SPECIAL FORCES PENSION PLAN

Financial Statements

YEAR ENDED DECEMBER 31, 2004

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Special Forces Pension Board

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Special Forces Pension Plan (the Plan) as at December 31, 2004 and the Statements of Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Deficiency for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2004 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 18, 2005

SPECIAL FORCES PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS

As at December 31, 2004 *(thousands)*

	2004	2003
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 1,154,290	$ 1,059,607
Accounts receivable (Note 6)	2,379	2,400
	1,156,669	1,062,007
Liabilities		
Accounts payable	17	175
Net assets available for benefits	1,156,652	1,061,832
Accrued Benefits		
Actuarial value of accrued benefits		
Plan Fund	1,346,949	1,275,387
Indexing Fund	18,056	13,672
	1,365,005	1,289,059
Deficiency (Notes 12 and 13)		
Plan Fund *	(208,353)	(227,227)
Indexing Fund	-	-
	$ (208,353)	$ (227,227)

* The deficiency of the Plan Fund is comprised of a pre-1992 deficiency of $150,355,000 (2003 $164,709,000) and a post-1991 deficiency of $57,998,000 (2003 $62,518,000).

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2004 *(thousands)*

			2004	2003
	Plan Fund	Indexing Fund	Total	Total
Increase in assets				
Net investment income (Note 9)	$ 99,180	$ 1,419	$ 100,599	$ 121,981
Contributions (Note 8)	42,594	2,965	45,559	42,209
	141,774	4,384	146,158	164,190
Decrease in assets				
Pension benefits	49,201	-	49,201	45,509
Refunds and transfers	811	-	811	486
Administration expenses (Note 10)	1,326	-	1,326	1,196
	51,338	-	51,338	47,191
Increase in net assets	90,436	4,384	94,820	116,999
Net assets available for benefits at beginning of year	1,048,160	13,672	1,061,832	944,833
Net assets available for benefits at end of year	$ 1,138,596	$ 18,056	$ 1,156,652	$ 1,061,832

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN

STATEMENT OF CHANGES IN ACCRUED BENEFITS

For the Year Ended December 31, 2004 *(thousands)*

	Pre-1992	Post-1991	2004 Total	2003 Total
Increase in accrued benefits				
Interest accrued on benefits	$ 54,686	$ 34,087	$ 88,773	$ 83,628
Benefits earned	327	35,012	35,339	32,696
Cost-of-living indexing adjustments and interest	(2,216)	4,062	1,846	8,052
	52,797	73,161	125,958	124,376
Decrease in accrued benefits				
Benefits, transfers and interest	41,324	8,688	50,012	45,995
Net increase in accrued benefits	11,473	64,473	75,946	78,381
Accrued benefits at beginning of year	801,377	487,682	1,289,059	1,210,678
Accrued benefits at end of year (Note 7)	$ 812,850	$ 552,155	$ 1,365,005	$ 1,289,059

See accompanying notes and schedules.

STATEMENT OF CHANGES IN DEFICIENCY

For the Year Ended December 31, 2004 *(thousands)*

	Pre-1992	Post-1991	2004 Total	2003 Total
Deficiency at beginning of year (Notes 12 and 13)	$(164,709)	$(62,518)	$(227,227)	$(265,845)
Increase in net assets available for benefits	25,827	68,993	94,820	116,999
Net increase in accrued benefits	(11,473)	(64,473)	(75,946)	(78,381)
Deficiency at end of year (Notes 12 and 13)	$(150,355)	$(57,998)	$(208,353)	$(227,227)

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Special Forces Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 369/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for police officers employed by participating local authorities in Alberta. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0584375.

(b) Funding Policy

Plan Fund

Current service costs and the Plan's actuarial deficiency in respect of service after 1991 are funded by employers and employees contributions at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 2004 were unchanged at 9.61% of pensionable salary for employers and 8.51% for employees. The rates are reviewed at least once every three years by the Special Forces Pension Board (the Board) based on recommendations of the Plan's actuary.

The unfunded liability for service prior to December 31, 1991 as determined by actuarial valuation is being financed by additional contributions from the Province of Alberta, employers and employees. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 2004 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

Indexing Fund

Benefit payment increases are funded by post-1991 cost-of-living adjustment (COLA) (see Note 1(i)) which are funded by contributions to the Indexing Fund from employers and employees. The rates in effect at December 31, 2004 were 0.75% of pensionable salary each for employers and employees. Rates are reviewed at least once every three years by the Board based on recommendations of the Plan's actuary.

Subject to the *Employment Pension Plans Act*, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991.

(c) Retirement Benefits

The Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the five highest consecutive years, subject to the maximum benefit limit allowed under the federal *Income Tax Act*. The maximum service allowable under the Plan is 35 years. Members are entitled to a pension at retirement who have attained age 65, or have attained age 55 and have at least five years of service, or have at least 25 years of service. Pensions will be reduced at the age of 65 by 0.6% of the average Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) times years of pensionable service. The YMPE is averaged over the same five-year period as the average salary.

SPECIAL FORCES PENSION PLAN

NOTE 1 (continued)

For a member who has a pension partner at retirement, the normal form of pension is a Joint and Last Survivor, with 65% continuing to the pension partner if he or she survives the member.

For a member who did not have a pension partner at retirement, the normal form is a single life pension guaranteed for a five-year period.

(d) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

(e) Death Benefits

Benefits are payable on the death of a member before retirement. If the member had at least five years of service and there is a pension partner or dependent minor child, benefits may take the form of a survivor pension. If the member has less than five years of service, the pension partner or beneficiary is entitled to receive death benefits in the form of a lump sum payment.

(f) Termination Benefits

Members who terminate with at least five years of service and who are not immediately entitled to a pension may receive a refund of contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of service receive a refund of contributions and interest.

(g) Guarantee

Payment of all benefits arising from service before 1992 is guaranteed by the Province of Alberta.

(h) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of the termination benefits or commuted value for all service.

(i) Cost-of-Living Adjustments (COLA)

Cost-of-living adjustments for service before 1992 payable by the Plan Fund are increased each year by 60% of the average of the increases in the Alberta Consumer Price Index during the twelve-month period ending on October 31st of the previous year. Cost-of-living adjustments for service after 1991 are payable by the Indexing Fund at rates determined by the Board.

SPECIAL FORCES PENSION PLAN

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

Plan investments are held in pooled investment funds administered by Alberta Finance or external managers appointed by Alberta Finance. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the Plan or by pooled investment funds are explained in the following paragraphs:

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Finance.

The fair value of alternative investments including investments in private investment funds, private equities and securities with limited marketability is estimated by Alberta Finance or external managers appointed by Alberta Finance using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate and may not reflect amounts that could be realized upon immediate sale, nor amounts that may ultimately be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers using methods such as replacement cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models as appropriate.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

Note 2 (continued)

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts, credit default swaps and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields and year-end exchange rates.

Income and expense from derivative contracts are accrued as earned and included in net investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

(f) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the calculation of the Plan's actuarial value of accrued benefits. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Plan's actuarial value of accrued benefits, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements. Differences between actual results and expectations are disclosed as net experience gains or losses in the statement of changes in accrued benefits.

SPECIAL FORCES PENSION PLAN

NOTE 3 INVESTMENTS (SCHEDULES A TO E)

(thousands)

	2004 Fair Value	%	2003 Fair Value	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 8,803	0.8	$ 6,713	0.6
Canadian Dollar Public Bond Pool (b)	346,426	30.0	307,380	29.0
Private Mortgage Pool (c)	59,298	5.1	54,733	5.2
Total fixed income securities	414,527	35.9	368,826	34.8
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (d)	95,328	8.3	93,139	8.8
Canadian Small Cap Equity Pool (d)	31,572	2.7	27,406	2.6
Domestic Passive Equity Pooled Fund (e)	76,780	6.6	74,959	7.1
Canadian Pooled Equities Fund (f)	32,354	2.8	27,472	2.6
Private Equity Pool (g)	1,301	0.1	1,621	0.2
	237,335	20.5	224,597	21.3
United States Equities (Schedule C)				
US Passive Equity Pooled Fund (h)	113,279	9.8	109,491	10.3
External Managers				
US Large Cap Equity Pool (i)	52,950	4.6	45,624	4.3
US Mid/Small Cap Equity Pool (i)	33,140	2.9	30,955	2.9
S&P 500 Pooled Index Fund (h)	11,465	1.0	10,769	1.0
	210,834	18.3	196,839	18.5
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool (j)	119,758	10.4	112,978	10.7
EAFE Plus Equity Pool (j)	54,465	4.7	47,819	4.5
EAFE Passive Equity Pool (k)	687	0.1	15,217	1.4
Emerging Markets Equity Pool (l)	12,370	1.1	-	-
EAFE Structured Equity Pooled Fund (k)	44,646	3.9	40,225	3.8
	231,926	20.2	216,239	20.4
Alternative Investments - Equities				
Private Income Pool (m)	3,875	0.3	493	-
Real Estate Equities (Schedule E)				
Private Real Estate Pool (n)	55,793	4.8	52,613	5.0
Total equities	739,763	64.1	690,781	65.2
Total investments	$ 1,154,290	100.0	$ 1,059,607	100.0

SPECIAL FORCES PENSION PLAN

NOTE 3 (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. In order to reduce risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(d) The External Managers Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Small Cap Pool is restricted to investing in publicly traded Canadian equities with a market capitalization of up to 0.15% of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(e) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(f) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

(g) The Private Equity Pool is in the process of orderly liquidation.

(h) The US Passive Equity Pooled Fund and the S&P 500 Pooled Index Fund are passively managed. The portfolios are comprised of publicly traded United States equities similar in weights to the Standard & Poor's S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index over a four-year period. The pools utilize a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pools also invest in futures, swaps and other structured investments.

(i) The External Managers US Large Cap Equity Pool consists of multiple portfolios and the External Managers US Mid/Small Cap Equity Pool consists of a single portfolio of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US large cap or mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the S&P 500 Index for the US Large Cap Pool and the Russell 2500 Index for the US Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(j) The External Managers EAFE (Europe, Australasia and Far East) Core and Plus Equity Pools consist of multiple portfolios of publicly traded Non-North American equities. Each core portfolio is actively managed by an external manager and has constraints on foreign currency management and deviations from the Morgan Stanley Capital International (MSCI) EAFE Index asset mix by country. The Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the MSCI EAFE Index over a four-year period while reducing return volatility through multiple manager investment style and market diversification.

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NOTE 3 (continued)

(k) The performance objective of the External Managers EAFE Passive Equity Pool and the EAFE Structured Equity Pooled Fund is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The External Managers EAFE Passive Equity Pool consists of a single portfolio of Non-North American publicly traded equities similar in weights to the MSCI EAFE index. The EAFE Structured Equity Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(l) The External Managers Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) Emerging Markets Free (EMF) Index over a four-year period.

(m) The Private Income Pool is managed with the objective of providing investment return comparable to the Consumer Price Index plus 6% over the long term. The pool invests in infrastructure related projects that are structured to yield high current income.

(n) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through intermediary companies, which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The pool is intended to provide diversification from the securities market.

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. The expected rate of return on investments, together with the expected long term inflation rate, form the basis for determining the economic assumptions used in calculating the actuarial liabilities. In order to earn the best possible return at an acceptable level of risk, the Board has established a benchmark policy asset mix of 37% fixed income instruments and 63% equities. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

SPECIAL FORCES PENSION PLAN

NOTE 5 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to credit, interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2004:

(thousands)		Maturity			2004		2003
	Under 1 Year	1 to 3 Years %	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
Equity index swap contracts	78	22	-	$204,961	$ 8,294	$196,640	$ 8,306
Cross-currency interest rate swap contracts	27	28	45	84,880	(4,913)	75,614	(8,141)
Interest rate swap contracts	40	55	5	82,567	(3,325)	88,701	(4,559)
Forward foreign exchange contracts	100	-	-	27,781	111	8,526	(6)
Credit default swap contracts	18	20	62	22,967	95	3,380	(41)
Bond index swap contracts	100	-	-	6,753	131	4,951	7
Equity index futures contracts	100	-	-	4,264	484	3,128	379
				$434,173	$ 877	$380,940	$ (4,055)

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

SPECIAL FORCES PENSION PLAN

NOTE 5 (continued)

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

NOTE 6 ACCOUNTS RECEIVABLE

(thousands)

	2004	2003
Contributions receivable		
Employers	$ 1,086	$ 1,063
Employees	1,001	983
Province of Alberta	202	185
	2,289	2,231
Receivable from Alberta Pensions Administration Corporation	90	169
	$ 2,379	$ 2,400

NOTE 7 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2001 by Hewitt and Associates and was then extrapolated to December 31, 2004.

Actuarial valuations were determined using the projected benefit method prorated on service. The assumptions used in the valuations and extrapolations were developed as the best estimate of expected short-term and long-term market conditions and other future events. After consultation with the Plan's actuary, the Board approved these best estimates.

The major assumptions used were:

	December 31	
	2004 and 2003 Extrapolation %	2001 Valuation %
Investment return	7.0	7.0
Inflation rate	3.25	3.25
Salary escalation rate*	3.75	3.75
Pension cost-of-living increase as a percent of Alberta Consumer Price Index	60	60

* In addition to merit and promotion.

SPECIAL FORCES PENSION PLAN

Note 7 (continued)

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the pension liability with respect to service that was recognized as pensionable as at December 31, 1991. This information is provided in the Statement of Changes in Accrued Benefits, which shows the principal components of the change in the actuarial value of accrued benefits.

Based on the information provided above, the following table summarizes the fair value of net assets, accrued benefits, and the resulting deficiency of the Plan Fund as at December 31, 2004:

(thousands)

	Pre-1992	Post-1991	2004 Total	2003 Total
Plan Fund net assets available for benefits	$ 662,495	$ 476,101	$ 1,138,596	$ 1,048,160
Plan Fund accrued benefits	812,850	534,099	1,346,949	1,275,387
Plan Fund Deficiency (Notes 12 and 13)	$ (150,355)	$ (57,998)	$ (208,353)	$ (227,227)

As at December 31, 2004, the Indexing Fund held investments of $18,056,000 (2003 $13,672,000) with offsetting accrued benefits of the same amount.

An actuarial valuation of the Plan as at December 31, 2004 will be carried out subsequent to the completion of these financial statements as required by the *Public Sector Pension Plans Act*. Any differences between the actuarial valuation results and the extrapolation results as reported in these financial statements, including the impact of changes to the maximum pensionable salary limit as announced in the 2005 Federal Budget estimated to amount to less than $1 million, will affect the financial position of the Plan and will be accounted for as gains or losses in 2005.

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

SPECIAL FORCES PENSION PLAN

NOTE 7 (continued)

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2004:

		Sensitivities	
	Changes in Assumptions %	**Increase in Plan Deficiency ($ million)**	**Increase in Current Service Cost as a % of Pensionable Earnings ***
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 79	0.0% **
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	30	1.0%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	188	2.8%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2001 valuation was 17.2%.

** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

NOTE 8 CONTRIBUTIONS

(thousands)

	2004	**2003**
Current and optional service		
Employers	$ 19,594	$ 18,387
Employees	18,089	17,051
Unfunded liability		
Employers	2,392	2,226
Employees	2,392	2,226
Province of Alberta	2,471	2,300
Transfers from other plans	621	19
	$ 45,559	$ 42,209

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NOTE 9 NET INVESTMENT INCOME
(thousands)

Net investment income is comprised of the following:	2004	2003
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ 59,387	$ 84,882
Interest income	30,446	26,590
Dividend income	9,274	8,547
Real estate income	2,915	2,852
Securities lending income	260	272
Pooled funds management and associated custodial fees	(1,683)	(1,162)
	$ 100,599	$ 121,981

The following is a summary of the Plan's proportionate share of net investment income by type of investments:

	2004	2003
Fixed Income Securities	$ 30,397	$ 24,808
Canadian Equities	31,970	47,613
Foreign Equities		
United States	7,322	15,761
Non-North American	25,309	28,778
Alternative Investments - Equities	5,483	107
Real Estate Equities	118	4,914
	$ 100,599	$ 121,981

The following is a summary of the investment performance results attained by the Plan:

	One Year Return	Four-Year Compound Annualized Return	Eight -Year Compound Annualized Return
Time-weighted rates of return*			
Overall Plan	9.5%	3.2%	7.1%
Policy Benchmark**	9.2%	2.5%	6.8%

* The measure involves the calculation of the net return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns.

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NOTE 10 ADMINISTRATION EXPENSES

(thousands)

	2004	2003
General administration costs	$ 1,009	$ 951
Investment management costs	220	221
Actuarial fees	97	24
	$ 1,326	$ 1,196

Total administration expenses amounted to $283 per member (2003 $267 per member).

General administration costs including plan board costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Finance and do not include pooled funds management and associated custodial fees, which have been included in the calculation of net investment income (see Note 9).

NOTE 11 REMUNERATION OF BOARD MEMBERS

Remuneration paid to or on behalf of Board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chairman	Members
Remuneration rates effective March 1, 2004:		
Up to 4 hours	$ 165	$ 122
4 to 8 hours	280	203
Over 8 hours	447	318

	2004	2003
During 2004, the following amounts were paid:		
Remuneration		
Chair	$ 7,640	$ 3,536
Members (5)*	28,206	14,962
Travel expenses		
Chair	9,510	673
Members (5)	28,109	17,216

* Crown representative nominated by the Government of Alberta receives no remuneration.

NOTE 12 FUNDING VALUATION AND EXTRAPOLATION

The Plan's deficiency is determined on the fair value basis for accounting purposes. For funding valuation and extrapolation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation and extrapolation purposes amounted to $1,109 million at December 31, 2004 (2003 $1,049 million).

In accordance with the *Public Sector Pension Plans Act*, the unfunded liability for post-1991 service as determined by an actuarial funding valuation at December 31, 2001 is financed by a special payment of 0.92% of pensionable salary shared equally between employees and employers effective January 1, 2003 and continuing 15 years from the date of valuation until December 31, 2016. The special payment is included in the rates in effect at December 31, 2004 (see Note 1(b)).

NOTE 13 CHANGE IN ACCOUNTING POLICY

In order to eliminate any misunderstanding about the actual financial position of the Plan, in 2004, the Board introduced a change in accounting policy and assets are now valued on the fair value basis for accounting purposes with no smoothed value reported.

As at December 31, 2004, this change in accounting policy has the effect of decreasing the Plan's deficiency by $48 million. If the change had not been made, the Plan's deficiency would have been $256 million as at December 31, 2004.

This change in accounting policy has been applied retroactively and the Plan's deficiencies at December 31, 2002 and 2003 have been restated. The effect of this change in accounting policy is to increase retroactively the Plan's deficiency by $61 million at December 31, 2002 and decrease retroactively the Plan's deficiency by $13 million at December 31, 2003.

NOTE 14 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2004 presentation.

NOTE 15 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were prepared by management and approved by the Board.

SPECIAL FORCES PENSION PLAN

SCHEDULES TO THE SPECIAL FORCES PENSION PLAN

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

Year Ended December 31, 2004 *(thousands)*

	Plan's share 2004	Plan's share 2003
Deposits and short-term securities	$ 10,939	$ 8,397
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	96,516	78,051
Provincial		
Alberta, direct and guaranteed	219	235
Other, direct and guaranteed	83,774	49,464
Municipal	4,541	4,713
Corporate	129,237	142,716
Private		
Corporate	87,899	85,019
	402,186	360,198
Receivable from sale of investments and accrued investment income	4,229	3,994
Liabilities for investment purchases	(2,827)	(3,763)
	1,402	231
	$ 414,527	$ 368,826

(a) Fixed income securities held as at December 31, 2004 had an average effective market yield of 4.44% per annum (2003 4.79% per annum). The following term structure of these securities as at December 31, 2004 was based on principal amount.

	2004 %	2003 %
under 1 year	3	3
1 to 5 years	36	38
6 to 10 years	32	30
11 to 20 years	13	9
over 20 years	16	20
	100	100

SPECIAL FORCES PENSION PLAN

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES — Schedule B

Year Ended December 31, 2004 *(thousands)*

	Plan's Share 2004	Plan's Share 2003
Deposits and short-term securities	$ 2,296	$ 2,274
Public equities (a) (b)		
Consumer discretionary	19,398	18,656
Consumer staples	11,980	10,977
Energy	41,215	31,628
Financials	68,523	62,762
Health care	4,696	5,725
Industrials	20,459	23,894
Information technology	13,759	12,670
Materials	39,931	36,550
Telecommunication services	9,679	10,096
Utilities	1,452	5,007
	231,092	217,965
Passive index	505	375
	231,597	218,340
Private Equity Pool	1,301	1,621
Receivable from sale of investments and accrued investment income	2,293	2,751
Liabilities for investment purchases	(152)	(389)
	2,141	2,362
	$ 237,335	$ 224,597

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $54,603,000 (2003 $48,985,000) which were used as underlying securities to support the notional amount of Canadian equity index swap contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

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SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES — Schedule C

Year Ended December 31, 2004 *(thousands)*

	Plan's Share 2004	Plan's Share 2003
Deposits and short-term securities	$ 6,246	$ 8,279
Public equities (a) (b)		
Consumer discretionary	30,407	28,571
Consumer staples	16,964	17,595
Energy	14,566	10,720
Financials	40,759	39,026
Health care	25,494	24,040
Industrials	26,699	21,403
Information technology	29,933	32,119
Materials	8,385	6,364
Telecommunication services	5,373	5,466
Utilities	6,008	5,368
	204,588	190,672
Passive index	-	84
	204,588	190,756
Receivable from sale of investments and accrued investment income	1,476	1,412
Liabilities for investment purchases	(1,476)	(3,608)
	-	(2,196)
	$ 210,834	$ 196,839

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $112,473,000 (2003 $107,477,000), which were used as underlying securities to support the notional amount of US equity index swap contracts and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard and Poor's S&P 500 Index.

SPECIAL FORCES PENSION PLAN

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES — Schedule D

Year Ended December 31, 2004 *(thousands)*

	Plan's Share 2004	Plan's Share 2003
Deposits and short-term securities	$ 4,084	$ 3,671
Public equities (a) (b)		
Consumer discretionary	31,361	31,840
Consumer staples	13,109	16,661
Energy	19,091	15,699
Financials	61,455	51,669
Health care	13,733	16,881
Industrials	24,650	22,761
Information technology	10,966	12,661
Materials	17,920	15,811
Telecommunication services	19,340	18,872
Utilities	9,020	8,306
	220,645	211,161
Passive index	5,201	28
Receivable from sale of investments and accrued investment income	2,930	2,169
Liabilities for investment purchases	(934)	(790)
	1,996	1,379
	$ 231,926	$ 216,239

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $42,149,000 (2003 $38,632,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard and Poor's. The following is a summary of the Plan's investment in Non-North American public equities by country based on geographic location of stock exchange on which stocks were purchased:

(thousands)	Plan's Share 2004	Plan's Share 2003
United Kingdom	$ 49,615	$ 49,923
Japan	39,699	36,166
France	20,099	21,208
Germany	15,364	15,285
Switzerland	14,898	16,897
Netherlands	12,220	12,008
Australia	10,392	11,095
Italy	9,174	9,214
Sweden	5,775	4,189
Spain	5,720	5,953
Other	37,689	29,223
	$ 220,645	$ 211,161

SPECIAL FORCES PENSION PLAN

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

Year Ended December 31, 2004 *(thousands)*

	Plan's Share 2004	Plan's Share 2003
Deposits and short-term securities	$ 6	$ 43
Real estate (a)		
Office	27,886	23,331
Retail	20,026	22,087
Industrial	4,398	3,567
Residential	2,703	3,089
	55,013	52,074
Passive index	695	362
Receivable from sale of investments and accrued investment income	79	134
	$ 55,793	$ 52,613

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

(thousands)

	Plan's Share 2004	Plan's Share 2003
Ontario	$ 35,663	$ 38,058
Alberta	12,196	12,948
Quebec	6,196	-
British Columbia	958	1,068
	$ 55,013	$ 52,074