of the Consolidated Fund:				
Agriculture and Rural Credit Act	184,425	8,018	176,407	166,756
Fisheries Development Act	80,631	630	80,001	80,952
Housing Development Corporation Act	59,148	23,651	35,497	31,469
Industrial Development Act	73,405	38,507	34,898	38,136
Venture Corporations Act	809	809	—	—
Loans to Municipalities:				
Municipal Loan and Building Fund Act	515	—	515	655
Halifax-Dartmouth Bridge Commission	17,000	—	17,000	19,000
Miscellaneous	709	—	709	709
Nova Scotia Market Development Initiative Fund	7,600	—	7,600	—
	424,242	71,615	352,627	337,677
Loans of Governmental Units:				
Nova Scotia Business Incorporated	143,979	43,655	100,324	104,085
Nova Scotia Government Fund	7,175	—	7,175	—
Nova Scotia Innovation Corporation	86	—	86	178
Nova Scotia Municipal Finance Corporation	620,874	—	620,874	589,748
Other Government Units	45	—	45	146
	772,159	43,655	728,504	694,157
Total Loans	1,196,401	115,270	1,081,131	1,031,834
Investments of the Consolidated Fund:				
Housing Development Corporation Act	2,341	382	1,959	—
Industrial Development Act	7,614	—	7,614	4,347
	9,955	382	9,573	4,347
Investments of Governmental Units:				
Art Gallery of Nova Scotia	1,815	—	1,815	2,011
Nova Scotia Business Incorporated	23,281	10,948	12,333	10,492
Nova Scotia Innovation Corporation	17,747	—	17,747	18,304
Resource Recovery Fund Board	2,000	—	2,000	—
	44,843	10,948	33,895	30,807
Total Investments	54,798	11,330	43,468	35,154
Total Loans and Investments	1,251,199	126,600	1,124,599	1,066,988

The Provisions listed above include amounts for possible guarantee payouts related to the Industrial Development Act $400 (2005 – $300), the Housing Development Corporation Act $14,385 (2005 – $8,181) and Nova Scotia Business Incorporated $650 (2005 – $2,077).

Also included in Provisions for the Housing Development Corporation Act is $3,200 (2005 – $3,200) for interest fluctuations.

SCHEDULE 4

UNMATURED DEBT

as at March 31, 2006

($ thousands)

	2006			2005
	Gross Debt	Sinking Funds and Defeasance Assets	Net Debt	Net Debt
Governmental Units				
Consolidated Fund	11,404,354	2,094,796	9,309,558	9,862,183
Nova Scotia Government Fund Limited	10,250	—	10,250	10,250
Nova Scotia Housing Development Corporation	283,638	—	283,638	297,170
Nova Scotia Municipal Finance Corporation	20,725	—	20,725	35,216
Nova Scotia Power Finance Corporation	1,050,130	1,050,130	—	—
Waterfront Development Corporation Limited	2,800	—	2,800	4,200
Other	352	—	352	551
Unmatured Debt of Governmental Units	12,772,249	3,144,926	9,627,323	10,209,570
Government Business Enterprises				
Halifax-Dartmouth Bridge Commission	111,379	37,901	73,478	81,923
Highway 104 Western Alignment Corporation	84,592	—	84,592	83,682
Nova Scotia Gaming Corporation	58,383	—	58,383	81,501
Nova Scotia Liquor Corporation	6,050	—	6,050	6,693
Unmatured Debt of Government Business Enterprises	260,404	37,901	222,503	253,799
Total Unmatured Debt	13,032,653	3,182,827	9,849,826	10,463,369

Notes:

All debt is presented in Canadian dollar equivalents and after giving effect to currency swap contracts itemized in Note 5.

The current and long-term portions of unmatured debt of Governmental Units are shown on the Consolidated Statement of Financial Position with reference to this schedule. Debt of Government Business Enterprises is reflected in the Deficiency in Government Business Enterprises and in further detail in Schedule 6.

All foreign debt is hedged to Canadian dollars with the exception of $1,354.0 million US$ denominated debt. A one cent change in the CDN/US$ foreign exchange rate as of March 31, 2006, would result in a change in long-term debt, and a foreign exchange gain or loss, of $13.5 million. This hypothetical foreign exchange gain or loss would be amortized starting in 2007. The change in debt service costs for the 2007 fiscal year would be approximately $1.25 million due to this foreign exchange gain or loss amortization.

As of March 31, 2006, the Consolidated Fund held Sinking Funds and Public Debt Retirement Funds of $2,094.8 million. These funds were comprised of $1,544.0 million in Canadian assets and $550.7 million in US assets (US $471.8 million converted to CDN$ based on the underlying securities' effective foreign exchange rates). Total market value of both funds is $2,230.0 million at year-end. During the year, contributions were $144.2 million, total earnings were $124.4 million, and redemptions were $748.8 million.

SCHEDULE 4

UNMATURED DEBT (CONTINUED)

as at March 31, 2006

($ thousands)

Sinking fund assets are recorded at cost, which includes premiums and discounts associated with the purchase of these investments. These premiums and discounts are amortized on a straight-line basis over the term of the related investment. The unamortized portion of the premiums and discounts is included as part of the value of the sinking funds. As at March 31, 2006, the unamortized net premium was $57.9 million.

Assets consist primarily of debentures of the Provinces and Government of Canada with fixed interest rates ranging from 4.5% to 11% for Canadian funds and 3.25% to 9.50% for US funds. For designated sinking funds, payments normally commence on the first anniversary date of the issue of the debenture and are designed to retire the debt over the term of the issue. At year-end, the Province held $1,005.3 million worth of its own debentures (gross value of $1,661.5 million) in Sinking Funds and Public Debt Retirement Funds as active investments. These were comprised of $406.3 million in Canadian assets and $599.0 million in US assets.

As per the Nova Scotia Power Corporation Privatization Agreement, Nova Scotia Power Finance Corporation provides for defeasance of its debt. The portfolio of defeasance assets consists of Nova Scotia Power Corporation, other Provincial Governments and utilities, Federal US bonds, coupons or residuals. This debt is shown net of defeasance assets on the Statement of Financial Position.

Projected Payments

($ thousands)

	Governmental Units							Government Business Enterprises	Total
	By Major Currency (CDN Equivalent)						Total		
	Net Principal Repayments			Sinking Fund Requirements			Payments		
	CDN	US	Total	CDN	US	Total			
2007	1,156,891	—	1,156,891	35,591	28,440	64,031	1,220,922	31,295	1,252,217
2008	636,211	—	636,211	35,591	28,440	64,031	700,242	91,443	791,685
2009	309,635	—	309,635	35,591	28,440	64,031	373,666	17,672	391,338
2010	695,485	—	695,485	35,591	28,440	64,031	759,516	6,869	766,385
2011	684,224	—	684,224	35,591	28,440	64,031	748,255	5,058	753,313
2012 & thereafter	5,714,168	685,587	6,399,755	357,794	201,769	559,563	6,959,318	70,166	7,029,484
	9,196,614	685,587	9,882,201	535,749	343,969	879,718	10,761,919	222,503	10,984,422

Net principal repayments are comprised of the principal amount due less available designated sinking funds to retire the debenture.

In addition, the Province has approximately $1,023.8 million in unrestricted sinking funds that can be used towards the retirement of any unmatured debt. The use of these funds is evaluated each year based on a detailed analysis of cash requirements.

SCHEDULE 5

GROSS LONG-TERM DEBT

as at March 31, 2006

($ thousands)

	Foreign Exchange Rate	CDN $ Amount	Maturity Dates	Interest Rates
Governmental Units:				
		Debentures		
Consolidated Fund				
Consolidated Fund (CDN$)		9,384,342	2006 to 2037	4.5% to 15.998%
Consolidated Fund (US $1,354,040)	1.1671	1,580,300	2013 to 2022	7.25% to 9.5%
Consolidated Fund (UK)	2.0299	—-	2011 to 2019	11.75% to 16.75%
Consolidated Fund (Euro)	1.4169	—-	2007 to 2010	4.475%
Nova Scotia Municipal Finance Corporation		20,725	2006 to 2015	1.0% to 7.5%
Nova Scotia Power Finance Corporation				
Nova Scotia Power Finance Corporation (CDN$)		700,000	2012 to 2031	10.25% to 11.25%
Nova Scotia Power Finance Corporation (US$ 300,000)	1.1671	350,130	2021	9.4%
Total – Debentures		12,035,497		
		Loans		
Consolidated Fund – Other Debt		24,150	2007 to 2011	3.84% to 8.375%
Nova Scotia Government Fund Limited		10,250	indefinitely	1%
Nova Scotia Housing Development Corporation		283,638	2006 to 2034	4.0% to 21.5%
Waterfront Development Corporation		2,800	Demand Loan	bank prime less 0.95%
Other		—-		
Total – Loans		320,838		
		Capital Leases		
Consolidated Fund		415,562	2006 to 2027	3.92% to 11%
Other		352		
Total – Capital Leases		415,914		
Total – Long-term Debt of Governmental Units		**12,772,249**		

SCHEDULE 5

GROSS LONG-TERM DEBT (CONTINUED)

as at March 31, 2006

($ thousands)

	CDN $ Amount	Maturity Dates	Interest Rates
Government Business Enterprises:			
	Debentures		
Halifax-Dartmouth Bridge Commission	94,379	2007	5.95%
Highway 104 Western Alignment Corporation	84,592	2011 to 2026	10.13% to 10.76%
	Loans		
Halifax-Dartmouth Bridge Commission	17,000	2007	floating (line of credit)
Nova Scotia Gaming Corporation	19,558	2010	non-interest bearing
	Capital Leases		
Nova Scotia Gaming Corporation	38,825	2006 to 2009	12%
Nova Scotia Liquor Corporation	6,050	2012	13.8%
Total – Long-term Debt of Government Business Enterprises	**260,404**		
Total Gross Long-term Debt	**13,032,653**		

Call, Redemption and Other Features:

Consolidated Fund

Canadian debentures include the following redeemable issues:

- $1,079.4 million in CPP debentures, which are redeemable in whole or in part before maturity, on six months notice, at the option of the Minister of Finance of Canada;
- $35 million in medium-term promissory notes, redeemable in whole but not in part, on the initial redemption date and on each redemption date thereafter, on 15 days notice, at the option of the Province.

The interest rates shown for the Canadian and US debentures reflect the fixed rates only. There are debentures that have floating and step-up rates. Floating interest rates are adjusted on either a monthly or quarterly basis. Step-up rates are adjusted per the individual promissory note step-up schedules.

Housing Development Corporation

Mortgages and notes payable are secured by investments in social housing.

Highway 104 Western Alignment Corporation

In relation to its senior toll bonds, the Corporation has provided an assignment of all the present and future property and assets, including rights to operate the facility, and a security interest in the Debt Service Reserve Account and the Major Maintenance Reserve Account.

In relation to its junior toll bonds, the Corporation has assigned a second charge security interest in all security pledged to the senior toll revenue bondholders.

Halifax-Dartmouth Bridge Commission

The Commission’s toll bonds are secured by an assignment of the Commission; subject to the prior payment of operating and maintenance expenses, and the maintenance of certain reserve funds by the Commission.

SCHEDULE 6

GOVERNMENT BUSINESS ENTERPRISES

as at March 31, 2006

($ thousands)

	2006					2005
	Halifax-Dartmouth Bridge Commission	Highway 104 Western Alignment Corporation	Nova Scotia Gaming Corporation	Nova Scotia Liquor Corporation	Total	Total
Cash	8,352	553	13,488	2,478	24,871	33,206
Accounts Receivable	327	106	—-	2,480	2,913	3,412
Inventory	—-	9	1,727	30,011	31,747	35,006
Tangible Capital Assets	66,784	103,775	103,673	26,716	300,948	308,165
Other Assets	42,138	33,655	1,951	771	78,515	68,663
Total Assets	117,601	138,098	120,839	62,456	438,994	448,452
Accounts Payable	1,466	699	2,105	39,848	44,118	46,911
Long-term Debt	111,379	84,592	58,383	6,050	260,404	285,255
Other Liabilities	5,503	47,128	60,351	16,558	129,540	120,221
Total – Liabilities	118,348	132,419	120,839	62,456	434,062	452,387
Equity (Deficit)	(747)	5,679	—-	—-	4,932	(3,935)
Total Liabilities and Equity (Deficit)	117,601	138,098	120,839	62,456	438,994	448,452
Revenue	25,060	18,105	487,479	491,826	1,022,470	993,346
Expenses	12,718	6,023	328,244	308,726	655,711	620,839
Debt Servicing	6,959	8,598	3,900	1,883	21,340	23,000
Total – Expenses	19,677	14,621	332,144	310,609	677,051	643,839
Net Income (Loss)	5,383	3,484	155,335	181,217	345,419	349,507

Notes:

The year-end for Halifax-Dartmouth Bridge Commission is December 31. The year-end of the other three corporations is March 31.

SCHEDULE 6

GOVERNMENT BUSINESS ENTERPRISES (CONTINUED)

as at March 31, 2006

Halifax-Dartmouth Bridge Commission

The Commission is incorporated by Special Statute of the Province of Nova Scotia. The purpose of the Commission is to construct, maintain and operate bridges and their necessary approaches across the Halifax Harbour, between the communities of Halifax and Dartmouth, and across the North West Arm. Bridge tolls are regulated by the Nova Scotia Utility and Review Board, a provincially controlled public sector entity. The Commission's fiscal year end is December 31. At March 31, 2006, the Commission owed $17 million (2005—$19 million) to the Province's Consolidated Fund for a revolving line of credit. The Commission records depreciation on bridge assets, buildings and electronic transponders using the straight-line method and uses the declining balance method for all other assets. Included in other assets at December 31, 2005 is a reserve fund in the amount of $40.0 million, (2004—$33.5 million), $37.9 million (2004—$31.4 million) of which is restricted for repayment of principal, interest and fees on Toll Revenue Bonds as established under the terms of the trust indenture.

Highway 104 Western Alignment Corporation

The Corporation has been established to finance, design, construct, operate and maintain a 45 km stretch of highway between Masstown and Thompson Station in the counties of Colchester and Cumberland, Nova Scotia. The Province of Nova Scotia retains ownership of the highway. The Corporation is granted the right to operate the highway and collect tolls for a 30-year period, pursuant to an agreement dated April 1, 1996, after which time the right will revert to the Province. In addition, the Corporation has entered into an operating agreement with Atlantic Highways Management Corporation whereby compensation is based on the annual operating budget plus a variable fee. The Corporation's fiscal year end is March 31. The Corporation records depreciation using the sinking fund method. Restricted assets, consisting of short-term investments in the amount of $32.8 million (2005—$26.2 million), are included in other assets. These reserve accounts were established in accordance with trust indenture agreements between the Corporation and bondholders.

The Province of Nova Scotia contributed $55.0 million toward the construction of the highway, one-half of which was recovered from the Federal Government under the Canada-Nova Scotia Strategic Highway Improvement Program. There were no contributions in the current or previous year.

SCHEDULE 6

GOVERNMENT BUSINESS ENTERPRISES (CONTINUED)
as at March 31, 2006

Nova Scotia Gaming Corporation

The Corporation was incorporated on February 15, 1995 by Chapter 4 of the Acts of 1994–95, the Gaming Control Act. The purpose of the Corporation is to develop, undertake, conduct and manage casinos and other lottery business on behalf of the Province. The Corporation's fiscal year end is March 31.

The revenues of the Corporation are derived from two casinos, located in Halifax and Sydney, and ticket and video lottery sales. The net balance owing to the Province at March 31, 2006 was $42.9 million (2005—$32.0 million).

The Corporation is required to reimburse the operator of the casinos for approved development costs of the Halifax and Sydney casinos. The net present value of the remaining obligations for the casinos is approximately $38.8 million (2005—$52.1 million).

Unclaimed prizes are retained by the Corporation in a prize fund for one year from the announced beginning date of the draw. At March 31, 2006, this amounted to $2.6 million (2005—$2.2 million). Restricted cash in the amount of $2.6 million (2005—$2.1 million) is included in cash.

Video Lottery Terminal (VLT) retailers in Nova Scotia have agreed, under the terms of their agreements with Atlantic Lottery Corporation Inc., to contribute 1% of their VLT commission to the Nova Scotia Gaming Foundation. The Corporation has agreed to contribute an amount equal to all contributions made by the VLT retailers.

The Corporation has agreed to an annual contribution from the Casinos of $1 million to the Department of Health to provide funds for programs related to problem gambling. In addition, the Corporation will contribute $3 million to the Department of Health to assist with the new Gaming Strategy Policy. The Corporation will provide up to $1.0 million (2006—$0.8 million) in funds in fiscal 2007 for the harness racing industry in Nova Scotia.

Nova Scotia Liquor Corporation

The Corporation derives its mandate from the Liquor Control Act, Chapter 260 of the Revised Statutes of Nova Scotia, 1989. The Corporation operates retail sales locations across the province. Its fiscal year end is March 31. The net balance owing to the Province at March 31, 2006 was $8.3 million (2005—$16.8 million).

SCHEDULE 7

TANGIBLE CAPITAL ASSETS

as at March 31, 2006

($ thousands)

	2006									2005
	Land	Buildings and Land Improvements	Machinery, Computers and Equipment	Ferries	Vehicles	Capital Leases	Roads, Bridges and Highways	Social Housing	Total	(as restated) Total
Cost										
Opening Costs	538,975	2,298,310	784,730	13,416	56,168	521,287	629,362	349,927	5,192,175	4,885,205
Additions	10,102	143,817	79,342	---	7,477	4,856	140,202	---	385,796	343,075
Annual Adjustment to Social Housing	—	—	—	—	—	—	—	(13,087)	(13,087)	(11,807)
Disposals	(3,091)	(14,868)	(23,872)	(467)	(1,837)	(3,606)	(648)	(739)	(49,128)	(24,298)
Closing Costs	545,986	2,427,259	840,200	12,949	61,808	522,537	768,916	336,101	5,515,756	5,192,175
Accumulated Amortization										
Opening Accumulated Amortization	—	(944,297)	(562,031)	(9,524)	(38,144)	(152,685)	(278,664)	—	(1,985,345)	(1,821,177)
Disposals	—	12,925	16,928	466	1,637	3,245	88	—	35,289	19,481
Amortization Expense	—	(64,804)	(56,364)	(584)	(5,125)	(28,665)	(43,922)	—	(199,464)	(183,649)
Closing Accumulated Amortization	—	(996,176)	(601,467)	(9,642)	(41,632)	(178,105)	(322,498)	—	(2,149,520)	(1,985,345)
Net Book Value	545,986	1,431,083	238,733	3,307	20,176	344,432	446,418	336,101	3,366,236	3,206,830
Opening Balance	538,975	1,354,013	222,699	3,892	18,024	368,602	350,698	349,927	3,206,830	3,064,028
Closing Balance	545,986	1,431,083	238,733	3,307	20,176	344,432	446,418	336,101	3,366,236	3,206,830
Increase (Decrease) in Net Book Value	7,011	77,070	16,034	(585)	2,152	(24,170)	95,720	(13,826)	159,406	142,802

Notes to Schedule 7:
($ thousands)

Amortization is calculated on a declining balance basis for assets of the Consolidated Fund. The amortization percentages of the more common tangible capital assets are: buildings (5%); machinery, computers and equipment (15–50%); ferries (15%); vehicles (20–35%); and roads, bridges and highways (5–15%). Capital leases are amortized on a straight-line basis over the length of each lease (3–25 years).

Amortization is generally calculated on a straight-line basis for assets of entities consolidated with the Consolidated Fund. The estimated useful lives of the more common tangible capital assets are: buildings (including leasehold improvements) and land improvements (2–50 years); machinery, computers and equipment (3–50 years); and vehicles (3–5 years). Capital leases are amortized on a straight-line basis, generally over a 3 to 20 year term.

Social Housing assets relate to the Housing Development Corporation. This entity does not track accumulated amortization separately so the closing cost of these assets is the net carrying value of the assets. Social Housing assets are amortized using the straight line method.

Included in the closing costs of the various classes as of March 31, 2006, are costs for assets under construction, which have not yet been amortized. These costs are buildings—$70,183; machinery, computers and equipment—$15,584; capital leases—$769; and roads, bridges and highways—$58,065.

Included in Capital Leases are buildings—cost $470,515, accumulated amortization ($145,601); machinery, computers and equipment—cost $37,222, accumulated amortization ($26,769); and vehicles—cost $14,801, accumulated amortization ($5,734).

The Consolidated Fund records third party contributions received for the purchase, development or construction of tangible capital assets against the cost of those related assets. The amount of third party contributions recorded against the cost of tangible capital assets for 2006 is $14,715 (2005—$10,845).

SCHEDULE 8

DIRECT GUARANTEES

as at March 31, 2006

($ thousands)

	Authorized 2006	Utilized 2006	Utilized 2005 (as restated)
Bank Loans:			
Nova Scotia Business Incorporated	2,754	2,754	2,823
Industrial Development Act	122,695	73,524	77,959
Nova Scotia Fisheries and Aquaculture Loan Board	100	100	—
Department of Education—Student Loan Program	154,874	154,874	141,020
Total – Bank Loan Guarantees	280,423	231,252	221,802
Promissory Notes:			
3052155 Nova Scotia Limited to Canada-Nova Scotia Offshore Petroleum Board	17,500	17,500	17,500
Total – Promissory Note Guarantees	17,500	17,500	17,500
Mortgages:			
Housing Development Corporation Act	12,468	12,468	14,183
Housing Development Corporation Act—CMHC Indemnities	144,094	144,094	150,349
Provincial Finance Act	240	240	269
Total – Mortgage Guarantees	156,802	156,802	164,801
Other Guarantees:			
Aliant Telecom MASH Sector	1,594	1,150	487
Equity Tax Credit Act—Community Economic Development Investment Funds	2,402	2,402	2,256
Nova Scotia Government Fund	9,840	9,840	8,900
Sydney Steel Corporation—Performance bonds	—	—	183
Total – Other Guarantees	13,836	13,392	11,826
Total – Direct Guarantees	468,561	418,946	415,929
Less Provision for Guarantee Payout:			
Industrial Development Act		(400)	(300)
Nova Scotia Business Incorporated		(650)	(2,077)
Department of Education—Student Loan Program		(22,574)	(21,100)
Housing Development Corporation Act		(14,385)	(8,181)
3052155 Nova Scotia Limited		(833)	(17,500)
		(38,842)	(49,158)
Less Provision for Debt Reduction Program:			
Department of Education—Student Loan Program		(13,896)	(9,649)
		(13,896)	(9,649)
Net Direct Guarantees not provided for in these statements		**366,208**	**357,122**

SCHEDULE 9

GOVERNMENT REPORTING ENTITY

as at March 31, 2006

Listed below are the governmental units, government business enterprises and government partnership arrangements that comprise the government reporting entity.

Governmental Units

(Consolidation Method)

Acadia Coal Company Limited Fund
AgraPoint International Inc.
AgriTECH Park Inc.
Annapolis Valley District Health Authority
Annapolis Valley Regional School Board
Art Gallery of Nova Scotia
Bioscience Enterprise Centre Incorporated
Cape Breton District Health Authority
Cape Breton Victoria Regional School Board
Capital District Health Authority
Check Inns Limited (inactive)
Chignecto-Central Regional School Board
Coal Research Agreement Fund
Colchester East Hants Health Authority
Conseil Scolaire Acadien Provincial
Consolidated Fund (1)
CorFor Capital Repairs and Replacements Fund
Crown Land Mine Remediation Fund
Crown Land Silviculture Fund
Cumberland Health Authority
Gaming Addiction Treatment Trust Fund
Guysborough Antigonish-Strait Health Authority
Habitat Conservation Fund
Halifax Regional School Board
Industrial Expansion Fund
Insured Prescription Drug Plan Trust Fund
Izaak Walton Killam Health Centre
Law Reform Commission
Mainstream 1992 Fund
Muggah Creek Remediation Fund
Nova Scotia Arts Council (inactive)
Nova Scotia Blueberry Institute Fund
Nova Scotia Business Incorporated
Nova Scotia Community College
  Nova Scotia Community College Foundation
Nova Scotia Coordinate Referencing System Trust Fund
Nova Scotia Crop and Livestock Insurance Commission
Nova Scotia E911 Cost Recovery Fund
Nova Scotia Environmental Trust
Nova Scotia Farm Loan Board
Nova Scotia Film Development Corporation
Nova Scotia Fisheries and Aquaculture Loan Board
Nova Scotia Gaming Foundation
Nova Scotia Government Acadian Bursary Program Fund
Nova Scotia Government Fund Limited
Nova Scotia Harness Racing Incorporated
Nova Scotia Health Research Foundation
Nova Scotia Housing Development Corporation
  Annapolis Valley Housing Authority
  Cape Breton Island Housing Authority
  Cobequid Housing Authority
  Eastern Mainland Housing Authority
  Metropolitan Regional Housing Authority
  South Shore Housing Authority
  Tri-County Housing Authority
Nova Scotia Hurricane Juan Recovery Fund
Nova Scotia Innovation Corporation
  1402998 Nova Scotia Limited
  3039255 Nova Scotia Limited
  3087532 Nova Scotia Limited
Nova Scotia Legal Aid Commission
Nova Scotia Market Development Initiative Fund
Nova Scotia Municipal Finance Corporation
Nova Scotia Pension Agency
Nova Scotia Power Finance Corporation
Nova Scotia Primary Forest Products Marketing Board
Nova Scotia School Boards Association (2)
Nova Scotia School Insurance Exchange (3)
Nova Scotia School Insurance Program Association (3)
Nova Scotia Utility and Review Board
P3 Schools Capital and Technology Refresh Fund (4)
Partnership Trust Fund
Pengrowth Nova Scotia Energy Scholarship

(1) – Includes all departments and public service units of the Nova Scotia Provincial Government.
(2) – Entity is a partnership controlled by the eight school boards.
(3) – Entity is a partnership controlled by the eight school boards and the Community College.
(4) – This includes all refresh funds related to P3 schools.

SCHEDULE 9

GOVERNMENT REPORTING ENTITY (CONTINUED)

as at March 31, 2006

Governmental Units

(Consolidation Method)

Pictou County Health Authority
Provincial Drug Distribution Program
Public Archives of Nova Scotia
Public Debt Management Fund
Resource Recovery Fund Board Incorporated
Rockingham Terminal Incorporated (inactive)
Scotia Benefit Fund
Scotia Learning Technology Refresh Fund
Sherbrooke Restoration Commission
South Shore District Health Authority
South Shore Regional School Board
South West Nova District Health Authority
Species-at-risk Conservation Fund
Strait Regional School Board
Sustainable Forestry Fund
Sydney Environmental Resources Limited
Sydney Steel Corporation
Sydney Tar Ponds Agency
Sysco Decommissioning Fund
Trade Centre Limited
  Maritime Fall Fair Association
Tri-County Regional School Board
Upper Clements Family Theme Park Limited
Waterfront Development Corporation Limited
3052155 Nova Scotia Limited
3104102 Nova Scotia Limited

Government Business Enterprises

(Modified Equity Method)

Halifax-Dartmouth Bridge Commission
Highway 104 Western Alignment Corporation
Nova Scotia Gaming Corporation
  Atlantic Lottery Corporation (25% ownership)
  Interprovincial Lottery Corporation
    (10% ownership)
Nova Scotia Liquor Corporation

Government Partnership Arrangements

(Proportionate Consolidation Method)

Atlantic Provinces Special Education Authority
  (approximately 55% share)
Canada-Nova Scotia Offshore Petroleum Board
  (50% share)
Canadian Sports Centre Atlantic
  (approximately 8% share)
Council of Atlantic Premiers
  (approximately 45% share)

PROVINCE OF NOVA SCOTIA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2006

1. FINANCIAL REPORTING AND ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector, that for purposes of the Province's financial statements are represented by accounting recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by other CICA and International Federation of Accountants accounting standards or pronouncements.

These consolidated financial statements have been prepared using the following significant accounting policies:

a) The Government Reporting Entity

The Government Reporting Entity is comprised of the Consolidated Fund, other Governmental Units, Government Business Enterprises and Government Partnership Arrangements. Governmental Units and Government Business Enterprises represent the entities that are controlled by the government. Control is defined as the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities. Control exists regardless of whether the government chooses not to exercise its power to govern so long as it has the ability to govern. Control must exist at the financial statement date, without the need to amend legislation or agreements. Government Partnership Arrangements represent entities for which decision making and significant risks and benefits are shared with other parties outside of the Government Reporting Entity.

Trusts administered by the Province are excluded from the reporting entity and are disclosed separately on the Statement of Financial Position for information purposes only.

b) Principles of Consolidation

A Governmental Unit is a government organization that is not a Government Business Enterprise. Governmental Units include government departments, public service votes, funds, agencies, service organizations, boards, government not-for-profit organizations and government business-type organizations. The accounts of Governmental Units are consolidated on a line-by-line basis after adjusting the accounting policies to be consistent with those described in Note 1 (c), with the exception of Tangible Capital Assets. Significant inter-organization accounts and transactions are eliminated.

A Government Business Enterprise is a self-sustaining organization that has the financial and operating authority to sell goods and services to individuals and non-government organizations as its principal activity and source of revenue. Government Business Enterprises have been accounted for on the modified equity basis, which does not require any accounting policy adjustments. The net equity of the Government Business Enterprises is included in the Statement of Financial Position. The net income is shown as a separate item in the Statement of Operations.

A Government Partnership is a contractual arrangement between the government and a party or parties outside the reporting entity. The partners have significant clearly defined common goals, make a financial investment in the partnership, share control of decision making, and share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership. Where significant, the government's interest in partnerships is accounted for on the proportionate consolidation method.

A complete listing of the organizations within the Government Reporting Entity is provided in Schedule 9.

Financial results from fiscal year end to March 31, 2006, for Government Business Enterprises whose fiscal year ends are not March 31, were not significant to these consolidated financial statements so they have not been adjusted.

c) **Significant Accounting Policies**

Revenues

Revenues are recorded on the accrual basis. The main components of revenue are interest, various taxes and legislated levies. Revenues from Personal and Corporate Income Taxes, as well as Harmonized Sales Taxes are accrued in the year earned based upon estimates using statistical models. These revenues are recorded at the net amount estimated, after considering adjustments for tax credits and administrative costs related to the collection and processing performed by the federal government.

Expenses

Expenses are recorded on the accrual basis and are reported in more detail in Note 9—Expenses By Object. Grants are recognized in the period during which both payment is authorized and any eligibility criteria are met. Provisions are made for probable losses on certain loans, investments, loan guarantees, accounts receivable, advances, forgivable loans and for contingent liabilities when it is likely that a liability exists and the amount can be reasonably determined. These provisions are updated as estimates are revised, at least annually.

Financial Assets

Cash and Short-term Investments are recorded at cost, which approximates market value. Investments are R-1 (low, mid, high) rated federal and provincial government bills or promissory notes, bankers' acceptances, term deposits and commercial paper. Terms of investments are generally 1 to 90 days. The average interest rate is 3.76% at year-end.

Accounts Receivable and Advances are recorded at the principal amount less valuation allowances.

Inventories for Resale are held for sale in the ordinary course of operations and are recorded at the lower of cost and net realizable value.

Loans are recorded at cost less adjustments for concessionary assistance and any prolonged impairment in value. Concessionary assistance consists of subsidies provided by the Province and is recognized as an expense at the date of issuance of the loan. Any loan write offs must be approved by the Governor-in-Council. Loans usually bear interest at approximate market rates and normally have fixed repayment schedules.

Investments are recorded at cost less adjustments for concessionary assistance and any prolonged impairment in value. Concessionary assistance consists of subsidies provided by the Province and is recognized as an expense at the date of issuance of the investment. Any write-down of an investment to reflect a loss in value is not reversed if there is a subsequent increase in value.

Liabilities

Bank Advances and Short-term Borrowings have initial maturities of one year or less and are recorded at cost that approximates market value. Short-term Borrowings had a weighted average interest rate of 3.67% at year-end on Canadian dollar borrowings.

Unmatured Debt consists of debentures and various loans in Canadian and foreign currencies and capital leases. Debt is recorded at par, net of sinking funds (including public debt management funds).

Sinking Fund and Public Debt Retirement Fund investments are recorded at cost and consist primarily of debentures of the Province of Nova Scotia, other provincial governments and the Government of Canada. Premiums and discounts on sinking funds are deferred and amortized over the life of the investment. Amortization and realized gains and losses for premiums and discounts relating to sinking fund balances and installments are netted against sinking fund earnings.

Unamortized Foreign Exchange Translation Gains and Losses result when debentures payable in foreign currencies, and sinking funds invested in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at March 31 and upon entering into derivative contracts. Foreign exchange gains and losses on the translation of foreign currency are amortized on a straight-line basis over the remaining term of the related monetary issue.

Premiums and discounts, as well as underwriting commissions relating to the issuance of debentures, are deferred and amortized over the term of the related debt. Amortization and realized foreign exchange gains and losses, premiums and discounts relating to debt balances, serial retirements, sinking fund balances and installments are charged to debt servicing costs except as noted above.

Pension, Retirement and Other Obligations include various employee future benefit plans. Pension liabilities for defined benefit plans are calculated using the projected benefit actuarial method using accounting assumptions that reflect the Province's best estimates of performance over the long-term. The projected benefit actuarial method attributes the estimated cost of retirement benefits to the periods of employee service. The net pension liability represents accrued pension benefits less the market related value of pension assets (if applicable) and the balance of unamortized experience gains and losses. The market related values are determined in a rational and systematic manner so as to recognize asset market value gains and losses over a five-year period. The pension benefit plan for the majority of health sector employees is offered by a multi-employer plan administrator and is not sponsored by the Province. Employer contributions to this plan are expensed in the period paid. The accrued benefit asset (liability) of this plan is not recognized in these financial statements.

Net Direct Debt

Net Direct Debt represents the direct liabilities of the Province less financial assets and unamortized foreign exchange translation gains and losses and premiums and discounts on outstanding debenture issues.

Non-Financial Assets

Tangible Capital Assets have useful lives extending beyond the accounting period, are held for use in the production and supply of goods and services and are not intended for sale in the ordinary course of operations. Tangible capital assets are recorded at net historical cost (or estimated cost when the actual cost is unknown) and include all costs directly attributable to the acquisition, construction, development and installation of the tangible capital asset, except interest. Tangible Capital Assets include land, buildings, major equipment and software, vehicles, ferries, roads, highways, and bridges. Tangible capital assets do not include intangibles or assets acquired by right, such as forests, water and mineral resources or works of art and historical treasures. Tangible capital assets are amortized to expense over the useful lives of the assets. The amortization methods and rates selected by entities other than the Consolidated Fund are not adjusted to the methods and rates used by the Consolidated Fund.

Inventories of Supplies are held for consumption or use by the Province in the course of its operations. All entities record inventory at the lower of cost and net realizable value.

Prepaid Expenses are cash disbursements for goods or services, other than Tangible Capital Assets and Inventories of Supplies, of which some or all will provide economic benefits in one or more future periods. The prepaid amount is recognized as an expense in the year the good or service is used or consumed.

Accumulated Deficits

Accumulated Deficits represent the direct liabilities of the Province less financial assets, non-financial assets and unamortized foreign exchange translation gains and losses and premiums and discounts on outstanding debenture issues. This represents the accumulated balance of net surpluses/deficits arising from the operations of the Province.

d) Measurement Uncertainty

Uncertainty in the determination of the amount at which an item is recorded in the financial statements is known as measurement uncertainty. Uncertainty exists whenever estimates are used because it is reasonably possible that there could be a material difference between the recognized amount and another reasonably possible amount.

Measurement uncertainty exists in these financial statements in the accruals for such items as pension, retirement and other obligations, environmental remediation obligations, federal, and provincial source revenues. The nature of the uncertainty in the accruals for pension, retirement and other obligations arises because actual results may differ significantly from the Province's various assumptions about plan members and economic conditions in the marketplace. Uncertainty exists for environmental remediation obligations because the actual extent of remediation activities required may differ significantly based on the actual extent of site contamination and the chosen remediation process. Uncertainty related to Sales and Income Taxes, petroleum royalties, CHT and CST arises because of the possible differences between the estimated and actual economic growth and other assumptions used in statistical models to accrue these revenues.

2. ACCOUNTING CHANGES

Accounting changes were made during the year that have increased (decreased) the Provincial Surplus, on an expense basis, Net Direct Debt and Accumulated Deficits as follows ($ millions):

Accounting Changes
($ millions)

	2006			2005		
	Provincial Surplus, on an expense basis	Net Direct Debt (April 1, 2005)	Accumulated Deficits (April 1, 2005)	Provincial Surplus, on an expense basis	Net Direct Debt (April 1, 2004)	Accumulated Deficits (April 1, 2004)
a) School Boards Non-Teaching Retirement Allowances	(0.2)	1.8	1.8	0.0	1.8	1.8
b) Inventory	(0.7)	(3.1)	(29.3)	4.5	(3.1)	(24.8)
c) Nova Scotia Farm Loan Board	0.0	(2.3)	(2.3)	0.0	(2.3)	(2.3)
d) School Boards—Pensions	0.2	0.3	0.3	0.3	0.6	0.6
Total effect of Accounting Changes	**(0.7)**	**(3.3)**	**(29.5)**	**4.8**	**(3.0)**	**(24.7)**

a) School Boards—Non-teaching Retirement Allowances

The obligation for retirement allowances for non-teaching staff of the Halifax Regional and Chignecto-Central Regional School Boards was valued during the 2005–06 fiscal period and recorded on a retroactive basis.

b) Inventory

Inventory held by provincial departments has been recorded during the 2005–06 fiscal period and applied on a retroactive basis.

c) Nova Scotia Farm Loan Board

An adjustment to the reserve account was made as a result of actuarial work which impacted periods prior to 2004–05.

d) School Boards—Pensions

Certain school boards valued non-teaching pension obligations during the 2005–06 fiscal period.

3. RESTRICTED CASH AND SHORT-TERM INVESTMENTS

As at March 31, 2006, restricted cash and short-term investments of $69.3 million (2005—$75.3 million) have been designated for restricted purposes by parties external to the Province. Restricted cash includes $33.4 million for future housing expenditures from the Nova Scotia Housing Development Corporation; $7.3 million for gas market development from the Nova Scotia Market Development Initiative; and $28.6 million for various other purposes.

4. DEFERRED REVENUE

Deferred revenue is recognized into revenue over time as the recognition criteria are achieved. The balance as at March 31, 2006 is comprised of $772.9 million (2005—$0) for the Offshore Accord, $86.1 million (2005—$104.3 million) for the Wait Times Reduction Fund, $33.4 million (2005—$27.3 million) for the Nova Scotia Housing Development Corporation's Social Housing Agreement and $139.4 million (2005—$114.7 million) of other miscellaneous amounts.

5. DERIVATIVE FINANCIAL INSTRUMENTS

The Province is a party to financial instruments with off-balance sheet risk, either to hedge against the risks associated with fluctuations in foreign currency exchange rates or to manage risks associated with interest rate fluctuations. Hedging instruments are considered effective, as their terms and conditions are specifically matched to the underlying financial obligation. Foreign currency contracts are used to convert the liability for foreign currency borrowing and associated costs into Canadian or US dollars. Interest rate contracts are used to vary the amounts and periods for which interest rates on financial instruments are fixed or floating. Interest swap contracts convert certain interest payments from fixed to floating, from floating to fixed, floating to floating or fixed to fixed basis. Foreign exchange contracts include forward and swap agreements. Interest rate contracts include forward rate agreements, swap agreements and options on swaps. Gains and losses associated with foreign currency contracts are amortized over the life of the underlying financial instrument. Gains and losses associated with interest rate contracts are recognized when interest payments are made.

The Province's credit policy is that it only executes derivative transactions with well-rated counter parties. All counter parties are rated equal to or better than the Province.

The Province had the following interest and currency swap contracts outstanding at March 31, 2006:

# of Swaps	Currency	Notional Principal	Term Remaining	Mark to Market *
		($ thousands)	(years)	($ millions)
150	CDN$	1,702,569	45 days to 25	(26.2)
11	US$	1,550,000	6 to 16	(378.6)
2	UK	83,250	5 to 13	(11.3)
2	Euro	90,000	1 to 4	(5.6)

* Mark to Market is an indication of the swap's market value as at March 31, 2006. This represents the estimated realizable gain and loss, and is equivalent to the present value of future interest savings and losses based on market conditions as at March 31, 2006. The mark to market values of the currency swaps are reflected in the amounts shown under interest rate swaps.

The Province has executed several currency swap contracts/forward agreements to convert foreign denominated debt into Canadian or US denominated debt. The mark to market of these swap contracts are included above, and the currency swap contracts are as follows:

Termination Date	Original Currency	Original Principal	Current Currency	Current Principal
		($ thousands)		($ thousands)
SWAPS:				
October 31, 2011	UK	23,250	CDN$	56,283
April 18, 2019	UK	60,000	US$	110,040
February 27, 2012	US$	500,000	CDN$	795,000
March 15, 2016	US$	150,000	CDN$	205,725
March 1, 2020	US$	300,000	CDN$	409,200
April 1, 2022	US$	300,000	CDN$	379,517
July 30, 2022	US$	300,000	CDN$	329,310
December 28, 2007	Euro	40,000	CDN$	56,120
February 24, 2010	Euro	50,000	CDN$	72,235

At March 31, 2006 the Province had entered 8 forward agreements to convert future interest payments on foreign debt into Canadian dollars as follows:

Termination Date	Original Currency	Original Principal	Current Currency	Current Principal
		($ thousands)		($ thousands)
April 3, 2006 to August 1, 2006	US$	76,314	CDN$	88,229

6. FEDERAL EQUALIZATION REPAYABLE LOAN

The Province received an equalization repayable loan from the Federal Government in March 2005 in the amount of $120.3 million. The loan bears no interest and is to be repaid over 10 years, with bi-monthly deductions to commence in April 2006.

7. PENSION, RETIREMENT AND OTHER OBLIGATIONS

a) Description of Obligations

The Province offers a variety of pension, other retirement, post-employment and special termination benefits. The Province is responsible for adequately funding most of the plans. Except as otherwise noted, the cost of benefits are recognized in the periods the employee provides service. For benefits that do not vest or accumulate, a liability is recognized when an event that obligates the Province to pay benefits occurs. The significant plans are detailed as follows:

i) Pension Benefit Plans

The Province sponsors two funded pension plans, the Public Service Superannuation Plan (PSSP) and the Nova Scotia Teachers' Pension Plan (TPP). Both plans are defined benefit plans with plan assets primarily composed of Canadian and foreign equities, government and corporate bonds, debentures and secured mortgages. The plans are jointly funded with contributions from employees being matched by the Province. Benefits paid upon retirement are based on an employee's length of service, rate of pay and inflation adjustments.

The Province has several unfunded defined pension plans. The majority of these plans do not require contributions from employees. Benefits paid upon retirement are based on an employee's length of service, rate of pay and inflation adjustments.

Employees in the health sector are members of a multi-employer defined benefit pension plan. As the Province does not sponsor this plan, the annual net benefit plan expense is the amount of required contributions provided for employees' services rendered during the year. The accrued benefit asset (liability) of this plan is not recognized in these financial statements. The most recent actuarial valuation was performed on December 31, 2003 and showed a funding excess for the entire plan of $105 million. An extrapolation to December 31, 2005, was performed, which indicates a funding surplus of $262 million.

ii) Other Retirement Benefit Plans

The Province sponsors two other retirement benefit plans: retirement allowances and retirement health plan benefits. These plans are not funded. Benefits paid upon retirement for retirement allowances are based on an employee's length of service and rate of pay. Retirement health plan benefits vary depending on the collective agreements negotiated with each group. The Province pays 65% and 100% of the cost of retirement health plan benefits for the PSSP and TPP retirees respectively.

iii) Post-Employment Benefits

The Province offers two significant post-employment benefit plans: Self Insured Workers' Compensation and Long-Term Disability. The amount recorded in these financial statements represents the actual amount of benefits paid during the year plus the actuarial estimate of future payments, based on claims ongoing at year-end, in excess of the fair market value of plan assets.

iv) Special Termination Benefits

The Province has offered early retirement incentive programs to members of the PSSP and TPP at various times commencing in 1986 and 1994 respectively. Qualified members were offered additional years of pensionable service if they elected to retire. The cost of these benefits were accrued in the year the employee accepted the early retirement option.

b) Summary of Activity in Defined Benefit Plans

Accrued Benefit Liability
($ thousands)

	2006	2005 (as restated)
Pension Benefit Plans	109,769	193,885
Other Benefit Plans	1,192,913	1,169,935
	1,302,682	1,363,820

Activity During the Year
($ thousands)

	Pension Benefit Plans		Other Benefit Plans	
	2006	2005 (as restated	2006	2005 (as restated)
Projected benefit obligation, beginning of year	8,410,839	7,740,854	1,160,838	1,159,824
Current benefit cost	196,120	194,498	52,477	47,201
Interest cost	616,608	598,165	69,709	68,609
Actuarial (gains) losses	31,278	332,918	9,926	(27,921)
Benefit payments	(479,061)	(457,435)	(86,910)	(88,705)
Other	2,498	1,839	—	—
Plan amendments	(152,491)	—	932	1,830
Projected benefit obligation, end of year	8,625,791	8,410,839	1,206,972	1,160,838
Market related value of plan assets, beginning of year	7,313,800	7,286,430	45,217	38,957
Expected return on plan assets	557,467	547,002	3,398	2,880
Actuarial gains (losses)	(72,646)	(292,453)	(1,458)	(2,187)
Benefit payments	(479,061)	(457,435)	(86,910)	(88,502)
Other	2,498	3,213	(529)	(310)
Employer contributions	275,397	125,527	85,484	85,363
Employee contributions	110,589	101,516	9,509	9,016
Market related value of plan assets, end of year	7,708,044	7,313,800	54,711	45,217
Funded status, end of year	(917,747)	(1,097,039)	(1,152,261)	(1,115,621)
Unamortized net actuarial (gains) losses	807,978	903,154	(40,652)	(54,314)
Accrued benefit liability, end of year	(109,769)	(193,885)	(1,192,913)	(1,169,935)

c) Actuarial Assumptions

The table below shows significant weighted-average assumptions used to measure pension and other benefit plan obligations.

	Pension Benefits		Other Benefits	
	2006	**2005**	**2006**	**2005**
Long-term inflation rates	2.75%	2.75%	2.75%	2.75%
Expected real rate of return on plan assets	4.75%	4.75%	—-	—-
Rate of compensation increase	3.25% to 6.0% + merit	3.25% to 6.0% + merit	3.25% to 6.0% + merit	3.25% to 6.0% + merit
Discount rate – Main plans	7.63%	7.63%	5.95%	6.05%
– Other	—-	—-	5.95% to 7.12%	6.0% to 7.12%

Other assumptions used were:

7% annual rate increase in the cost per person of covered healthcare benefits for 2005, decreasing at 0.25% per annum to an ultimate rate of 5.0% per annum.

13% annual rate increase in the cost per person of covered prescription drugs for 2005, decreasing at 1% per annum to an ultimate rate of 5.0% per annum.

Actuarial assumptions are reviewed and assessed on a regular basis to ensure that the accounting assumptions take into account various changing conditions and reflect the Province's best estimate of performance over the long-term.

d) Other Disclosure

The net unamortized actuarial gains (losses) are amortized on a straight-line basis over the expected average remaining service life (EARSL) of the related employee groups ranging from 6 years to 16 years (weighted-average EARSL is 14 years).

During the year the weighted average actual rate of return on plan assets was 14.0% (2005—7.5%). The market value of plan assets is $8.1 billion (2005—$7.2 billion) at March 31, 2006.

The most recent actuarial valuations performed for most of the benefit plans was at December 31, 2004 with the exception of certain other retirement benefit plans that were performed on December 31, 2003 and the post-employment benefit plans that are performed annually at March 31.

During the 2005–06 fiscal year, a plan amendment was made to the Nova Scotia Teachers' Pension Fund regarding future indexing of pension payments as part of an agreement signed on June 22, 2005 between the Province and the Nova Scotia Teachers' Union. The accrued benefit obligation was reduced by $152.5 million to reflect the impact of this plan amendment on prior period service costs. The Province contributed $142.0 million plus interest in June 2005, which increased the assets of the plan. It is estimated that coupled with the current year activity, the Province's pension expense was reduced by approximately $19.9 million.

e) Net Benefit Plans Expense (Recovery)

The table below shows the components of the net benefit plans expense (recovery).

($ thousands)	Pension Benefits 2006	Pension Benefits 2005	Other Benefits 2006	Other Benefits 2005 (as restated)
Current benefit cost	196,120	194,498	52,477	47,200
Employee contributions	(110,589)	(102,890)	(9,509)	(9,016)
Plan amendments	(152,491)	—	932	1,830
Amortization of net actuarial (gains) losses	46,609	15,195	(2,279)	(3,223)
Recognition of actuarial losses on plan amendment	152,491	—	—	—
Other	(6)	(30)	1,583	571
Decrease in valuation allowance	—	—	—	—
Interest cost	616,608	598,165	69,709	68,609
Expected return on plan assets	(557,467)	(547,002)	(3,398)	(2,880)
Employer contributions to multi-employer plan	47,866	43,976	—	—
Net benefit plans expense (recovery)	239,141	201,912	109,515	103,091

8. TRUST AND TRUST-LIKE FUNDS UNDER ADMINISTRATION

Trust and trust-like fund assets administered by the Province (before giving consideration to actuarial adjustments) are:

($ thousands)	2006	2005 (as restated)
Public Service Superannuation Fund (1)	3,541,764	3,188,836
Nova Scotia Teachers' Pension Fund (1), (4)	4,384,443	3,900,396
Sydney Steel Corporation Superannuation Plan (1), (2)	8,902	11,495
Nova Scotia Public Service Long Term Disability Plan (1), (4)	52,543	40,258
Nova Scotia Credit Union Deposit Insurance Corporation (1), (4)	13,214	12,150
Public Trustee (1)	30,777	27,961
Miscellaneous Trusts (3)	24,320	18,638
Total Trust Funds	**8,055,963**	**7,199,734**
Workers' Compensation Board (1), (4), (5)	1,002,494	939,467
Trust and Trust-Like Funds Under Administration	**9,058,457**	**8,139,201**

(1) See Public Accounts Volume II for full financial statements of these funds.

(2) Administration of the assets of Sydney Steel Corporation Superannuation Fund was assumed during fiscal 2001.

(3) Miscellaneous trusts include a large number of relatively small funds.

(4) These represent trusts with December 31 year ends. Trust asset balances at March 31 did not differ significantly.

(5) Workers' Compensation Board assets are used exclusively for the cost of benefit programs for injured workers and the administration thereof. These funds are generated from employer premiums, self-insured plans and investment income. The unfunded liability will be funded through future premiums.

9. EXPENSES BY OBJECT

($ thousands)	2006	2005 (as restated)
Grant and Subsidies	2,258,273	2,143,127
Salaries and Employee Benefits	2,539,026	2,408,501
Operating Goods and Services	1,315,292	1,162,746
Professional Services	197,942	175,683
Amortization and Social Housing Adjustment	212,551	195,457
Debt Servicing Costs	1,017,693	1,066,973
Other	37,566	25,172
Total Expenses	7,578,343	7,177,659

10. DEBT SERVICING COSTS

($ thousands)	2006	2005 (as restated)
CDN$ Denominated Debt	630,736	667,966
US$ Denominated Debt	178,546	200,488
Pension, Retirement and Other Obligations	125,409	116,896
Capital Leases	27,519	26,480
Other Debt	41,467	45,189
Premium / Discount Amortization	3,735	2,269
Foreign Exchange	9,499	6,304
Miscellaneous	782	1,381
Total Debt Servicing Costs	1,017,693	1,066,973

Debt servicing costs for Government Business Enterprises was $21.3 million for the year ended March 31, 2006 ($23.0 million for the year ended March 31, 2005).

11. CASH FLOW—NET CHANGE IN OTHER ITEMS

($ thousands)	2006	2005 (as restated)
Change in Receivables from Government Business Enterprises	(15,412)	(20,896)
Change in Receivables and Advances	(67,182)	(274,061)
Change in Accounts Payable and Other Short-term Borrowings	(131,528)	695,456
Change in Inventory for Resale	52	(416)
Change in Inventory of Supplies	(1,506)	(6,512)
Change in Prepaid Expenses	(1,202)	(1,054)
Change in Deferred Revenue	785,559	133,522
Change in Accrued Interest	(24,645)	(11,600)
Change in Pension, Retirement and Other Obligations	(61,138)	49,412
Total Net Change in Other Items	482,998	563,851

12. CONTINGENCIES AND CONTRACTUAL OBLIGATIONS

a) Contingent Liabilities

i) Environmental Sites

Various provincially owned sites throughout the Province are considered environmental or contaminated sites. Studies are ongoing to assess the nature and extent of damage to develop remediation plans. Provisions for these costs are recorded in these financial statements when it is determined a liability exists and a reasonable estimate of the remediation costs can be made. With the exception of remediation costs noted in the following paragraphs, no further provisions have been recognized in these financial statements.

Engineering and environmental studies have generated estimates for the cost of remediation of the Sydney Steel Corporation and adjacent sites as well as the Sydney Tar Ponds site. As a result, the Province recorded liabilities of $250.0 million and $68.5 million, respectively, in 2000 for environmental site clean-up. Of these provisions, $202.4 million (2005—$205.1 million) and $25.2 million (2005—$37.4 million), respectively, remain unspent. Based on currently available information, the provisions, in aggregate, appear sufficient to cover the estimated costs to remediate these sites.

Other remediation liabilities amounting to $14.9 million (2005—$36.6 million) have been recognized in these financial statements.

ii) Lawsuits

The Province's losses for any lawsuits pending cannot be determined due to uncertainty of the trial outcomes.

iii) 2014 Commonwealth Games

The Province has communicated its intention to provide a level of financial commitment as it relates to the 2014 Commonwealth Games. The potential commitment, if any, cannot be determined at this time as the international bid and Games budgeting processes are yet to be finalized.

iv) Other Contingent Liabilities

The Province also has contingent liabilities in the form of indemnities. The Province's potential liability, if any, cannot be determined at this time.

b) Contingent Gains

The Province of Nova Scotia may receive funds in the future from recoveries of various types of claims paid out and other agreements pending the occurrence of certain events. Recoveries are recorded in the year the contingent events occur.

c) Contractual Obligations

i) Contractual Obligations

Contractual obligations outstanding at March 31, 2006 total $1,807.7 million; comprised of $1,687.7 million for the Consolidated Fund, $109.2 million for other Government Units and $10.8 million for Government Business Enterprises. Included are contractual obligations of $99.6 million by Nova Scotia Business Incorporated for projects approved under its various programs, $470.0 million by the Department of Education for university assistance,

$398.5 million by the Department of Education for P3 School maintenance agreements, and $264.5 million by the Department of Health for the management of the ground ambulance fleet.

In addition to the contractual obligations noted above, in 1992 the Department of Justice entered into a 20-year contract with the RCMP for policing services, including services paid by the municipalities under the Service Exchange Agreement. Costs are negotiated each year based on required policing services. The net estimated expense for the Province for 2007 is $21.7 million.

ii) Leases

As at March 31, 2006, the Province was contractually obligated under various operating leases. Future minimum annual lease payments are as follows:

($ thousands)

Fiscal Year	**Governmental Units**	**Government Business Enterprises**	**Total Lease Payments**
2006–2007	43,803	5,777	49,580
2007–2008	41,844	4,835	46,679
2008–2009	27,982	4,362	32,344
2009–2010	22,408	3,960	26,368
2010–2011	15,617	3,207	18,824
2012–2016	22,550	—-	22,550
2017–2021	11,229	—-	11,229
2022–2026	507	—-	507
	185,940	22,141	208,081

13. SUBSEQUENT EVENTS

a) Teachers Pension Plan

On April 1, 2006, the Minister of Finance transferred responsibility for the governance of the Nova Scotia Teachers' Pension Fund to the Teachers' Pension Plan Trustee Inc., (TPPTI). The TPPTI is a body corporate comprised of nine board members—four nominated by the Nova Scotia Teachers' Union, four nominated by the Province and one Chairman agreed to by both parties. As a result of this transfer, the Province and the Union agree to share all surpluses and deficits of the plan equally. It is estimated that a one-time transitional gain of $18.2 million will occur in 2006–07 to reflect the impact of the transition to joint trusteeship, which is one half of the net pension liability as of April 1, 2006. In accordance with GAAP, this gain will be deferred and amortized over the expected average remaining service life of the employee group which is currently 16 years.

14. COMPARATIVE FIGURES

To conform with the current year's presentation, certain comparative figures for the prior year have been restated as follows:

a) Accounting Changes

As described in Note 2, there have been some retroactive restatements of figures in accordance with changes made during the year.

b) Presentation

Certain of the prior year's numbers have been restated to conform to the presentation format adopted in the current year.

15. RELATED PARTY TRANSACTIONS

Included in these consolidated financial statements are immaterial transactions with various provincial crown corporations, agencies, boards and commissions. Significant related party transactions have been offset and eliminated for purposes of consolidated reporting. Parties are deemed to be related to the Consolidated Fund due to common control or ownership by the Province of Nova Scotia.

The most significant unadjusted related party transactions are described in Schedule 6—Government Business Enterprises