SPECIAL FORCES PENSION PLAN

Financial Statements

DECEMBER 31, 2005

AUDITOR'S REPORT

To the Minister of Finance and 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, 2005, 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, 2005 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 17, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

SPECIAL FORCES PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS

As At December 31, 2005

	2005	2004
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 1,288,233	$ 1,154,290
Accounts receivable (Note 6)	2,782	2,379
	1,291,015	1,156,669
Liabilities		
Accounts payable	25	17
Net assets available for benefits	1,290,990	1,156,652
Accrued Benefits		
Actuarial value of accrued benefits (Note 7)		
Plan Fund	1,353,848	1,346,949
Indexing Fund	4,485	18,056
	1,358,333	1,365,005
Deficiency		
Plan Fund *	(67,343)	(208,353)
Indexing Fund	-	-
	$ (67,343)	$ (208,353)

* The deficiency of the Plan Fund is comprised of a pre-1992 deficiency of $79,799,000 (2004 $150,355,000) and a post-1991 surplus of $12,456,000 (2004 deficiency of $57,998,000).

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2005

	2005			2004
	Plan Fund	Indexing Fund	Total	Total
	($ thousands)			
Increase in assets				
Net investment income (Note 8)	$ 137,586	$ 2,343	$ 139,929	$ 100,599
Contributions (Note 9)	48,105	3,346	51,451	45,559
	185,691	5,689	191,380	146,158
Decrease in assets				
Pension benefits	53,370	-	53,370	49,201
Refunds and transfers	2,299	-	2,299	811
Administration expenses (Note 10)	1,373	-	1,373	1,326
	57,042	-	57,042	51,338
Increase in net assets before transfer	128,649	5,689	134,338	94,820
Transfer from the Indexing Fund to the Plan Fund (Note 12)	19,260	(19,260)	-	-
Increase (decrease) in net assets after transfer	147,909	(13,571)	134,338	94,820
Net assets available for benefits at beginning of year	1,138,596	18,056	1,156,652	1,061,832
Net assets available for benefits at end of year	$ 1,286,505	$ 4,485	$ 1,290,990	$ 1,156,652

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN

STATEMENT OF CHANGES IN ACCRUED BENEFITS

For the Year Ended December 31, 2005

	2005			2004
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
Increase in accrued benefits				
Interest accrued on benefits	$ 52,858	$ 36,585	$ 89,443	$ 88,773
Benefits earned	350	36,842	37,192	35,339
Cost-of-living indexing adjustments and interest	(3,209)	3,692	483	1,846
	49,999	77,119	127,118	125,958
Decrease in accrued benefits				
Benefits, transfers and interest	45,029	10,640	55,669	50,012
Net experience gains	31,517	38,946	70,463	-
Changes in actuarial assumptions	4,251	3,407	7,658	-
	80,797	52,993	133,790	50,012
Net (decrease) increase in accrued benefits	(30,798)	24,126	(6,672)	75,946
Accrued benefits at beginning of year	812,850	552,155	1,365,005	1,289,059
Accrued benefits at end of year	$ 782,052	$ 576,281	$ 1,358,333	$ 1,365,005

STATEMENT OF CHANGES IN DEFICIENCY

For the Year Ended December 31, 2005

	2005			2004
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
(Deficiency) at beginning of year	$ (150,355)	$ (57,998)	$ (208,353)	$ (227,227)
Increase in net assets available for benefits	39,758	94,580	134,338	94,820
Net decrease (increase) in accrued benefits	30,798	(24,126)	6,672	(75,946)
(Deficiency) Surplus at end of year (Note 13)	$ (79,799)	$ 12,456	$ (67,343)	$ (208,353)

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

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 employers 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 employer and employee 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, 2005 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, 2005 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

Indexing Fund

Benefit payment increases for post-1991 cost-of-living adjustment (COLA) (see Note 1(i)) are funded by contributions to the Indexing Fund from employers and employees. The rates in effect at December 31, 2005 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

SPECIAL FORCES PENSION PLAN

Note 1 (continued)

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.

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 does 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)

Pensions payable by the Plan Fund for pre-1992 service are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year. Post-1991 cost-of-living adjustments are funded 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 partnership interests, private investment funds, private equities and securities with limited marketability is estimated by Alberta Finance or external managers appointed by Alberta Finance. This is done 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.

SPECIAL FORCES PENSION PLAN

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 and in the valuation of the Plan's private and alternative investments and real estate. Uncertainty arises because:

(i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation of the Plan's accrued benefits, and

(ii) the estimated fair values of the Plan's private and alternative investments and real estate may differ significantly from the values that would have been used had a ready market existed for these investments.

SPECIAL FORCES PENSION PLAN

Note 2 (continued)

While best estimates have been used in the calculation of the Plan's actuarial value of accrued benefits and in the valuation of the Plan's private and alternative investments and real estate, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations are disclosed as net experience gains or losses in the statement of changes in accrued benefits in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values are known.

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NOTE 3 INVESTMENTS (SCHEDULES A TO E)

	2005		2004	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 5,390	0.4	$ 8,803	0.8
Canadian Dollar Public Bond Pool (b)	317,704	24.7	346,426	30.0
Private Mortgage Pool (c)	63,331	4.9	59,298	5.1
Canadian Long Term Government Bond Pool (b)	31,700	2.5	-	-
Real rate of return bonds (d)	22,468	1.7	-	-
External Managers Currency Alpha Pool (e)	1,888	0.2	-	-
Total fixed income securities	442,481	34.4	414,527	35.9
Canadian Equities (Schedule B)				
Domestic Passive Equity Pooled Fund (f)	95,880	7.4	76,780	6.6
External Managers				
Canadian Small Cap Equity Pool (g)	36,675	2.8	31,572	2.7
Canadian Large Cap Equity Pool (g)	20,208	1.6	95,328	8.3
Canadian Equity Enhanced Index Pool (h)	27,282	2.1	-	-
Canadian Pooled Equities Fund (i)	57,733	4.5	32,354	2.8
Canadian Multi-Cap Pool (j)	15,802	1.2	-	-
Growing Equity Income Pool (k)	12,705	1.0	-	-
Private Equity Pool	1,207	0.1	1,301	0.1
Overlay US Equity Pool (o)	(14,183)	(1.1)	-	-
	253,309	19.6	237,335	20.5
United States Equities (Schedule C)				
US Passive Equity Pooled Fund (l)	120,948	9.4	113,279	9.8
S&P 500 Pooled Index Fund (l)	41,692	3.2	11,465	1.0
External Managers				
US Mid/Small Cap Equity Pool (m)	36,316	2.8	33,140	2.9
US Large Cap Equity Pool	-	-	52,950	4.6
Portable Alpha US Equity Pool (n)	18,764	1.5	-	-
Overlay US Equity Pool (o)	17,717	1.4	-	-
Growing Equity Income Pool (k)	3,186	0.2	-	-
	238,623	18.5	210,834	18.3
Non-North American Equities (Schedule D)				
External Managers				
EAFE Active Equity Pool (p)	194,599	15.1	-	-
Emerging Markets Equity Pool (q)	16,166	1.3	12,370	1.1
EAFE Passive Equity Pool (r)	757	0.1	687	0.1
EAFE Core and Plus Equity Pools	-	-	174,223	15.1
EAFE Structured Equity Pooled Fund (r)	44,203	3.4	44,646	3.9
	255,725	19.9	231,926	20.2
Alternative Investments - Equities				
Private Income Pool (s)	6,846	0.5	3,875	0.3
Timberland Pool (t)	5,536	0.4	-	-
	12,382	0.9	3,875	0.3
Real Estate Equities (Schedule E)				
Private Real Estate Pool (u)	85,713	6.7	55,793	4.8
Total equities	845,752	65.6	739,763	64.1
Total investments	$1,288,233	100.0	$1,154,290	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 (CDPB) and the Canadian Long Term Government Bond Pool (CLGB) are managed with the objectives of providing competitive returns comparable to the total returns of the Scotia Capital Universe Bond Index and the Scotia Capital Long Term All Government Bond Index respectively over a four-year period while maintaining adequate security and liquidity of participants' capital. The CDPB portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives while the CLGB portfolio invests only in high quality fixed income instruments of the federal, provincial and municipal governments of Canada. 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) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

(e) The External Managers Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the pool a modest amount of cash to minimize rebalancing of cash flows in or out of the pool when the forward foreign exchange contracts settle.

(f) 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.

(g) 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 the long term while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(h) The External Managers Canadian Equity Enhanced Index Pool consists of a single portfolio of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

(i) 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.

SPECIAL FORCES PENSION PLAN

Note 3 (continued)

(j) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component is internally managed and provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is managed by an external manager with expertise in the Canadian small/mid cap markets. 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.

(k) The Growing Equity Income Pool is managed with the objective of providing returns higher than the return of S&P/TSX Custom Dividend Index over a four-year period. The Pool is intended to provide a steady stream of dividend income with potential for capital appreciation by investing in dividend-paying Canadian and US companies that exhibit attractive valuation, growth and quality financial characteristics.

(l) 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.

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

(n) The Portable Alpha US Equity Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. The performance objective is to provide returns higher than the S&P 500 Index over the long term.

(o) The Overlay US Equity Pool is managed with the objective of providing a quick, effective and efficient way to reduce exposure to Canadian equities and increase exposure to United States equities through synthetic instruments on a largely unfunded basis. The pool is comprised of a long position through United States equity index futures contracts and a short position through Canadian equity index futures contract. Cash and short-term securities held by the pool support approximately 5% to 10% of the pool's notional exposure in Canadian and United States equity index futures contracts.

(p) The External Managers EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Each portfolio is actively managed by an external manager and has constraints on foreign currency management, country allocation, stock selection and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period while reducing return volatility through multiple manager investment styles and market diversification.

(q) The External Managers Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolios are 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 Emerging Markets Free (MSCI EMF) Index over a four-year period.

SPECIAL FORCES PENSION PLAN

Note 3 (continued)

(r) 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.

(s) 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.

(t) The Timberland Pool's performance objective is to provide a rate of return higher than the Consumer Price Index plus 4% over the long term. The pool invests in a partnership interest in forestry land in British Columbia.

(u) 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 limited partnerships and 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 long-term benchmark policy asset mix of 31% fixed income instruments and 69% 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, 2005:

	Maturity			2005		2004	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
	%			($ thousands)			
Equity index swap contracts	79	21	-	$ 279,467	$ 6,416	$ 204,961	$ 8,294
Interest rate swap contracts	50	34	16	88,946	1,670	82,567	(3,325)
Cross-currency interest rate swap contracts	19	31	50	75,832	4,843	84,880	(4,913)
Forward foreign exchange contracts	100	-	-	71,504	(155)	27,781	111
Equity index futures contracts	100	-	-	66,479	951	4,264	484
Credit default swap contracts	15	16	69	30,561	287	22,967	95
Bond index swap contracts	100	-	-	16,492	403	6,753	131
				$ 629,281	$ 14,415	$ 434,173	$ 877

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

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.

SPECIAL FORCES PENSION PLAN

NOTE 6 ACCOUNTS RECEIVABLE

	2005	2004
	($ thousands)	
Contributions receivable		
Employers	$ 1,236	$ 1,086
Employees	1,135	1,001
Province of Alberta	224	202
	2,595	2,289
Receivable from Alberta Pensions Administration Corporation	137	90
Accrued investment income	50	-
	$ 2,782	$ 2,379

NOTE 7 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2004 by Hewitt and Associates and was then extrapolated to December 31, 2005. The 2004 valuation was completed after the financial statements of the Plan for 2004 were released. As a result, the differences between the actuarial valuation and extrapolation results for 2004 are accounted for as net experience gains in 2005.

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	
	2005 Extrapolation	2004 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.

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.

SPECIAL FORCES PENSION PLAN

Note 7 (continued)

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, 2005:

	2005			2004
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
Plan Fund net assets available for benefits	$ 702,253	$ 584,252	$1,286,505	$1,138,596
Plan Fund accrued benefits	782,052	571,796	1,353,848	1,346,949
Plan Fund Deficiency (Notes 12)	$ (79,799)	$ 12,456	$ (67,343)	$ (208,353)

As at December 31, 2005, the Indexing Fund held investments of $4,485,000 (2004 $18,056,000) with offsetting accrued benefits of the same amount.

(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.

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, 2005:

	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%	$ 78	0.0% **
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	35	1.8%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	195	3.8%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2004 valuation was 16.2%.

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

SPECIAL FORCES PENSION PLAN

NOTE 8 NET INVESTMENT INCOME

Net investment income is comprised of the following:

	2005	2004
	($ thousands)	
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ 94,993	$ 59,387
Interest income	32,661	30,446
Dividend income	10,523	9,319
Real estate operating income	3,523	2,996
Securities lending income	336	260
Pooled funds management and associated custodial fees	(2,107)	(1,809)
	$ 139,929	$ 100,599

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

	2005	2004
	($ thousands)	
Fixed Income Securities	$ 31,861	$ 30,397
Canadian Equities	55,705	31,970
Foreign Equities		
United States	3,853	7,322
Non-North American	29,881	25,309
Alternative Investments - Equities	692	118
Real Estate Equities	17,937	5,483
	$ 139,929	$ 100,599

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	12.1%	6.9%	7.0%
Policy Benchmark**	10.7%	6.1%	6.5%

* 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.

SPECIAL FORCES PENSION PLAN

NOTE 9 CONTRIBUTIONS

	2005	2004
	($ thousands)	
Current and optional service		
Employers	$ 22,214	$ 19,594
Employees	20,557	18,089
Unfunded liability		
Employers	2,721	2,392
Employees	2,721	2,392
Province of Alberta	2,788	2,471
Transfers from other plans	450	621
	$ 51,451	$ 45,559

NOTE 10 ADMINISTRATION EXPENSES

	2005	2004
	($ thousands)	
General administration costs	$ 1,042	$ 1,009
Investment management costs	237	220
Actuarial fees	94	97
	$ 1,373	$ 1,326

Total administration expenses amounted to $279 per member (2004 $283 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 8).

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:

	Chair	Members
Remuneration rates effective March 1, 2005:		
Up to 4 hours	$ 176	$ 131
4 to 8 hours	300	217
Over 8 hours	478	340

	2005	2004
During 2005, the following amounts were paid:		
Remuneration		
Chair	$ 2,730	$ 7,640
Members (5)*	14,765	28,206
Travel expenses		
Chair	8,997	9,510
Members (5)	22,588	28,109

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

SPECIAL FORCES PENSION PLAN

NOTE 12 TRANSFER FROM THE INDEXING FUND TO THE PLAN FUND

Transfer from the Indexing Fund to the Plan Fund is determined by the plan's actuary to finance the payment of cost-of-living increases by the Plan Fund for pensionable service from 1999 to 2000 [see Note 1(i)].

NOTE 13 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 $1,228 million at December 31, 2005 (2004 $1,109 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, 2004 is financed by a special payment of 1.86% of pensionable salary shared equally between employees and employers effective January 1, 2005 and continuing for 15 years from the date of valuation until December 31, 2019. The special payment is included in the rates in effect at December 31, 2005 (see Note 1(b)).

NOTE 14 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2005 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 FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 10,899	$ 10,939
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	119,614	96,516
Provincial		
Alberta, direct and guaranteed	2,097	219
Other, direct and guaranteed	84,556	83,774
Municipal	1,940	4,541
Corporate	132,373	129,237
Private		
Corporate	86,700	87,899
	427,280	402,186
Receivable from sale of investments and accrued investment income	4,346	4,229
Liabilities for investment purchases	(44)	(2,827)
	4,302	1,402
	$ 442,481	$ 414,527

(a) Fixed income securities held as at December 31, 2005 had an average effective market yield of 4.38% per annum (2004 4.44% per annum). The following term structure of these securities as at December 31, 2005 was based on principal amount.

	2005	2004
	%	
under 1 year	2	3
1 to 5 years	27	36
6 to 10 years	32	32
11 to 20 years	14	13
over 20 years	25	16
	100	100

SPECIAL FORCES PENSION PLAN

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 2,000	$ 2,296
Public equities (a) (b)		
Consumer discretionary	15,764	19,398
Consumer staples	9,406	11,980
Energy	64,093	41,215
Financials	70,176	68,523
Health care	2,733	4,696
Industrials	19,787	20,459
Information technology	10,864	13,759
Materials	35,496	39,931
Telecommunication services	10,813	9,679
Utilities	2,541	1,452
	241,673	231,092
Passive index	4,951	505
	246,624	231,597
Private Equity Pool	1,207	1,301
Receivable from sale of investments and accrued investment income	6,247	2,293
Liabilities for investment purchases	(2,769)	(152)
	3,478	2,141
	$ 253,309	$ 237,335

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $92,292,000 (2004 $54,603,000) which were used as underlying securities to support the notional amount of Canadian equity index swaps and futures contracts.

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

SPECIAL FORCES PENSION PLAN

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 5,561	$ 6,246
Public equities (a) (b)		
Consumer discretionary	25,336	30,407
Consumer staples	19,646	16,964
Energy	20,763	14,566
Financials	49,420	40,759
Health care	30,934	25,494
Industrials	27,605	26,699
Information technology	34,553	29,933
Materials	8,723	8,385
Telecommunication services	5,967	5,373
Utilities	8,035	6,008
	230,982	204,588
Passive index	227	-
	231,209	204,588
Receivable from sale of investments and accrued investment income	5,683	1,476
Liabilities for investment purchases	(3,830)	(1,476)
	1,853	-
	$ 238,623	$ 210,834

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $168,881,000 (2004 $112,473,000), which were used as underlying securities to support the notional amount of US equity index swaps and futures contracts.

(a) 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

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 1,202	$ 4,084
Public equities (a) (b)		
Consumer discretionary	28,970	31,361
Consumer staples	16,794	13,109
Energy	18,739	19,091
Financials	68,562	61,455
Health care	19,534	13,733
Industrials	31,058	24,650
Information technology	16,450	10,966
Materials	19,363	17,920
Telecommunication services	15,683	19,340
Utilities	10,348	9,020
	245,501	220,645
Passive index	8,030	5,201
Receivable from sale of investments and accrued investment income	3,258	2,930
Liabilities for investment purchases	(2,266)	(934)
	992	1,996
	$ 255,725	$ 231,926

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $45,812,000 (2004 $42,149,000), 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 the geographic location of stock exchange on which stocks were purchased:

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Japan	$ 55,087	$ 39,699
United Kingdom	49,633	49,615
France	24,899	20,099
Switzerland	18,336	14,898
Germany	14,577	15,364
Netherlands	13,023	12,220
Australia	9,611	10,392
Italy	7,767	9,174
Spain	6,787	5,720
Korea	5,721	3,756
Other	40,060	39,708
	$ 245,501	$ 220,645

SPECIAL FORCES PENSION PLAN

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

December 31, 2005

	Plan's Share	
	2005	2004
	($ thousands)	
Deposits and short-term securities	$ 11	$ 6
Real estate (a)		
Office	42,719	27,886
Retail	28,492	20,026
Industrial	8,517	4,398
Residential	3,909	2,703
	83,637	55,013
Passive index	1,886	695
Receivable from sale of investments and accrued investment income	179	79
	$ 85,713	$ 55,793

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

	Plan's Share	
	2005	2004
	($ thousands)	
Ontario	$ 51,878	$ 35,663
Alberta	22,721	12,196
Quebec	7,464	6,196
British Columbia	1,574	958
	$ 83,637	$ 55,013