ANNUAL ACCOUNTABILITY REPORT

for the fiscal year ending March 31, 2006

Nova Scotia Farm Loan Board

Accountability Statement

We have the honour of presenting the 74th Annual Report of the Nova Scotia Farm Loan Board covering the fiscal year ending March 31, 2006.

This report incorporates accountability reporting of the Farm Loan Board for the year ended March 31, 2006, and is prepared pursuant to the Section 12 of the Agriculture and Rural Credit Act, 1989, as well as the Provincial Finance Act and government policy and guidelines. These authorities require the reporting of outcomes against the Board's business plan information for the fiscal year 2005-2006. The reporting of Farm Loan Board outcomes necessarily includes estimates, judgments and opinions by Board management.

We acknowledge that this accountability report is the responsibility of management and the Nova Scotia Farm Loan Board. The report is, to the extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in the Board's business plans for the year.

Derrick R. Jamieson
Chief Executive Officer

Leo Cox
Chairman

Brooke Taylor
Minister, Department of Agriculture

CONTENTS

Board Members and staff as at March 31, 2006:

Board Members

Leo Cox	Chairman
Carol Versteeg	Vice-Chairman
Victor Moses	Member
Hank Bosveld	Member
Stephen Healy	Member

Principal Officers

Chief Executive Officer	Derrick Jamieson, P.Ag.
Solicitor to Board	Attorney General
Auditor	Auditor General

Truro Office

Manager, Finance	Philip Green, CMA, MPA
Credit Supervisor	Jim Houghton, P.Ag.
Senior Loan Officer	Maria McCurdy, P.Ag.
Loan Officer	John Murray, P.Ag.
Loan Officer	Jim Neary, P.Ag.
Loan Officer	Sandy Patterson, P.Ag.
Information Co-Ordinator	Sherry Canton
Client Service Support	Karen Murdock
Client Service Support	Susan Vergie
Client Service Support	Colleen Flemming
Client Service Support	Carol Elliott
Financial Services Officer	Susan Archibald
Accounting Clerk	Paul Arnfast
Accounting Clerk	Robbie Rushton

Kentville Office

Senior Loan Officer	Robb MacMillan, P.Ag.
Loan Officer	Pam Fraser, P.Ag.
Client Service Support	Donna Lombard

Chief Executive Officer's Report

The Nova Scotia Farm Loan Board promotes, encourages and supports agricultural and rural business development through the provision of long-term, fixed interest rate loans and financial counselling services. The Board is a Corporation of the Crown and is an integral part of the Nova Scotia Department of Agriculture. The Board also provides assistance to the Department of Natural Resources and other departments of government involved in rural Nova Scotia. Activities of the Board are consistent with the provincial government's objectives to stimulate economic growth and development.

The Board works in close harmony with the Department of Agriculture and other departments involved in the growth of rural Nova Scotia and will continue to assist in the delivery of programs of benefit to the rural areas. The Board administers a New Entrants Program to attract and support new farmers. Involvement in these initiatives allows the Board to capitalize on opportunities for economic growth in the agricultural sector including, but not limited to, new crop and livestock investments and new technologies including those in biotechnology, value added activities, emerging and export markets, environmental improvements and agri-tourism.

The strategic goals for the Board as identified in the 2005-2006 business plan are:

- Ensure industry access to stable, cost effective long-term developmental credit
- Assist in identifying and analysing growth opportunities in rural industries by promoting the use of financially sound business principles
- Demonstrate sound financial administration, efficiency, responsibility in administration of public funds and accountability in the Board's operations

The Board will continue to use the investment capital available to provide partnership opportunities within the financial community. Financing the growth of rural Nova Scotia can best be accomplished through partnerships with other lenders. The Board has traditionally provided long-term financing at fixed, reasonable interest rates which has included financing of commodities not traditionally covered by other lending agencies. Today, through its strategic goals, the Board will continue to create alliances within the agricultural industry, forestry industry, and other lending stakeholders to provide the best available source of credit.

Low short-term interest rates in absolute terms and in comparison to long-term interest rates which began to have an effect during the 2001-2002 fiscal year continued into the 2005-2006 year. During the year short term interest rates have increased and moved closer to longer term rates, with eight increases in the Bank of Canada target rate during the year. The Board's loan portfolio increased slightly over the course of the year. Demand for loan payouts, transfers, and refinancing has begun to slow. The Board offers long-term funding with lending terms matched to the loan amortization. As interest rates rise, it is expected that demand for the Board's product and services will remain strong.

It is common for sectors within agriculture to experience cyclical fluctuations in price and supply. The hog prices recovered to some extent during the year as compared to the previous year. The beef industry continues to struggle to recover from lower demand and prices resulting from the US border closure three years ago. Weather conditions can have a significant impact on most agricultural sectors. Weather during the past three fiscal years has been generally favourable for producing crops although each region and crop must be analysed individually. The Board continues to work with clients who were negatively affected by market prices or weather conditions to manage arrears and work toward the long-term viability of those operations.

The past year has been positive in several respects: Interest rates continued to be relatively low. Thirty-Eight new entrants joined the agricultural industry during the year and were approved for grants through the New Entrants to Agriculture Program. The dairy and poultry industries continue to be strong, with consistent returns generated under supply management. Blueberries have developed a reputation as a healthy food. The apple industry is working with new plantings and varieties to maintain markets. The mink sector is benefiting from strong market prices, resulting in growth within that sector. During the year a program to further assist the beef industry was developed in concert with the Department of Agriculture.

The Board continued to work to develop client reports under its new accounting and loan management system. This was the first major system change for the Board since loan information was first computerised in 1993 and required a tremendous investment in time and effort by our staff over the past two years. Change was required as the old system has insufficient capabilities for the future lending needs.

The Ruminant Loan Program was expanded to provide a loan program to assist producers with interest costs.

It has been a pleasure for me as Chief Executive Officer to work with knowledgeable and dedicated Board and staff during the fiscal year ending March 31, 2006. It is through this dedication and commitment that the Board has continued to provide developmental long-term lending programs that are cost effective and has helped to create opportunities. We, as a Board, look forward to continue to strengthen the rural fabric of the province of Nova Scotia.

Derrick R. Jamieson

Derrick R. Jamieson
Chief Executive Officer

Board Operation Overview

Direct Loans

During its 74th year of operations the Board met on ten occasions encompassing twenty-one days and conducted one conference call meeting. One hundred and seventy-six loan requests were approved during the 2005-2006 fiscal year.

In addition to its loan function to agriculture and owners of forest product mills, staff administered the New Entrants to Agriculture Program and the Land Purchase and Lease Program. Properties purchased under ARDA Project 22015 during the period of 1965–1971 were a continuing responsibility of the Board and staff.

A total of 1,161 active loans (Farm and Timber) were in effect at March 31, 2006.

Interest rates on loans during the year were:

	1 - 5 years	6 - 14 years	15 - 19 years	20 - 24 years
Apr 1 - June 30, 2005	5.10%	5.85%	6.40%	6.80%
July 1 - Sept 30, 2005	4.75%	5.35%	5.75%	6.30%
Oct 1 - Dec 31, 2005	5.10%	5.60%	6.05%	6.35%
Jan 1 - Mar 31, 2006	5.70%	6.00%	6.20%	6.45%

Timber Loans

One new timber loan was approved during the year. There were fourteen Timber Loan category loans on March 31, 2006 totalling $791,000.

Staff of the Farm Loan Board are responsible for administrative detail with respect to receiving applications, preparing documents, disbursing loans and maintaining loan records. Personnel of the Department of Natural Resources carry out loan appraisals, prepare reports and provide recommendations on timber loan requests. In addition, the Department of Natural Resources supervises requests to cut forest products from land held as security for loans and establishes stumpage rates for material removed.

Farm Consolidation and Land Use

In the period 1965 to 1970, under the terms and conditions of a joint Government of Canada, Province of Nova Scotia Agricultural and Rural Development Act (ARDA) project, properties were purchased for leasing to enlarge commercial farm operations. The administration of properties under a lease is a continuing responsibility of the Board.

ARDA lease accounts at March 31, 2006, had a net outstanding principal of $37,000. Five accounts remain under this program.

Land Purchase and Lease

The Nova Scotia Farm Loan Board, at the request of the Land Purchase and Lease Committee, carries out the administrative details in the leasing of these properties.

In total, forty-nine properties remain under this program, with a total outstanding principal at year-end of $1,203,000.

New Entrants to Agriculture Program

This is the sixth year for this program. The objective is to encourage new Nova Scotia farmers to purchase and develop successful farm operations. Funds available under this program will be extended to improve the viability of each farm operation as key areas requiring improvement are outlined by the new entrant in a business plan. Eligible applicants receive a grant in the amount of interest paid on qualifying loans for the first two years to a maximum of $10,000 per year. During the 2005-2006 year, grants of $454,000 were disbursed and 36 applications were accepted resulting in a commitment of $576,000 to be disbursed over the following two years.

Life Insurance

The Farm Loan Board administers a creditor group life insurance for farmers. The policy is held with the Sun Life Assurance Company of Canada. Total insurance in force at the end of 2005-2006 was $147.2 million.

Results (Progress and Accomplishments)

Priority: Focus on access to stable, cost effective, long-term developmental credit

- Provide $30 million of lending capital to the agricultural and timber industries in the 2005-2006 fiscal year.

  Result: Original capital available for loans was approved at a maximum of $30 million with anticipated repayments of $18 million for the 2005-2006 fiscal year. Loans of $30.3 million were advanced with principal repayments of $20.7 million. Interest rates have risen during the year and prevailing short term rates have moved up closer to long term rates.

  A total of 142 loan applications were approved. Staff continued to meet with clients, attend information sessions, and setup and present at meetings of general interest to the agricultural community. Special attention is given to clients demonstrating financial difficulty.

- Continue to work with the Department of Natural Resources to enhance services to modify products and services to meet needs for growth and development within this industry.

  Result: The Board has continued to express a desire to discuss loan program changes and related regulations with the Department of Natural Resources.

- Enhance client service and administrative efficiency by implementing new technology and systems.

  Result: Board staff worked throughout the year with Department of Finance staff to implement modifications and additional system components to the new accounting and administration system.

- Manage accounts such that write-offs and arrears remain stable in relation to the portfolio size while maintaining a 'patient lender' approach by supporting industries through cyclical downturns.

  Result: Arrears climbed to 3.1% of the loan balance at March 2006 as a result of difficulties in some sectors and delays in receiving arrears reports and client notices from the new loan system. Additionally, the loan portfolio has shifted toward industries experiencing financial difficulties as strong sectors and clients have been drawn to commercial lenders by low short-term interest rates and relatively liberal lending policies toward those accounts, while weaker sectors have required greater support from the Board. Board staff have worked to overcome system obstacles over the year and progress has been made. A total of six loan accounts were submitted for write-off during the year, totalling $667,000 or 0.39% of the loan portfolio. The 2004-2005 write-off request of $1,179,000 was approved and is reflected in loan principal adjustments for 2005-2006.

Priority: Program Administration

- Administer a New Entrants Program in concert with the Nova Scotia Department of Agriculture.

  Result: In the sixth year of this Program, 36 new entrants grant applicants were assisted including 23 involved in inter-generational transfers in order to provide long-term stability and renewal of farm ownership.

- Explore flexible loan programs and continue to review the needs and potential for expansion and development of industry sectors in partnership with the Department of Agriculture and Nova Scotia Federation of Agriculture.

  Result: The Ruminant Loan Program continued to provide assistance to beef and sheep producers to deal with low prices and marketability resulting from the BSE related US border closure. Reopening of the border has helped but prices have only partially recovered and the financial affects on farms linger. This program assists through deferred payment loans and an option to vary payments based on market prices. Departmental grants were provided in concert with the loan program to assist producers with interest costs in the initial stage of the program.

Actual/Budget Comparison - Loan Operating

2004-2005 (as restated) ($ 000)	**Description**	**2005-2006 Actual** ($ 000)	**2005-2006 Budget** ($ 000)	**Change** ($ 000)
10,681	Interest	10,593	11,100	(507)
(168)	Insurance revenue (expense)*	225	190	35
596	Fee revenue and other income*	601	375	226
11,109	Total revenue	11,419	11,665	(246)
9,351	Interest	9,213	9,800	(587)
1,202	Operating expenses*	1,435	1,207	228
893	Bad debt expense	328	530	(202)
11,446	Total expenses	10,976	11,537	(561)
(337)	Income before govt. contributions	443	128	315
1,202	Government contributions	1,435	1,207	228
865	Net Income	1,878	1,335	543

See Financial Statements for complete financial information and notes. Items marked * are budgeted as part of the Department of Agriculture and Fisheries estimates. Items not marked are not identified in approved estimates at this level of detail but are included in the Board's annual business plan.

Significant variations from Budget:

- Interest: Interest rates have remained relatively low. A significant portion of portfolio increase occurred late in the fiscal year.
- Fees: Early repayment fees (penalties) were above levels anticipated in the budget as clients paid out existing loans early to move to lower current rates with the Board or other lenders.
- Operating Expenses: Expenses include $221,600 of expenses related to the loan system incurred during the year by the department.
- Bad Debt Expense: Bad debt expense was reduced as a result of a change in accounting policy as explained in the Board Financial Statements Note 3. Bad debt expense varies from year to year based on an evaluation of Board accounts.

Actual/Budget Comparison - Capital Funds

2004-2005 (as restated) ($ 000)	Description	2005-2006 Actual ($ 000)	2005-2006 Budget ($ 000)	Change ($ 000)
174,674	Opening principal	174,634	172,495	2,139
20,781	Funds advanced	30,272	30,000	272
(20,821)	Principal repayments	(19,569)	(18,000)	(1,569)
	Written off	(1,179)	(500)	(679)
174,634	Advanced principal at year-end	184,158	183,995	163
(7,776)	Allowance for impairment	(7,155)	(6,344)	(811)
166,858	Net principal at year-end	177,003	177,651	(648)

Significant variations from Budget:

- Opening principal: Budget Projections are final before the year in progress is complete.
- Funds advanced/repaid: Repayments are affected by client options and prevailing interest rates. Additional repayments have provided room for advances beyond the original budget amount.

Actual/Budget Comparison - New Entrants Program

2004-2005 (as restated) ($ 000)	Description	2005-2006 Actual ($ 000)	2005-2006 Budget ($ 000)	Change ($ 000)
578	Grant approvals	576	N/A	--
565	Annual Program Cost	454	600	(146)

Significant variations from Budget:

- Program costs closely approximated budget. Approvals are for a two year grant. Year-to-year fluctuations in approvals may offset in annual costs and are dependent on grant applications accepted in the two previous years.

NOVA SCOTIA FARM LOAN BOARD
FINANCIAL STATEMENTS
MARCH 31, 2006

NOVA SCOTIA FARM LOAN BOARD
FINANCIAL STATEMENTS
MARCH 31, 2006

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NOVA SCOTIA
Office of the Auditor General

1888 Brunswick Street
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AUDITOR'S REPORT

To the Members of the Legislative Assembly; and

To the Minister of Agriculture

I have audited the balance sheet of the Nova Scotia Farm Loan Board as at March 31, 2006 and the statements of operations and retained earnings for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

I have been unable to obtain satisfactory evidence to support a conclusion on management's estimate of the provisions for loan and real estate impairment. Accordingly, I was not able to determine whether any adjustments might be necessary to the provision for loan impairment, the provision for real estate impairment, or net income and retained earnings.

In the prior period, I was unable to obtain satisfactory evidence to support a conclusion on the distribution to the Province of Nova Scotia or on management's estimate of the provision for loan impairment as at March 31, 2005. Accordingly, I was not able to determine whether any adjustments to the amount due to the Province of Nova Scotia, the provision for loan impairment, or net income and retained earnings were necessary.

In my opinion, except for the effect of adjustments, if any, which I may have determined to be necessary had I been able to obtain sufficient evidence regarding the matters described in the preceding paragraphs, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2006 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Jacques R. Lapointe, CA CIA
Auditor General

Halifax, Nova Scotia
June 15, 2006

NOVA SCOTIA FARM LOAN BOARD
BALANCE SHEET
MARCH 31, 2006
($ thousands)

ASSETS

	2006	2005 (as restated)
Cash (Note 2a)	$ 1,680	$ 1,327
Interest and other receivables (net) (Note 4)	4,019	3,792
Due from the Province of Nova Scotia (Notes 3, 5)	-	159
Loans receivable (net) (Notes 2c, 6)	174,353	163,834
Real estate (net) (Notes 2e, 7)	2,650	3,024
	$ 182,702	$ 172,136
LIABILITIES		
Due to the Province of Nova Scotia (Notes 3, 5)	$ 105	$ -
Advances from the Province of Nova Scotia (Note 9)	181,022	170,650
	181,127	170,650
EQUITY		
Retained earnings (Note 2h)	1,575	1,486
	$ 182,702	$ 172,136

Accounting changes (Note 3)

Commitments and contingencies (Note 10)

Comparative figures (Note 12)

Approved on behalf of the Board

____
Member

____
Member

The accompanying notes are an integral part of these financial statements.

NOVA SCOTIA FARM LOAN BOARD
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2006
($ thousands)

	2006	2005 (as restated)
Revenues		
Interest revenue (Notes 2i, 3)	$ 10,593	$ 10,681
Revenue (expense) on life insurance operations	225	(168)
Fee revenue and other income	601	596
	11,419	11,109
Expenses		
Interest expense (Note 2h)	9,213	9,351
Operating expenses (Note 11)	1,435	1,202
Bad debt expense (Notes 3, 8)	328	893
	10,976	11,446
Income (loss) before government contributions	443	(337)
Government contributions (Note 11)	1,435	1,202
Net Income	$ 1,878	$ 865

The accompanying notes are an integral part of these financial statements.

NOVA SCOTIA FARM LOAN BOARD
STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED MARCH 31, 2006
($ thousands)

	2006	2005 (as restated)
Retained earnings, beginning of year (Notes 2h, 3)		
As previously reported	$ 1,486	$ 1,503
Accounting changes (Note 3)	-	50
As restated	1,486	1,553
Income (loss) before government contributions	443	(337)
Recovery from (distribution to) the Province of Nova Scotia (Note 2h)	(354)	270
Retained earnings, end of year	$ 1,575	$ 1,486

The accompanying notes are an integral part of these financial statements.

NOVA SCOTIA FARM LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

1. Authority

The Nova Scotia Farm Loan Board, a Provincial agency, operates under the authority of the Agriculture and Rural Credit Act and the Forests Act (for timber loans). The Board was established to provide assistance to the agricultural sector in the Province.

Principal in loans outstanding is limited by regulation to $200 million. Maximum advances to be disbursed in any given year is established through the annual budgeting process. For the year ended March 31, 2006 the maximum new advance was $30 million (2004-05 - $30 million).

Loans in excess of $2 million require approval by Governor-in-Council.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following are the significant accounting policies used in the preparation of these financial statements.

a) **Cash**
The Farm Loan Board operates as an agency of the Province of Nova Scotia. All cash is received and disbursed through accounts managed centrally by the Province.

Cash reported consists of funds held by the Sun Life Assurance Company of Canada in relation to the Board's Creditor Group Life Insurance program. A portion of the funds are restricted under the terms of the life insurance contract.

	2006	**2005**
	($ thousands)	
Contractually restricted deposits	$ 30	$ 30
Unrestricted deposits	1,650	1,365
Operational deficit transferred to deposit	-	(68)
	$ 1,680	$ 1,327

2. continued

b) **Statement of cash flow**

Except for funds held by the insurance carrier, the Board holds no cash (see Note 2a). All disbursements are drawn from the Province and all receipts are deposited to accounts of the Province. A statement of cash flow has not been provided because disclosure in the balance sheet and statement of operations is considered adequate.

c) **Loans receivable**

Loans receivable is the principal portion of loans outstanding net of the provision for loan impairment.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the collection of the full amount of principal and interest.

d) **Provision for loan impairment**

The provision for loan impairment represents management's best estimate of losses due to impaired loans in the Board's portfolio. The provision is determined based on management's identification and evaluation of problem accounts and estimated losses that exist in the remaining portfolio. These judgements are influenced by the composition and quality of the portfolio, general economic conditions, and conditions affecting specific commodities, as well as the Board's policy to act as a patient lender, providing additional time for repayment where full future repayment appears reasonable.

The provision is established in two components:

1) A specific provision based on a loan-by-loan review is established to value impaired loans at the lower of their recorded investment or the estimated net realizable amount of their underlying security.

2) A general provision is an estimate of probable but unidentified losses in the portfolio that have not been included in the specific reserve. This estimate is based on general and commodity specific economic conditions, as well as past experience and a comparison of provisions made by other similar lenders.

The provision for loan impairment is an accounting estimate based on historic loan loss experience and an assessment of current conditions. Events may occur that render the underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate.

Performing loans are those loans, which in the estimation of management, will be fully repaid either on schedule or beyond schedule but including any appropriate additional interest charges. Repayment can be through either realization on existing security held by the Board or regular scheduled payments.

2. continued

Loans are identified as being impaired when account analysis indicates that there is a probability the loan may not be fully repaid with interest and there is insufficient security to prevent a shortfall. A provision for impairment is provided based on the amount and probability of the potential shortfall.

e) **Real estate acquired in settlement of loans**
Real estate acquired in settlement of loans which is held for sale is initially recorded at the lower of the recorded investment in the foreclosed loan and the estimated fair value based on the resale value of security held less disposal costs.

Net operating costs incurred on real estate held for sale are added to the carrying value of the property. The related provision is used to adjust the carrying value to net realizable value, resulting in inclusion of these costs in bad debt expense.

f) **Real estate acquired for leasing or other purposes**
The Board holds land purchased under a Provincial “Landbank” program and under a Federal-Provincial “Agriculture and Rural Development Agreement” (ARDA). Both of these programs have ceased to exist, however existing properties and leases continue with renewable five year terms. Property acquired under these programs is valued at cost less the unamortized value of the Federal contribution to the ARDA program. The Federal contribution is amortized to other income when related properties are sold. Lease clients are entitled to purchase the related property at its original purchase cost.

g) **Capital assets**
The Board applies the capitalization policies of the Province. No assets acquired by the Board meet the minimum thresholds for capitalization.

h) **Interest expense and retained earnings**
A Memorandum of Understanding (MOU) dated March 16, 1999 between the Nova Scotia Farm Loan Board and the Nova Scotia Department of Finance formalizes the Board’s funding arrangements and enables the Board to retain 20% of its net income for future use (as retained earnings). The agreement took effect on April 1, 1998.

Under the MOU, the Board estimates projected lending requirements on a quarterly basis. Funding is provided by the Department of Finance. Interest rates and terms are determined at the time funds are requested by the Board.

2. continued

Funding is maintained to cover the Board's investment in loans receivable and real estate. The Board tracks the draws arranged with the Department of Finance and computes the interest cost based on the terms of these draws. Actual financing costs are included as interest costs of the Province.

Also, under the terms of the MOU, the Board is entitled to set aside 20% of its income before government contributions as retained earnings. Funds related to retained earnings are included in "Due from the Province of Nova Scotia" or "Due to the Province of Nova Scotia" and may be used by the Board for specific stated purposes; subject to the approval of the Department of Finance.

i) **Interest recognition**
Interest income is recorded on an accrual basis until such time as a loan is classified as impaired. The loan reverts to an accrual status when all provisions for impairment are reversed and the ultimate collection of the principal and interest is reasonably assured.

j) **Fee revenue**
All loan related fees are reported as revenue in the period in which they were earned.

k) **Measurement uncertainty**
Preparation of the Board's financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported. Significant assumptions are required in the determination of the provisions for impaired loans and real estate. Actual results may differ from the amounts recorded in the financial statements and these differences may be material.

l) **Risk management**
Credit Risk
The risk that clients may not pay amounts owing on loans and lease accounts, resulting in a loss to the Board, is managed through an initial assessment of the client's ability to pay, and by review and follow-up of delinquent accounts by loan officers. In cases in which the client is unable to make payments due to cyclical industry, or other temporary difficulties, it is the Board's policy to work with clients on an individual basis to provide time for recovery. See Note 6 for additional loan information.

2. continued

Liquidity Risk
The Province of Nova Scotia provides funding and cash management services to the Board. There is no risk that funds will be unavailable to meet lending commitments except to the extent of legislative and budgetary limitations on lending authority as identified in Note 1.

Interest Rate Risk
In order to mitigate the risk that future changes in interest rates may affect net interest revenue, the Board attempts to match terms of loans offered with those of funds drawn through the Province. All loans provide for an optional 10% repayment at any time during each calendar year and an optional full repayment on each five year anniversary. All loans are contracted for the full term of their amortization which may range from one to 30 years. Funds drawn through the Province provide for 10% annual and five year full optional repayments.

Life Insurance Risk
The Board requires borrowers to participate in a group life insurance program administered by the Board unless the borrower has arranged alternative life insurance coverage. The net annual gain or loss under the contract with the insurance provider (premium revenue less the cost of life insurance claims) to a maximum of $250,000 on any claim, plus administrative costs, are costs of the Board and may vary from year to year.

3. Accounting Changes

Accounting changes were made during the year that affected due to/due from the Province of Nova Scotia, retained earnings, provision for future life insurance claims, interest receivable and the related provisions and the reported interest revenue and bad debt expense.

Interest recognition
Interest revenue is no longer recognized on impaired loans. In previous years, interest was recognized on impaired loans and offset by a higher bad debt expense. Reported interest receivable is unchanged because it was reported net of the provision for impairment. This policy change has been applied retroactively and the 2005 comparative information has been restated. The impact on the March 31, 2006 reported results is a decrease in each of interest revenue and bad debt expense of $439,000 (2004-05 $459,000). The cumulative effect of this change on retained earnings as at April 1, 2004 is nil.

3. continued

Provision for future life insurance
Based on actuarial advice, the Board has determined that no future liability exists which should be recognized in the financial statements and that no liability should have been recognized in previous fiscal years. Correction of this amount has been recorded on a retroactive basis and the 2005 comparative information has been restated. The impact on the March 31, 2005 reported results is a decrease in the provision for future life insurance claims of $2,350,000; a decrease in the deposits held by the Province of Nova Scotia of $2,300,000; and an increase in retained earning of $50,000.

4. Interest and Other Receivables (net)

Includes receivables for loan interest, lease fees, life insurance premiums and taxes. The provision for impairment adjusts the value to the anticipated amount recoverable.

	2006	2005 (as restated)
	($ thousands)	
Interest, lease fees, life insurance premiums receivable	$ 4,447	$ 4,109
Less: provision for impairment:	428	317
Interest and other receivables (net)	$ 4,019	$ 3,792

5. Due (to) from the Province of Nova Scotia

The balance represents amounts accumulated in accordance with the Memorandum of Understanding with the Department of Finance (note 2h) net of deposits held by Sun Life Assurance Company of Canada on behalf of the Board (note 2a).

NOVA SCOTIA FARM LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

5. continued

	2006	2005 (as restated)
	($ thousands)	
Amounts held by the Province of Nova Scotia.	$ 1,575	$ 1,486
Less:		
Deposits held by Sun Life Assurance Company of Canada and also due to the Province of Nova Scotia.	(1,680)	(1,327)
Due (to) from the Province of Nova Scotia	$ (105)	$ 159

6. Loans Receivable

Summarized below are anticipated loan repayments based on loan payment schedules and maturities. Values represent the book value of loan funds disbursed less principal repayments to date. The provision for loan impairment adjusts the value of loans to their anticipated recoverable amounts. Government approval for write-off is requested after all security has been realized and a deficiency remains.

2006

($ thousands)

	Under 1 Year	1-5 Years	Over 5 Years	Total
Farm loans	$ 14,414	$ 53,372	$ 98,354	$ 166,140
Timber loans	117	397	276	790
Total performing loans	$ 14,531	$ 53,769	$ 98,630	166,930
Average effective annual interest rate	6.17%	6.21%	6.24%	
Add: principal receivable on impaired loans (excluded from above)				10,816
Total principal				177,746
Less: provision for loan impairment				3,393
Loans receivable (net)				$ 174,353

NOVA SCOTIA FARM LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

6. continued

	2005 (as restated)			
	($ thousands)			
	Under 1 Year	1-5 Years	Over 5 Years	Total
Farm loans	$ 26,547	$ 47,637	$ 82,047	$ 156,231
Timber loans	206	362	279	847
Total performing loans	$ 26,753	$ 47,999	$ 82,326	157,078
Average effective annual interest rate	6.48%	6.49%	6.57%	
Add: principal receivable on impaired loans (excluded from above)				9,810
Total principal				166,888
Less: provision for loan impairment				3,054
Loans receivable (net)				$ 163,834

	2006		2005	
Sector Distribution (performing loans)	($ thousands)			
Dairy	$ 51,090	30.7%	$ 47,104	29.9%
Poultry	26,604	15.9%	27,113	17.3%
Hog	18,778	11.2%	17,728	11.3%
Beef	11,249	6.7%	11,906	7.6%
Vegetables and other crops	6,807	4.1%	9,444	6.0%
Blueberries	8,875	5.3%	8,167	5.2%
Greenhouse	9,645	5.8%	6,856	4.4%
Fur	7,777	4.7%	6,377	4.1%
Apple	5,484	3.3%	4,127	2.6%
Other fruit	3,571	2.1%	3,319	2.1%
Timber	791	0.5%	846	0.5%
Other	16,259	9.7%	14,091	9.0%
	$ 166,930	100.0%	$ 157,078	100.0%

7. Real Estate

	2006	2005
	($ thousands)	
Real estate held for resale	$ 4,435	$ 5,817
Less: provision for impairment	3,762	4,603
Net real estate held for resale	673	1,214
Real estate held for long-term use		
Land bank	1,203	1,316
Land consolidation		
Agriculture and Rural Development Agreement (ARDA)	37	59
Less Federal Government share of ARDA properties	(19)	(34)
Property used by NS Agricultural College and Community Pastures	756	469
Total property acquired for long-term use	1,977	1,810
Real estate (net)	$ 2,650	$ 3,024

8. Provision for Impairment

	2006			2005 (as restated)		
	($ thousands)			($ thousands)		
	Loans	Real Estate	Total	Loans	Real Estate	Total
Provision, beginning of year						
Principal	$ 3,173	$ 4,603	$ 7,776	$ 3,259	$ 3,284	$ 6,543
Interest	459	198	657	416	123	539
	3,632	4,801	8,433	3,675	3,407	7,082
Write-offs	-	(1,178)	(1,178)	-	-	-
Current year adjustments	56	272	328	(482)	1,395	913
Recoveries	-		-	(20)	(1)	(21)
Provision, end of year	$ 3,688	$ 3,895	$ 7,583	$ 3,173	$ 4,801	$ 7,974

NOVA SCOTIA FARM LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

8. continued

	2006			**2005 (as restated)**		
	($ thousands)			($ thousands)		
Principal/interest distribution of provision						
Principal	$ 3,393	$ 3,762	$ 7,155	$ 3,054	$ 4,603	$ 7,657
Interest	2 95	133	428	119	198	317
Total	$ 3,688	$ 3,895	$ 7,583	$ 3,173	$ 4,801	$ 7,974
Distribution of specific provision						
Principal	$ 2,174	$ 3,762	$ 5,936	$ 1,886	$ 4,593	$ 6,479
Interest	287	133	420	97	197	294
Total	2,461	3,895	6,356	1,983	4,790	6,773
Distribution of general provision						
Principal	1,219	-	1,219	1,168	10	1,178
Interest	8	-	8	22	1	23
Total	1,227	-	1,227	1,190	11	1,201
Total	$ 3,688	$ 3,895	$ 7,583	$ 3,173	$ 4,801	$ 7,974
Loan distribution						
Loans and real estate for which a specific provision has been identified:			$15,251			$15,746
Remaining loans against which a general provision has been established:			168,907			158,888
Total			$184,158			$174,634

8. continued

Sector distribution of specific provision for loan principal impairment

	2006		**2005 (as restated)**	
	($ thousands)			
	Principal of Impaired Loans	Provision	Principal of Impaired Loans	Provision
Dairy	$ -	$ -	$ -	$ -
Poultry	-	-	-	-
Hog	1,335	361	1,345	286
Beef	2,847	588	2,743	219
Vegetables and other	555	323	1,710	233
crops	510	11	65	9
Blueberries	363	43	122	18
Greenhouse	1,468	355	1,481	498
Fur	282	11	286	18
Apple	368	153	129	266
Other fruit	3,088	329	1,929	339
Other				
Total specific provision on loan principal	$ 10,816	2,174	$ 9,810	1,886
General provision on loan principal		1,219		1,168
Total provision on loan principal		$ 3,393		$ 3,054

9. Advances from the Province of Nova Scotia

Advances are provided by the Province of Nova Scotia to fund loans issued by the Farm Loan Board. Interest is calculated in accordance with a Memorandum of Understanding with the Department of Finance (Note 2h).

10. Commitments and Contingencies

The Board will hold interest rates for ninety days for any client from the date of receipt of a loan application.

As at March 31, 2006, the Board had authorized loans of $2,663,000 which had not been disbursed.

The average loan interest rate on outstanding approved commitments at March 31, 2006 was 6.12%.

The Board is aware of an environmental issue on one property in the Board's possession at March 31, 2006. Legal responsibility and cleanup costs are not yet resolved. Total clean-up costs are estimated to be between $23,500 and $110,000.

There were no legal claims being pursued against the Board as at March 31, 2006.

11. Operating Expenses

	2006	2005
	($ thousands)	
Salaries	$ 1,020	$ 1,018
Supplies and services	49	66
Travel	55	48
Training and development	9	23
Professional/special services	277	33
Equipment and other	25	14
	$ 1,435	$ 1,202

Government provides an annual contribution equal to operating expenses.

12. Comparative Figures

Certain comparative figures in the financial statements have been reclassified to conform with the financial statement presentation adopted in the current period.

13. Related Party Transactions

The Board is related to all other departments, agencies, boards, and commissions of the Province of Nova Scotia. The Nova Scotia Department of Finance is the sole source of funding for loans (See note 2h). Property used by the Nova Scotia Agricultural College is property purchased by the Board for College use and will eventually be transferred to another government department. Transactions with other Provincial entities were entered into in the normal course of business.

14. Pension and post-retirement benefits

All full-time employees of the Board are entitled to receive pension benefits pursuant to the provisions of a pension plan established under the Public Service Superannuation Act. The plan is funded by equal employee and employer contributions. The employer's contributions are included in the Board's operating expenses. The Public Service Superannuation Fund is administered by the Province of Nova Scotia and any unfunded liability, as well as other obligations related to post-retirement benefits are the responsibility of the Province. It is not anticipated that any such future costs would be allocated to the Board.

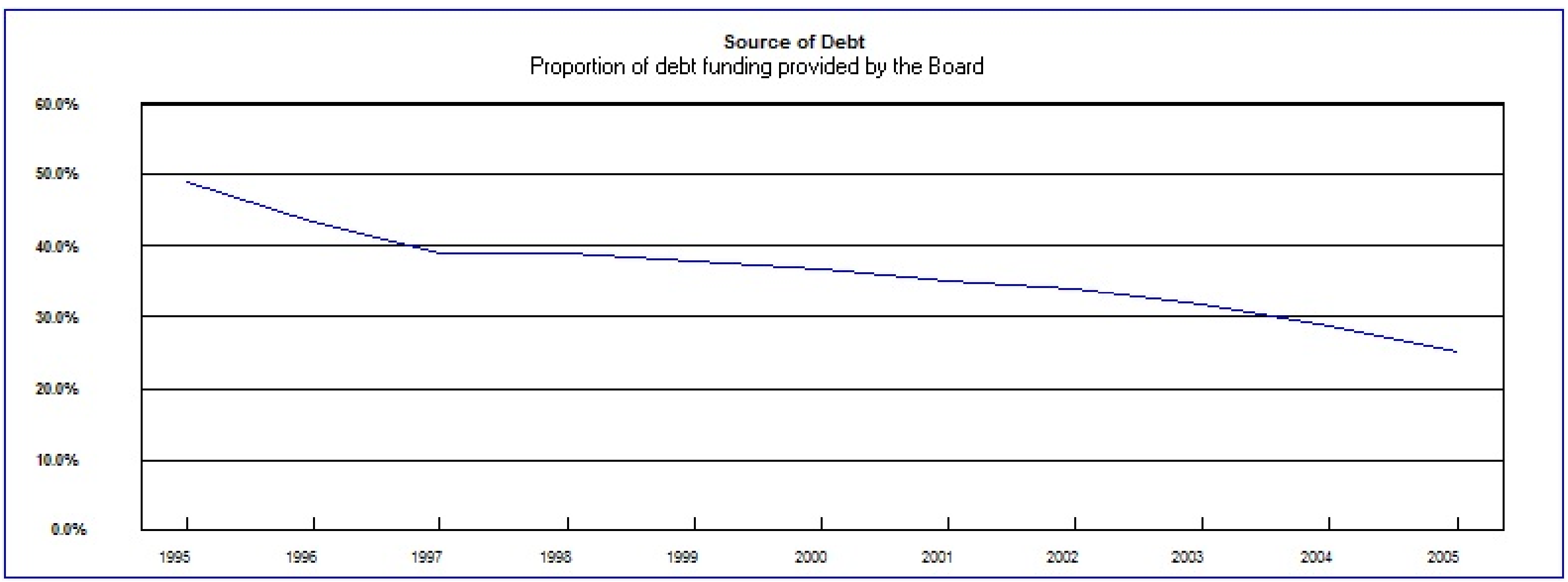
Measuring Our Performance

The following sections provide results of performance measures identified in the Board's Business Plan for 2005-2006.

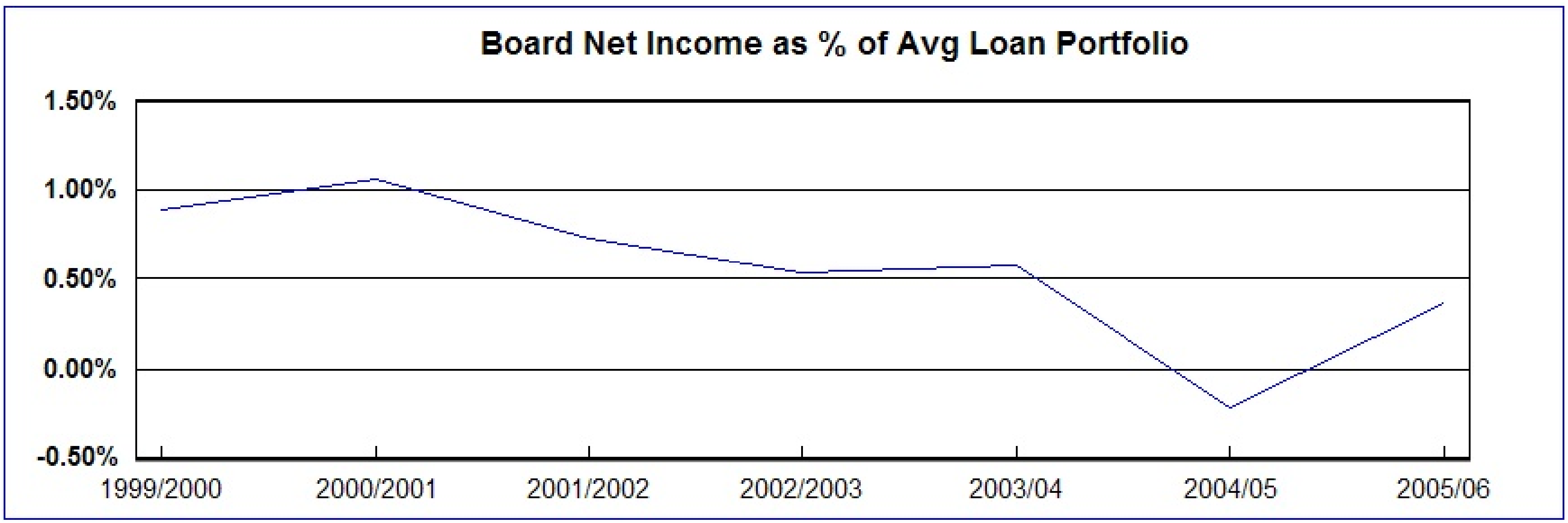
Core Business Area I: Lending

This is the primary focus of the Board. Although lending activities address all three of the strategic goals, lending most directly bears upon ensuring access to stable, cost effective long-term developmental credit. The following measures provide an indication of the Board's success in pursuit of this goal:

Measure I-1:	Farm Loan Board loans as a percentage of total Nova Scotia Farm Debt	
What this measure tells us:	Where we are now:	Where do we want to be?
Proportion of Nova Scotia farm debt provided by the Farm Loan Board. This is an indication of the Board's ability to meet industry needs. {Reporting on this measure is for the previous calendar year, based on Statistics Canada data}	Base year (calendar) 2000: 36.9% 2001: 34.7% 2002: 33.7% 2003: 31.4% 2004: 28.3% 2005: 25.0% As discussed in the 'Results' section farm credit requirements remain strong however, many clients have taken loans with commercial lenders to take advantage of unusually low short-term interest. Commercial lenders appear to be lending more freely than in the past, with increased quota and equipment costs driving up total farm debt.	Target 2006: 36.5% reduced to 30.0% Target 2007: 28.4% (est. in 06/07 business plan) The Board's intention has been to maintain its availability to the agricultural and timber industries The Board's focus remains on long term lending and feels that it is meeting its mandate regardless of the increase in commercial lending to agriculture. The 2006 target was based on maintenance of industry financing needs without anticipating large increases in total farm debt (up 60% from 2000 to 2005).

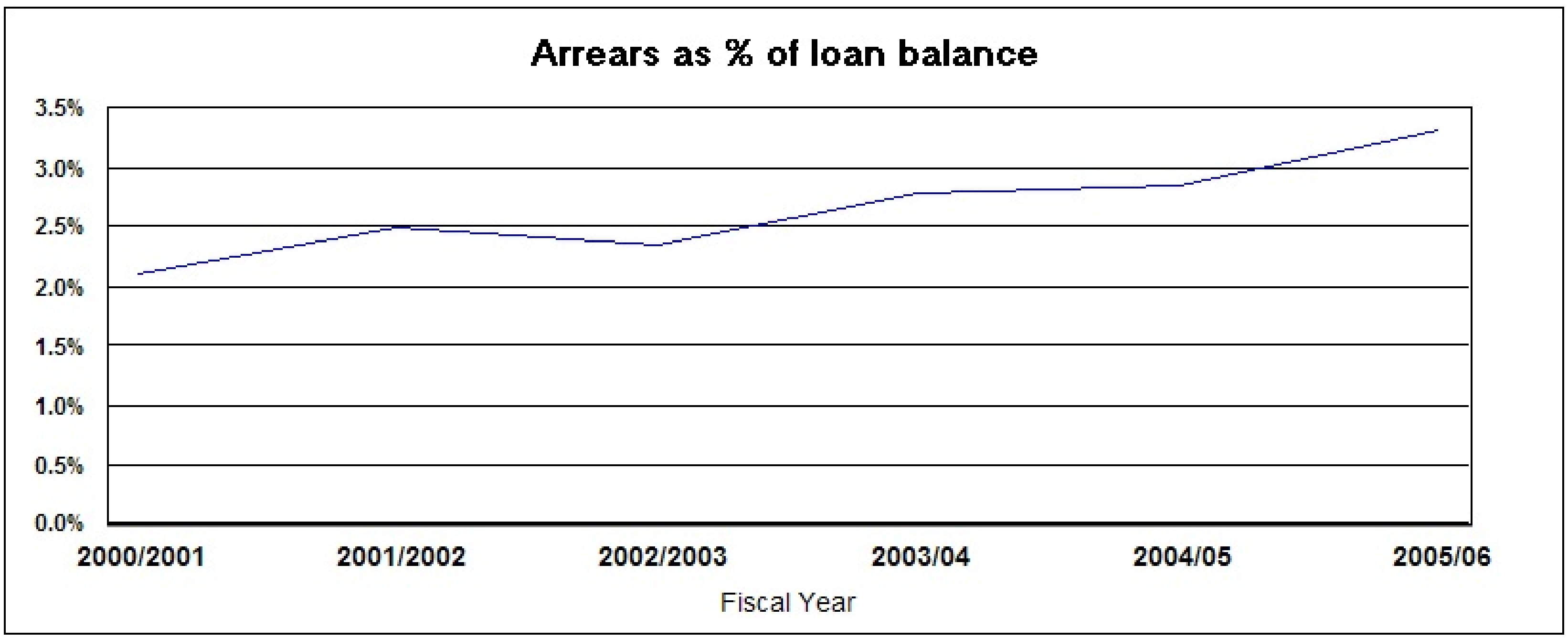


Measure I-2:	Income (before government contributions) as a percentage of the average active loan balance	
What this measure tells us:	Where we are now:	Where do we want to be?
By comparing net income to the size of the loan portfolio, this measure provides an indication of the Board's efficiency assuming stable interest margins.	Base year: 1998-99: 0.1% 2001-02: 0.7% 2002-03: 0.5% 2003-04: 0.5%* 2004-05: 0.2% 2005-06: 0.4% Below Target * (excluding unusual recovery on impaired loans) 2004-05 is considered an unusual year, with a large life insurance shortfall, unusually high bad debt expense. Unusual costs associated with accounting system conversion resulted in higher than usual expenses in 2005-2006.	Stability: Target 2005-2006: 0.5% or above Target 2006-2007: 0.5% or above The overall goal in this area is to remain efficient, recover costs, and maintain operations to meet the mandate of the Board effectively. Over the long run, the 0.5% target above seems a reasonable basis for discussion of this goal.

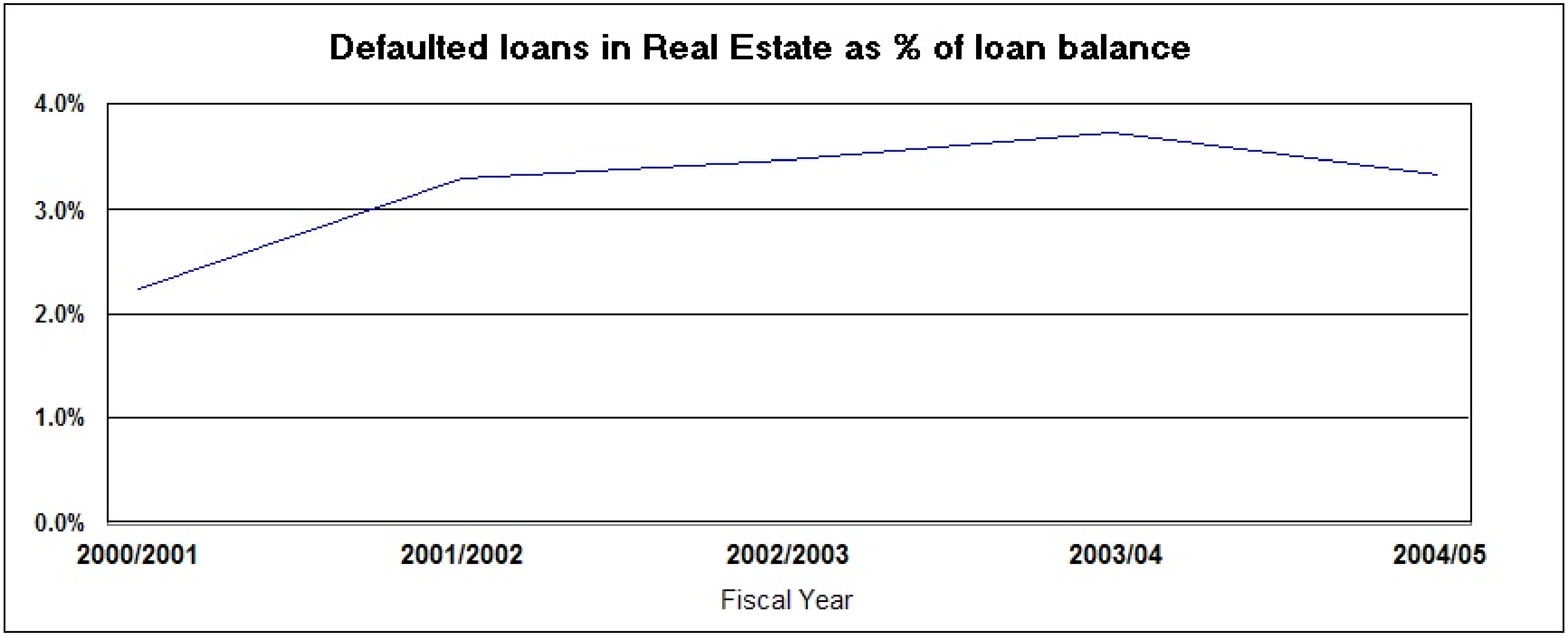


Measure I-3:	Client satisfaction based on survey of clients receiving loans Combined results of responses to Courtesy, Promptness, Knowledge, Commitment	
What this measure tells us:	Where we are now:	Where do we want to be?
This measures provides the client's view of services provided and may identify areas for improvement.	Percentage Good to Excellent: Base year: 2000-01: 92% 2001-02: 92% 2002-03: 96% 2003-04: 92.5% 2004-05: Not available 2005-06: 96.1%	Percentage Good to Excellent: Target 2005-06: 90% or above Target 2006-07: 90% or above

Measure I-4:	Arrears (>$100) as a percent of the value of all accounts	
What this measure tells us:	Where we are now:	Where do we want to be?
This measure provides an indication of Client Success overall. It also measures the performance of the Board's policies and procedures for monitoring arrears and assisting clients in difficulty. Arrears as measured at March 31 of each year. Use of this measure is a balancing act. Strict limitation of arrears conflicts with the intent of the Board to act as a patient lender for clients and sectors facing cyclical or other temporary downturns.	Base: 2001: 2.1% 2002: 2.5% 2003: 2.4% 2004: 2.8% 2005: 2.8% 2006: 3.3% A large number of loan payouts by strong clients transferring to short-term loans have limited the portfolio size and reduced the average strength of clients remaining. Difficulties experienced by beef producers as a result of the BSE situation and US border closure has weakened that sector. High arrears are also being experienced in the mink and 'other crop' sectors.	Target Mar 2006: 2.5% or less Target Mar 2007: 2.5% or less Increased arrears are a concern to the Board and client counselling and arrears follow-up are being pursued to mitigate the effects of high arrears. At the same time the Board recognizes the difficulty faced by some sectors and will work with borrowers for the best long term resolution even if that does not result in an immediate reduction in arrears. Targets have been set to reflect long term goals.



Measure I-5:	Defaulted accounts held as real estate as a % of total of all accounts	
What this measure tells us:	Where we are now:	Where do we want to be?
This measure provides an additional indication of Client Success overall. It measures the performance of the Board's policies and procedures for monitoring and assisting clients in difficulty and the overall level of client distress.	Base: 2001: 2.0% 2002: 3.3% 2003: 3.5% 2004: 3.7% 2005: 3.3% 2006: 2.5% Above historical and targeted levels as a combined result of client difficulties, and transfer of strong clients to other lenders to gain lower short-term interest rates.	Target Mar 2006: 2.5% or less Target Mar 2007: 2.5% or less In the longer term, the above targets are still believed to be attainable, however year-to-year fluctuations must be expected.



Core Business Area II: Programs Administration

The Board administers loan-based assistance programs on behalf of the Department of Agriculture and Fisheries allowing it to take advantage of systems and information already in place to deliver programs efficiently and to support credit based goals of the Board.

Measure II-1:	Number of approved applications to the New Entrant Program	
What this measure tells us:	Where we are now:	Where do we want to be?
This measure indicates the relevance of the program by measuring take-up by qualified applicants.	Base year: 2000-01: 49 Current: 2001-02: 56 2002-03: 47 2003-04: 30 2004-05: 39 2005-06: 36	Target 2005-2006: 50 Target 2006-2007: 50

Measure II-2:	Administered Programs expenditures within budget	
What this measure tells us:	Where we are now:	Where do we want to be?:
Measures prudent management of programs under the Board's authority. As well as access to be program by clients.	New Entrants Program Approvals: Budget Actual 2000-01: $600,000 $706,000 2001-02: $600,000 $856,000 * 2002-03: $600,000 $611,000 * 2003-04: $600,000 $490,000 2004-05: $600,000 $565,000 2005-06: $600,000 $454,000 * Additional grants approved from Departmental budget before issued.	Continue to maintain ability to meet budget. Approved grants generally flow out over the following two fiscal years.

Table 1 **Historical Financial Summary** ($ '000)						
Fiscal year end (March 31):	2001	2002	2003	2004	2005	2006
Funds Advanced (all accounts)	$ 25,013	$ 24,157	$ 22,409	$ 25,927	$ 20,781	$ 30,257
Principal Repayments (all accounts)	(14,101)	(22,906)	(23,690)	(22,238)	(20,821)	(19,554)
Written off	0	(356)	(194)	(322)	0	(1,179)
Advanced Principal at Year-End	171,887	172,782	171,307	174,674	174,634	184,158
Provision for Doubtful Accounts (Principal)	(6,957)	(7,506)	(7,893)	(6,543)	(7,776)	(7,155)
Net Principal at Year-End	$ 164,930	$ 165,276	$ 163,414	$ 168,131	$ 166,858	$ 177,003
Revenue (1)	$ 13,269	$ 13,849	$ 12,992	$ 12,214	$ 11,109	$ 11,330
Expense (1)	(11,553)	(12,641)	(12,120)	(10,020)	(11,446)	(10,698)
Net Income (before Gov. contributions)	$ 1,716	$ 1,208	$ 872	$ 2,194	$ (337)	$ 632

(1) Beginning with 2005 fiscal year end data, interest revenue on impaired loans has been excluded from revenue. This has resulted in lower interest revenue and a corresponding reduction in bad debt expense of $459,000 and $439,000 for 2005 and 2006 respectively. Data for adjustment of years previous to 2005 is not available.

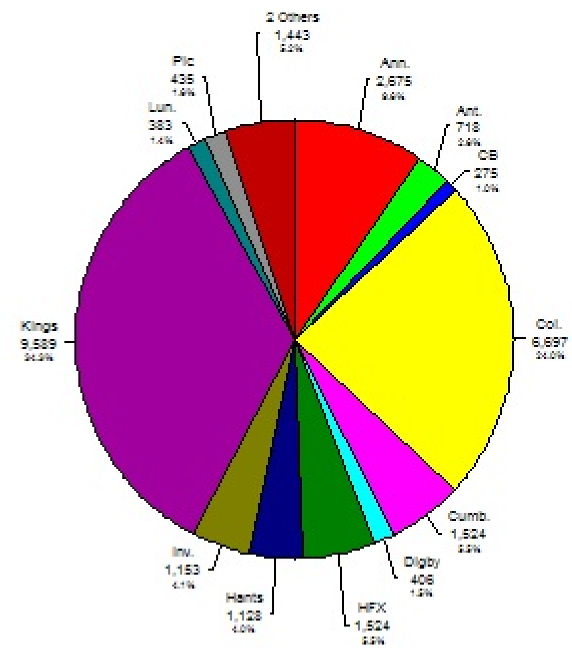
See Financial Statements for notes related to the above information.

Table 2 Loans approved and in place by County, 2005-2006					
County	Approved this year			Loan principal outstanding at year end	
	#	$ ('000)	%	$ ('000)	%
Annapolis	12	2,675	9.6%	11,989	6.7%
Antigonish	14	718	2.6%	8,488	4.8%
Cape Breton	3	275	1.0%	1,984	1.1%
Colchester	18	6,697	23.9%	27,220	15.3%
Cumberland	18	1,524	5.4%	16,986	9.6%
Digby	6	447	1.6%	7,139	4.0%
Guysborough	0	0	0.0%	1,121	0.6%
Halifax	6	1,524	5.4%	4,145	2.3%
Hants	10	1,128	4.0%	13,682	7.7%
Inverness	7	1,153	4.1%	5,566	3.1%
Kings	34	9,589	34.2%	67,196	37.8%
Lunenburg	4	383	1.4%	6,206	3.5%
Pictou	6	435	1.6%	4,557	2.6%
Queens	0	0	0.0%	373	0.2%
Richmond	0	0	0.0%	322	0.2%
Victoria	0	0	0.0%	140	0.1%
Yarmouth and Shelburne (Combined due to small number of loan requests in 2005-2006)	3	1,442	5.2%	632	0.4%
Total Loans	141	27,990	100.0%	177,746	100.0%
Timber Board (incl above)	1	41		791	

Value of loans approved during the year by County

2005/06 Fiscal Year

($ Thousands)



Principal of performing loans at year-end by County

March 31, 2006

($ Thousands)

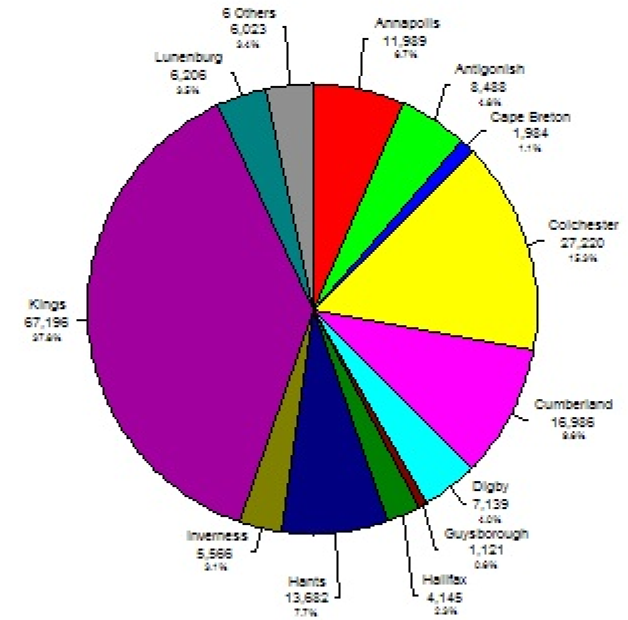
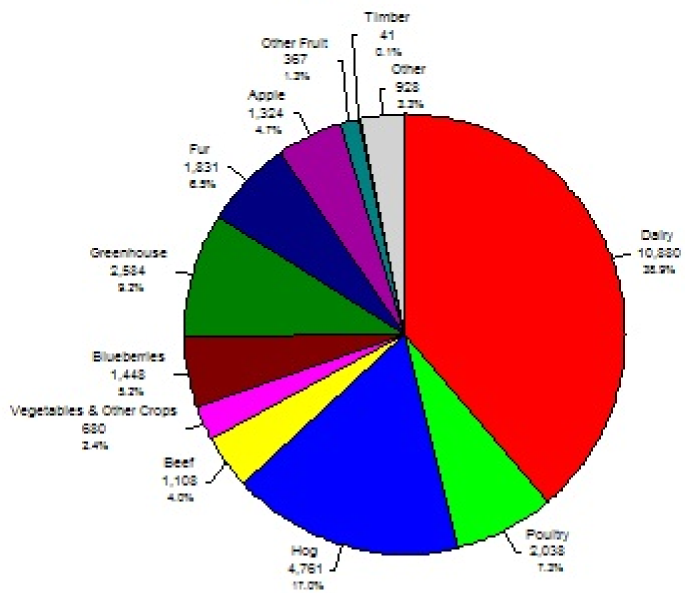


Table 2 **Loans approved and in place by Commodity, 2005-2006**					
Commodity	Approved this year			Loan principal outstanding at year end	
	#	$ (‘000)	%	$ (‘000)	%
Dairy	37	10,880	38.9%	51,090	28.7%
Poultry	5	2,038	7.3%	26,604	15.0%
Hogs	9	4,761	17.0%	20,113	11.3%
Beef	20	1,108	4.0%	14,096	7.9%
Vegetable and other crops	7	680	2.4%	7,362	4.1%
Blueberries	19	1,448	5.2%	9,385	5.3%
Greenhouse	13	2,584	9.2%	10,008	5.6%
Fur	9	1,831	6.5%	9,245	5.2%
Apples	8	1,324	4.7%	5,766	3.2%
Other fruit	4	367	1.3%	3,939	2.2%
Timber and forestry	1	41	0.1%	791	0.4%
Other	9	928	3.4%	19,347	11.1%
Total Loans	141	27,990	100.0%	177,746	100.0%

Value of loans approved by Commodity

2005/06 Fiscal Year

($ Thousands)



Principal of loans in place at year end by Commodity

March 31, 2006

($ Thousands)