

**PROVINCE OF NOVA SCOTIA
SYDNEY STEEL CORPORATION
SUPERANNUATION FUND
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2006**



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Auditor's Report

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

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

I conducted my audit in accordance with the Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

My audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The current year's supplementary information included in Schedules A and B are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Jacques R. Lapointe, CA•CIA
Auditor General

Halifax, Nova Scotia
September 25, 2006

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CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2006**

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

	<u>2006</u>	<u>2005</u>
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Marketable securities under administration (Note 3)		
Cash and short-term notes	\$ 383,019	\$ 422,721
Bonds and debentures	2,290,702	3,570,759
Equities	4,175,080	6,537,078
Investment transactions outstanding	182,451	102,054
Interest and dividends receivable	<u>29,355</u>	<u>38,788</u>
	<u>7,060,607</u>	<u>10,671,400</u>
Cash	<u>1,869,264</u>	<u>838,627</u>
Total assets	<u>8,929,871</u>	<u>11,510,027</u>
Liabilities		
Investment transactions outstanding	-	-
Accounts payable and accrued liabilities	28,016	14,768
Retroactive pension increase (Note 4)	<u>470,600</u>	<u>-</u>
Total liabilities	<u>498,616</u>	<u>14,768</u>
Net assets available for benefits	<u>\$ 8,431,255</u>	<u>\$ 11,495,259</u>
ACCRUED PENSION BENEFITS NET OF DEFICIENCY		
Accrued pension benefits	\$ 219,719,300	\$ 227,878,700
Deficiency (Note 4)	<u>(211,288,045)</u>	<u>(216,383,441)</u>
Accrued pension benefits net of deficiency	<u>\$ 8,431,255</u>	<u>\$ 11,495,259</u>

Approved:



Trustee - Minister of Finance

See accompanying notes to consolidated financial statements.

**PROVINCE OF NOVA SCOTIA
 SYDNEY STEEL CORPORATION SUPERANNUATION FUND
 CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR
 BENEFITS
 FOR THE YEAR ENDED MARCH 31, 2006**

	<u>2006</u>	<u>2005</u>
Increase In Assets		
Contributions:		
Province of Nova Scotia	\$ 19,564,249	\$ 19,482,220
Investment income:		
Interest on investments	154,491	226,744
Dividends on investments	94,881	95,920
Gain on sale of investments	<u>1,376,231</u>	<u>1,305,524</u>
Total increase in assets	<u>21,189,852</u>	<u>21,110,408</u>
Decrease In Assets		
Benefits paid	23,813,353	23,781,507
Operating expenses (Note 5)	198,896	180,076
Current period change in market values of investments	<u>241,607</u>	<u>954,498</u>
Total decrease in assets	<u>24,253,856</u>	<u>24,916,081</u>
Decrease In Net Assets	(3,064,004)	(3,805,673)
Net Assets Available for Benefits at Beginning of Year	<u>11,495,259</u>	<u>15,300,932</u>
Net Assets Available for Benefits at End of Year	<u>\$ 8,431,255</u>	<u>\$ 11,495,259</u>

See accompanying notes to consolidated financial statements.

**PROVINCE OF NOVA SCOTIA
SYDNEY STEEL CORPORATION SUPERANNUATION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

1. Authority and Description of Plans:

The Sydney Steel Corporation Superannuation Fund (the "Fund") was established under the Sydney Steel Corporation Sale Act and was effective March 1, 2001. The Fund assumed responsibility for the assets and obligations of the former Sydney Steel Corporation pension plans. Under the Sub-section 7(9) of the Sydney Steel Corporation Sale Act, the Province of Nova Scotia has assumed responsibility to fund any shortfalls arising under this Fund.

The following descriptions are a summary only. For more complete information, reference should be made to the Plan agreements.

a) United Steel Workers of America Pension Plan:

The Plan is a non-contributory defined benefit plan, covering employees of Sydney Steel Corporation who are members of Locals 1064, 6537 and 6516 of the United Steelworkers of America.

A service pension is available based on \$30.00 per month per year of service, effective January 1, 1995 (previously \$16.50 per month), to a maximum of 35 years plus the amount of pension benefit as established under the provisions of the 1955 Pension Plan.

Death benefits are available if certain criteria are met.

b) Salaried Pension Plan:

The Plan is a partially contributory defined benefit pension plan covering the salaried employees of Sydney Steel Corporation.

A service pension is available based on \$30.00 per month per year of service, effective January 1, 1995 (previously \$16.50 per month), to a maximum of 35 years plus certain percentages of required contributions made after May 1, 1995.

Senior management employees receive pension benefits different from the above.

Death benefits are available if certain criteria are met.

c) Canadian Union of Public Employees Pension Plan:

The Plan is a non-contributory defined benefit plan covering employees of Sydney Steel Corporation who are members of Locals 1675 of the Canadian Union of Public Employees.

A service pension is available based on \$35.00 per month per year of service, effective January 1, 1995 (previously \$16.50 per month), to a maximum of 35 years plus the amount of pension benefit as established under the provisions of the 1955 Pension Plan.

Death benefits are available if certain criteria are met.

**PROVINCE OF NOVA SCOTIA
SYDNEY STEEL CORPORATION SUPERANNUATION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

2. Significant Accounting Policies:

a) Basis of consolidation:

The consolidated financial statements include the accounts of the following pension plans:

- United Steel Workers of America Pension Plan
- Salaried Pension Plan
- Canadian Union of Public Employees Pension Plan

b) Basis of presentation:

As the Province of Nova Scotia has assumed any shortfall arising under this Fund (note 1), these consolidated financial statements are prepared on the going concern basis and present the aggregate financial position of the Fund as a separate financial reporting entity. They are prepared in accordance with Canadian generally accepted accounting principles.

c) Marketable securities:

Marketable securities are reported as of the trade date and stated at market value as at year-end. Market value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Bonds, debentures and equities are valued using published market quotations. The current period change in market value of investments for the year is reflected in the Consolidated Statement of Changes in Net Assets Available for Benefits.

d) Gains and losses on sale of investments:

Gains and losses arising on the sale of investments are determined by relating the sale proceeds of the investments to their original cost.

e) Foreign Currency Translation:

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

f) Non-Investment Assets and Liabilities:

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

**PROVINCE OF NOVA SCOTIA
 SYDNEY STEEL CORPORATION SUPERANNUATION FUND
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEAR ENDED MARCH 31, 2006**

2. Significant Accounting Policies (continued):

g) Benefits:

Benefit payments to retired members and commuted value payments are recorded in the period in which they are paid. Accrued benefits are recorded as part of accrued actuarial liabilities.

h) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the year. Actual results could differ from these estimates.

3. Investments:

Investment Risk Management:

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate volatility, market and credit risk:

(a) Interest Rate Risk:

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

Interest bearing investments as classified by the earliest of the contractual re-pricing date or the maturity date are as follows:

	March 31, 2006					Average Effective Yield	March 31, 2005	
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total		Total	Average Effective Yield
Money market	\$ 383,019	-	-	-	\$ 383,019	3.6%	\$ 422,721	2.1%
Bonds and debentures	-	\$ 1,212,226	\$ 147,963	\$ 930,513	2,290,702	4.9%	3,570,759	5.0%
Total	<u>\$ 383,019</u>	<u>\$ 1,212,226</u>	<u>\$ 147,963</u>	<u>\$ 930,513</u>	<u>\$ 2,673,721</u>		<u>\$ 3,993,480</u>	

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

**PROVINCE OF NOVA SCOTIA
 SYDNEY STEEL CORPORATION SUPERANNUATION FUND
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEAR ENDED MARCH 31, 2006**

3. Investments (Continued):

(b) Market Risk:

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. The Fund's policy is to invest in a diversified portfolio of investments to mitigate the impact of market risk.

(c) Credit risk:

Credit risk is the risk of loss in the event the counterparty to a transaction fails to discharge an obligation and causes the other party to incur a loss. The Plan limits credit risk by purchasing fixed income securities with a credit rating of "BBB" and higher.

(d) Foreign currency risk:

Foreign currency exposure arises from the Plan's holding of foreign currency-denominated equities.

4. Accrued Pension Benefits and Deficiency:

Actuarial valuations of the Plans are carried out periodically and provide an estimate of the accrued pension benefits (Fund liabilities) calculated using various economic and demographic assumptions, based on membership data as at the valuation date. The Plan's consulting actuaries, Morneau Sobeco, performed valuations as at December 31, 2005. The reports indicated that the Plans had a combined unfunded liability of \$213.3 million. A projection to March 31, 2006, applying the assumptions summarized below, indicated an unfunded liability of \$211.3 million (March 31, 2005 - \$216.4 million).

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

	<u>2006</u>	<u>2005</u>
Actuarial value of assets:	\$ 8,431,255	\$ 11,495,259
Accrued pension benefits:	<u>219,719,300</u>	<u>227,878,700</u>
Unfunded liability:	<u>(\$ 211,288,045)</u>	<u>(\$ 216,383,441)</u>

**PROVINCE OF NOVA SCOTIA
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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEAR ENDED MARCH 31, 2006**

4. Accrued Pension Benefits and Deficiency (Continued):

Reconciliation of changes in accrued pension benefits:

	<u>2006</u>	<u>2005</u>
Accrued pension benefits at beginning of year	\$ 227,878,700	\$ 235,683,800
Impact of change in discount rate and inflation assumption	1,608,100	2,287,900
Benefits paid	(23,813,353)	(23,781,500)
Interest on average liability during fiscal year	13,316,041	13,688,500
Net experience losses	<u>729,812</u>	<u>N/A</u>
Accrued pension benefits at end of year	<u>\$ 219,719,300</u>	<u>\$ 227,878,700</u>

The actuarial valuation projects liabilities for each member on the basis of the pension credit years earned. The actuaries have used the unit credit method of determining the actuarial liability.

The net actuarial losses noted above include experience gains and losses resulting when actual benefits differ from estimated benefits. Also, in 2006, the discount rate changed from 6.05% to 5.95% and this would have caused an actuarial loss by increasing the liability.

There was one other development that had an impact. Prior to December 31, 2005, under the salaried plan the pension continuing to the spouse upon the death of a retired member was determined as the spousal percentage multiplied by the initial pension amount at retirement. The spouse's pension did not consider any indexing provided to the pensioner between the retirement date and the date of death, nor was any subsequent indexing included once the spouse's pension was in pay.

Upon analysis of the plan document, it was decided that the pension continuing to the surviving spouse will be based on the spousal percentage multiplied by the amount being paid as at the date of death of the retired member. There will, however, be no subsequent indexing on the spouse's pension. Pension amounts paid to spouses will be adjusted to reflect the above change. In addition, surviving spouses will be provided with a lump sum payment equal to the present value of the additional amount that should have been paid to them prior to the date their pension is adjusted.

**PROVINCE OF NOVA SCOTIA
 SYDNEY STEEL CORPORATION SUPERANNUATION FUND
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEAR ENDED MARCH 31, 2006**

4. Accrued Pension Benefits and Deficiency (Continued):

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

	<u>Estimates March 31, 2006</u>	<u>Valuations December 31, 2005</u>
Inflation (only applies to the salaried plan)	2.75% per annum	2.75% per annum
Average Salary Increase	Not applicable	Not applicable
Interest (discount) rate	5.95% per annum	5.95% per annum
Retirement Age	Earliest unreduced retirement date	Earliest unreduced retirement date
Mortality	1994 Group Annuity Mortality Table projected to 2000 using scale AA	1994 Group Annuity Mortality Table projected to 2000 using scale AA

5. Operating Expenses:

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

	<u>2006</u>	<u>2005</u>
Investment Expenses		
Investment management fees	\$ <u>32,202</u>	\$ <u>36,582</u>
Plan Administration		
Professional services	25,559	34,923
Salaries	62,363	50,440
Supplies and services	71,647	50,495
Travel	343	211
Other	<u>6,782</u>	<u>7,425</u>
	<u>166,694</u>	<u>143,494</u>
Total Operating Expenses	<u>\$ 198,896</u>	<u>\$ 180,076</u>

Certain expense comparative figures have been restated to conform to this year's presentation.

PROVINCE OF NOVA SCOTIA
SYDNEY STEEL CORPORATION SUPERANNUATION FUND
SCHEDULE A – ASSETS AVAILABLE FOR BENEFITS BY PENSION PLAN
MARCH 31

	United Steel Workers of America (Locals 1064, 6537 and 6516) Pension Plan	Salaried Pension Plan	Canadian Union of Public Employees (Local 1675) Pension Plan	Total
2006				
Investments	\$ -	\$ 7,060,607	\$ -	\$ 7,060,607
Cash	<u>1,832,709</u>	<u>-</u>	<u>36,555</u>	<u>1,869,264</u>
	1,832,709	7,060,607	36,555	8,929,871
Less: Accounts payable and accrued liabilities	18,397	8,983	636	28,016
Less: Retroactive pension increase	<u>-</u>	<u>470,600</u>	<u>-</u>	<u>470,600</u>
Net assets available for benefits	<u>\$ 1,814,312</u>	<u>\$ 6,581,024</u>	<u>\$ 35,919</u>	<u>\$ 8,431,255</u>
Accrued pension benefits	\$ 164,153,600	\$ 53,116,700	\$ 2,449,000	\$ 219,719,300
Deficiency	<u>(162,339,288)</u>	<u>(46,535,676)</u>	<u>(2,413,081)</u>	<u>(211,288,045)</u>
Accrued pension benefits net of deficiency	<u>\$ 1,814,312</u>	<u>\$ 6,581,024</u>	<u>\$ 35,919</u>	<u>\$ 8,431,255</u>
2005				
Investments	\$ -	\$ 10,671,400	\$ -	\$ 10,671,400
Cash	<u>821,446</u>	<u>283</u>	<u>16,898</u>	<u>838,627</u>
	821,446	10,671,683	16,898	11,510,027
Less: Accounts payable and accrued liabilities	<u>8,380</u>	<u>6,278</u>	<u>110</u>	<u>14,768</u>
Net assets available for benefits	<u>\$ 813,066</u>	<u>\$ 10,665,405</u>	<u>\$ 16,788</u>	<u>\$ 11,495,259</u>
Accrued pension benefits	\$ 171,475,600	\$ 54,100,500	\$ 2,302,600	\$227,878,700
Deficiency	<u>(170,662,534)</u>	<u>(43,435,095)</u>	<u>(2,285,812)</u>	<u>(216,383,441)</u>
Accrued pension benefits net of deficiency	<u>\$ 813,066</u>	<u>\$ 10,665,405</u>	<u>\$ 16,788</u>	<u>\$ 11,495,259</u>

**PROVINCE OF NOVA SCOTIA
SYDNEY STEEL CORPORATION SUPERANNUATION FUND
SCHEDULE B – CHANGES IN ASSETS AVAILABLE FOR BENEFITS BY PENSION PLAN
YEAR ENDED MARCH 31**

	United Steel Workers of America (Locals 1064, 6537 and 6516) Pension Plan	Salaried Pension Plan	Canadian Union of Public Employees (Local 1675) Pension Plan	Total
<u>2006</u>				
Increase in Assets				
Contributions:				
Province of Nova Scotia	\$ 19,290,074	\$ 32,993	\$ 241,182	\$ 19,564,249
Interest and dividends on investments	3,081	246,226	65	249,372
Gain on sale of investments	-	1,376,231	-	1,376,231
	<u>19,293,155</u>	<u>1,655,450</u>	<u>241,247</u>	<u>21,189,852</u>
Decrease in Assets				
Benefits paid	18,154,860	5,440,539	217,954	23,813,353
Administrative expenses	137,049	57,685	4,162	198,896
Current period change in market value of investments	-	241,607	-	241,607
	<u>18,291,909</u>	<u>5,739,831</u>	<u>222,116</u>	<u>24,253,856</u>
Increase (decrease) in Net Assets	1,001,246	(4,084,381)	19,131	(3,064,004)
Assets available for benefits, beginning of year	<u>813,066</u>	<u>10,665,405</u>	<u>16,788</u>	<u>11,495,259</u>
Assets available for benefits, end of year	<u>\$ 1,814,312</u>	<u>\$ 6,581,024</u>	<u>\$ 35,919</u>	<u>\$ 8,431,255</u>
<u>2005</u>				
Increase in Assets				
Contributions:				
Province of Nova Scotia	\$ 19,300,917	\$ 39,990	\$ 141,313	\$ 19,482,220
Interest and dividends on investments	1,402	320,724	538	322,664
Gain on sale of investments	-	1,303,437	2,087	1,305,524
	<u>19,302,319</u>	<u>1,664,151</u>	<u>143,938</u>	<u>21,110,408</u>
Decrease in Assets				
Benefits paid	18,717,030	4,846,523	217,954	23,781,507
Administrative expenses	118,409	59,114	2,553	180,076
Current period change in market value of investments	-	951,494	3,004	954,498
	<u>18,835,439</u>	<u>5,857,131</u>	<u>223,511</u>	<u>24,916,081</u>
Increase (decrease) in Net Assets	466,880	(4,192,980)	(79,573)	(3,805,673)
Assets available for benefits, beginning of year	<u>346,186</u>	<u>14,858,385</u>	<u>96,361</u>	<u>15,300,932</u>
Assets available for benefits, end of year	<u>\$ 813,066</u>	<u>\$ 10,665,405</u>	<u>\$ 16,788</u>	<u>\$ 11,495,259</u>