# SPECIAL FORCES PENSION PLAN
# FINANCIAL STATEMENTS
# DECEMBER 31, 2002

## 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, 2002, and the Statements of Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Actuarial 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, 2002 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Actuarial 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 27, 2003

## SPECIAL FORCES PENSION PLAN
### STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS AS AT DECEMBER 31, 2002
($ thousands)

| | 2002 | 2001 |
|---|---|---|
| Net Assets Available for Benefits | | |
| Assets | | |
| Investments (Note 3) | $ 942,850 | $ 1,010,672 |
| Accounts receivable (Note 6) | 2,051 | 1,794 |
| | 944,901 | 1,012,466 |
| Liabilities | | |
| Benefits and refunds | 68 | 10 |
| Net assets available for benefits | 944,833 | 1,012,456 |
| Actuarial adjustment for fluctuation in fair value of net assets (Note 2 (c )) | 61,431 | 25,188 |
| Actuarial value of net assets available for benefits | 1,006,264 | 1,037,644 |
| Accrued Benefits | | |
| Actuarial value of accrued benefits (Note 7) | | |
| Plan Fund | 1,201,220 | 1,098,927 |
| Indexing Fund | 9,458 | 7,245 |
| | 1,210,678 | 1,106,172 |
| Actuarial Deficiency (Note 7) | | |
| Plan Fund * | (204,414) | (68,528) |
| Indexing Fund | - | - |
| | $ (204,414) | $ (68,528) |

* The actuarial deficiency of the Plan Fund is comprised of a pre-1992 deficiency of $149,161,000 (2001 $64,537,000) and a post-1991 deficiency of $55,253,000 (2001 $3,991,000).

See accompanying notes and schedules.

## SPECIAL FORCES PENSION PLAN
### STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED DECEMBER 31, 2002
($ thousands)

| | 2002 | | | 2001 |
|---|---|---|---|---|
| | Plan Fund | Indexing Fund | Total | Total |
| Increase in assets | | | | |
| Contributions (Note 8) | $ 33,233 | $ 2,648 | $ 35,881 | $ 34,782 |
| Decrease in assets | | | | |
| Net investment loss (Note 9) | 58,501 | 435 | 58,936 | 25,851 |
| Pension benefits | 42,883 | - | 42,883 | 38,865 |
| Refunds and transfers | 668 | - | 668 | 631 |
| Administration expenses (Note 10) | 1,017 | - | 1,017 | 797 |
| | 103,069 | 435 | 103,504 | 66,144 |
| (Decrease) Increase in net assets | (69,836) | 2,213 | (67,623) | (31,362) |
| Net assets available for benefits at beginning of year | 1,005,211 | 7,245 | 1,012,456 | 1,043,818 |
| Net assets available for benefits at end of year | $ 935,375 | $ 9,458 | $ 944,833 | $ 1,012,456 |

See accompanying notes and schedules.

## SPECIAL FORCES PENSION PLAN
### STATEMENT OF CHANGES IN ACCRUED BENEFITS
### FOR THE YEAR ENDED DECEMBER 31, 2002
($ thousands)

| | 2002 | | | 2001 |
|---|---|---|---|---|
| | Pre-1992 | Post-1991 | Total | Total |
| Increase in accrued benefits | | | | |
| Interest accrued on benefits | $ 52,497 | $ 26,533 | $ 79,030 | $ 72,161 |
| Net experience losses | 22,687 | 13,980 | 36,667 | - |
| Benefits earned | 180 | 29,967 | 30,147 | 29,262 |
| Cost-of-living indexing adjustments and interest | - | 2,213 | 2,213 | 2,482 |
| | 75,364 | 72,693 | 148,057 | 103,905 |
| Decrease in accrued benefits | | | | |
| Benefits, transfers and interest | 37,333 | 6,218 | 43,551 | 39,496 |
| Net increase in accrued benefits | 38,031 | 66,475 | 104,506 | 64,409 |
| Accrued benefits at beginning of year | 745,537 | 360,635 | 1,106,172 | 1,041,763 |
| Accrued benefits at end of year (Note 7) | $ 783,568 | $ 427,110 | $ 1,210,678 | $ 1,106,172 |

See accompanying notes and schedules.

## SPECIAL FORCES PENSION PLAN
### STATEMENT OF CHANGES IN ACTUARIAL DEFICIENCY
### FOR THE YEAR ENDED DECEMBER 31, 2002
($ thousands)

| | 2002 | | | 2001 |
|---|---|---|---|---|
| | Pre-1992 | Post-1991 | Total | Total |
| Actuarial deficiency at beginning of year | $ (64,537) | $ (3,991) | $ (68,528) | $ (45,145) |
| (Decrease) Increase in net assets available for benefits | (70,247) | 2,624 | (67,623) | (31,362) |
| Net change in actuarial adjustment for fluctuation in fair value of net assets | 23,654 | 12,589 | 36,243 | 72,388 |
| Net increase in accrued benefits | (38,031) | (66,475) | (104,506) | (64,409) |
| Actuarial deficiency at end of year | $ (149,161) | $ (55,253) | $ (204,414) | $ (68,528) |

See accompanying notes and schedules.

# SPECIAL FORCES PENSION PLAN

## NOTES TO THE FINANCIAL STATEMENTS

## DECEMBER 31, 2002

### 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.

(b) Funding Policy

Plan Fund

Current service costs are funded by employers and employees at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 2002 were unchanged at 8.30% of pensionable salary for employers and 7.20% for employees. Rates are to be 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, 2002 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

Indexing Fund

Benefit payments are funded by post-1991 cost-of-living adjustment (COLA) (see Note 1(i)) contributions from employers and employees at rates that are expected to meet or exceed the funding or solvency requirements of the Plan. The rates in effect at December 31, 2002 were 0.75% of pensionable salary each for employers and employees. Rates are to be 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. The maximum service allowable under the Plan is 35 years. Members are entitled to a pension if they have at least 25 years of service or have at least five years of service and attained age 55. Pensions will be reduced at the age of 65.

(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

Death benefits are payable on the death of a member if the member had at least five years of service. Benefits may take the form of a survivor pension, if the beneficiary is a pension partner or a dependent minor child, or a lump sum payment. A surviving pension partner or the beneficiary of a deceased member with less than five years of service 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 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 1994, excluding post-1991 COLA benefits on 1992 and 1993 service (see Note 1 (i)), 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 are increased each year by 60% of the increase in the Alberta Consumer Price Index for service before 1992. Cost-of-living adjustments for service after 1991 are payable by the Indexing Fund at rates determined by the Board.

(j) Income Taxes

The Plan is a registered pension plan as defined in the Income Tax Act and is not subject to income taxes. The Plan's registration number is 0584375.

## 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 Revenue. 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.

The Plan's percentage ownership in pooled investment funds at December 31, 2002 was as follows:

| | % Ownership | |
|---|---|---|
| | 2002 | 2001 |
| Internally Managed Pooled Investment Funds | | |
| Canadian Dollar Public Bond Pool | 3.6 | 3.7 |
| Canadian Pooled Equities Fund | 1.7 | 4.2 |
| Domestic Passive Equity Pooled Fund | 2.9 | 4.0 |
| EAFE Structured Equity Pooled Fund | 6.8 | 1.7 |
| Private Equity Pool | 6.4 | 6.4 |
| Private Mortgage Pool | 4.2 | 4.4 |
| Private Real Estate Pool | 2.6 | 3.0 |
| US Passive Equity Pooled Fund | 7.1 | 3.6 |
| United States Pooled Equities Fund | 4.5 | 4.5 |
| Externally Managed Pooled Investment Funds | | |
| Canadian Large Cap Equity Pool | 3.0 | 2.2 |
| Canadian Small Cap Equity Pool | 5.6 | 6.3 |
| EAFE Core Equity Pool | 3.2 | 2.8 |
| EAFE Passive Equity Pool | 3.5 | 5.1 |
| EAFE Plus Equity Pool | 3.2 | 2.8 |
| US Large Cap Equity Pool | 1.8 | 2.5 |
| US Mid/Small Cap Equity Pool | 5.6 | 2.6 |
| US Passive Equity Pool | 0.8 | 4.1 |

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held 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 Revenue.

The fair value of private equities is estimated by Alberta Revenue.

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.

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

(c) Actuarial Value of Net Assets Available for Benefits

To moderate the effects of market volatility on investment value, annual net realized and unrealized gains and losses excluding those arising from derivative transactions are amortized equally over three years commencing at the beginning of the current year.

(d) 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.

(e) 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 loss.

(f) 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 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.
>
> The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

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

## NOTE 3 INVESTMENTS (SCHEDULES A TO D)

| | 2002 | | 2001 | |
|---|---|---|---|---|
| | ($ thousands) | % | ($ thousands) | % |
| Fixed Income Securities (Schedule A) | | | | |
| Deposit in the Consolidated Cash | | | | |
| Investment Trust Fund [(a)] | $ 6,110 | 0.6 | $ 12,179 | 1.2 |
| Canadian Dollar Public Bond Pool [(b)] | 300,733 | 31.9 | 314,066 | 31.1 |
| Private Mortgage Pool [(c)] | 40,473 | 4.3 | 41,079 | 4.1 |
| Total fixed income securities | 347,316 | 36.8 | 367,324 | 36.4 |
| Canadian Equities (Schedule B) | | | | |
| External Managers | | | | |
| Canadian Large Cap Equity Pool [(d)] | 74,363 | 7.9 | 38,700 | 3.8 |
| Canadian Small Cap Equity Pool [(d)] | 25,552 | 2.7 | 26,747 | 2.6 |
| Domestic Passive Equity Pooled Fund [(e)] | 64,962 | 6.9 | 106,925 | 10.6 |
| Canadian Pooled Equities Fund [(f)] | 23,487 | 2.5 | 92,237 | 9.1 |
| Private Equity Pool [(g)] | 2,213 | 0.2 | 3,894 | 0.4 |
| | 190,577 | 20.2 | 268,503 | 26.5 |
| United States Equities (Schedule C) | | | | |
| US Passive Equity Pooled Fund [(h)] | 104,077 | 11.0 | 43,085 | 4.3 |
| External Managers | | | | |
| US Large Cap Equity Pool [(i)] | 34,380 | 3.7 | 56,204 | 5.5 |
| US Mid/Small Cap Equity Pool [(i)] | 24,434 | 2.6 | 8,296 | 0.8 |
| US Passive Equity Pool [(h)] | 10,035 | 1.1 | 57,669 | 5.7 |
| United States Pooled Equities Fund | 33 | - | 149 | - |
| | 172,959 | 18.4 | 165,403 | 16.3 |
| Non-North American Equities (Schedule D) | | | | |
| External Managers | | | | |
| EAFE Core Equity Pool [(j)] | 82,201 | 8.7 | 71,504 | 7.1 |
| EAFE Plus Equity Pool [(j)] | 43,518 | 4.6 | 36,333 | 3.6 |
| EAFE Passive Equity Pool [(k)] | 23,417 | 2.5 | 45,118 | 4.5 |
| EAFE Structured Equity Pooled Fund [(k)] | 32,660 | 3.5 | 6,732 | 0.7 |
| | 181,796 | 19.3 | 159,687 | 15.9 |
| Equities in Real Estate | | | | |
| Private Real Estate Pool [(l)] | 50,202 | 5.3 | 49,755 | 4.9 |
| Total equities | 595,534 | 63.2 | 643,348 | 63.6 |
| Total investments | $ 942,850 | 100.0 | $ 1,010,672 | 100.0 |

(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 five 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 External Managers US Passive Equity Pool and the US Passive Equity Pooled Fund consist of single portfolios of publicly traded United States equities similar in weights to the S&P 500 Index. The External Managers US Passive Equity Pool is managed passively by an external manager with expertise in the US equity market and the US Passive Equity Pooled Fund is managed internally. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index over a four-year period. To enhance investment returns with no substantial increase in risks, the US Passive Equity Pooled Fund also invests 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 Standard & Poor's 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, Australia 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.

(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, Australia 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 Private Real Estate Pool is managed with the objective of providing investment returns higher than the Russell Canadian 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 on investments. 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 are used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

## 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 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. 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, 2002:

| | 2002 | | | | | 2001 | |
|---|---|---|---|---|---|---|---|
| | Maturity | | | | | | |
| | 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 | 68 | 32 | - | $ 168,605 | $ 1,125 | $ 93,625 | $ 3,515 |
| Bond index swap contracts | 100 | - | - | 5,471 | 47 | 8,739 | 4 |
| Interest rate swap contracts | 40 | 48 | 12 | 59,952 | (3,560) | 27,472 | (1,221) |
| Forward foreign exchange contracts | 100 | - | - | 33,679 | 150 | 26,396 | 54 |
| Equity index futures contracts | - | - | - | - | - | 2,820 | 96 |
| | | | | 267,707 | $ (2,238) | 159,052 | $ 2,448 |
| Cross-currency interest rate swap contracts [(b)] | 39 | 30 | 31 | 80,659 | | 68,626 | |
| | | | | $ 348,366 | | $ 227,678 | |

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

(b) Cross-currency interest rate swap contracts are valued as a package, which includes underlying securities. As at December 31, 2002, the combined value of cross-currency interest rate swap contracts and underlying securities amounted to $81,167,000 (2001 $69,034,000).

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

| | 2002 | 2001 |
|---|---|---|
| | ($ thousands) | |
| Contributions receivable | | |
| Employers | $ 905 | $ 851 |
| Employees | 830 | 776 |
| Province of Alberta | 173 | 165 |
| | 1,908 | 1,792 |
| Accrued investment income | 61 | - |
| Accounts receivable | 82 | 2 |
| | $ 2,051 | $ 1,794 |

## 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, 2002. The 2001 valuation was completed after the financial statements of the Plan for 2001 were released. As a result, the differences between the actuarial valuation and extrapolation results for 2001 are accounted for as net experience losses in 2002.

The 2001 valuation was determined using the projected benefit method prorated on service. The assumptions used in the valuation and extrapolation were developed as the best estimate of expected short-term and long-term market conditions and other future events. This estimate was, after consultation with the Plan's actuary, adopted by the Board.

The major assumptions used were:

| | December 31 | |
|---|---|---|
| | 2002 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.

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 actuarial value of net assets, accrued benefits, and the resulting actuarial deficiency of the Plan Fund as at December 31, 2002:

| | 2002 | | | 2001 |
|---|---|---|---|---|
| | Pre-1992 | Post-1991 | Total | Total |
| | | ($ thousands) | | |
| Plan Fund net assets available for benefits | $ 594,086 | $ 341,289 | $ 935,375 | $ 1,005,211 |
| Actuarial adjustment for fluctuation in fair value of net assets | 40,321 | 21,110 | 61,431 | 25,188 |
| Plan Fund actuarial value of net assets available for benefits | 634,407 | 362,399 | 996,806 | 1,030,399 |
| Plan Fund accrued benefits | 783,568 | 417,652 | 1,201,220 | 1,098,927 |
| Plan Fund actuarial deficiency | $ (149,161) | $ (55,253) | $ (204,414) | $ (68,528) |

As at December 31, 2002, the Indexing Fund held investments of $9,458,000 (2001 $7,245,000) 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. 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, 2002:

| | Sensitivities | | | |
|---|---|---|---|---|
| | Changes in Assumptions % | Increase in Plan Deficiency | Increase in Current Service Cost as a % of Pensionable Earnings * | |
| | | ($ million) | | |
| Inflation rate increase holding nominal investment return and salary escalation assumptions constant | 1.0% | $ 75.0 | 0.0% | ** |
| Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant | 1.0% | 26.0 | 1.0% | |
| Investment rate of return decrease holding inflation rate and salary escalation assumptions constant | (1.0%) | 167.0 | 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

| | 2002 | 2001 |
|---|---|---|
| | ($ thousands) | |
| Current and optional service | | |
| Employers | $ 16,033 | $ 15,625 |
| Employees | 14,934 | 14,292 |
| Unfunded liability | | |
| Employers | 1,324 | 1,279 |
| Employees | 1,324 | 1,279 |
| Province of Alberta | 2,206 | 2,132 |
| Transfers from other plans | 60 | 175 |
| | $ 35,881 | $ 34,782 |

## NOTE 9 NET INVESTMENT LOSS

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

| | 2002 | 2001 |
|---|---|---|
| | ($ thousands) | |
| Deposits and Fixed Income Securities | $ 32,094 | $ 29,527 |
| Canadian Equities | (22,374) | (20,229) |
| Foreign Equities | | |
| United States | (43,145) | (11,170) |
| Non-North American | (28,525) | (27,663) |
| Real Estate | 3,014 | 3,684 |
| | $ (58,936) | $ (25,851) |

Net investment loss is comprised of the following:

| | 2002 | 2001 |
|---|---|---|
| | ($ thousands) | |
| Net realized and unrealized losses on investments, including those deriving from derivative transactions | $ (93,967) | $ (65,791) |
| Interest income | 25,905 | 26,367 |
| Dividend income | 7,468 | 11,816 |
| Real estate income | 2,631 | 2,616 |
| Securities lending income | 206 | 174 |
| Pooled funds management and associated custodial fees | (1,179) | (1,033) |
| | $ (58,936) | $ (25,851) |

## NOTE 10 ADMINISTRATION EXPENSES

| | 2002 | 2001 |
|---|---|---|
| | ($ thousands) | |
| General administration costs | $ 804 | $ 587 |
| Investment management costs | 190 | 169 |
| Actuarial fees | 23 | 41 |
| | $ 1,017 | $ 797 |

Total administration expenses amounted to $230 per member (2001 $192 per member). Increased business process reengineering (APEX) and operating costs included in general administration costs accounted for the majority of the increase.

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 Revenue and do not include pooled funds management and associated custodial fees, which have been included in the calculation of net investment loss (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 April 1, 2002: | | |
| Up to 4 hours | $ 159 | $ 118 |
| 4 to 8 hours | 271 | 196 |
| Over 8 hours | 432 | 307 |
| | 2002 | 2001 |
| During 2002, the following amounts were paid: | | |
| Remuneration | | |
| Chair | $ 3,370 | $ 3,364 |
| Members (5)* | 16,044 | 12,368 |
| Travel expenses | | |
| Chair | 2,275 | 2,045 |
| Members (5) | 23,635 | 19,868 |

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

## NOTE 12 BUDGET INFORMATION

The accrued benefits are based on the Board's best estimates of future events after consultation with the Plan's actuary. Differences between actual results and management's expectations are disclosed as net experience gains and losses in the statement of changes in accrued benefits. Accordingly, a budget is not included in these financial statements.

## NOTE 13 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with the 2002 presentation.

## NOTE 14 RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

## Schedule A

# SPECIAL FORCES PENSION PLAN

## SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

## DECEMBER 31, 2002

($ thousands)

| | Plan's Share | |
|---|---|---|
| | 2002 | 2001 |
| Deposits and short-term securities | $ 7,670 | $ 15,093 |
| Fixed Income Securities (a) | | |
| Public | | |
| Government of Canada, direct and guaranteed | 73,282 | 81,071 |
| Provincial | | |
| Alberta, direct and guaranteed | 709 | 1,098 |
| Other, direct and guaranteed | 60,034 | 72,894 |
| Municipal | 5,865 | 5,418 |
| Corporate | 126,866 | 108,546 |
| Private | | |
| Corporate | 69,505 | 79,724 |
| | 336,261 | 348,751 |
| Receivable from sale of investments and accrued investment income | 3,504 | 3,793 |
| Liabilities for investment purchases | (119) | (313) |
| | 3,385 | 3,480 |
| | $ 347,316 | $ 367,324 |

(a) Fixed income securities held as at December 31, 2002 had an average effective market yield of 5.10% per annum (2001: 5.47% per annum). The following term structure of these securities as at December 31, 2002 was based on principal amount.

| | 2002 | 2001 |
|---|---|---|
| | % | |
| under 1 year | 2 | 5 |
| 1 to 5 years | 34 | 33 |
| 6 to 10 years | 32 | 29 |
| 11 to 20 years | 13 | 14 |
| over 20 years | 19 | 19 |
| | 100 | 100 |

**Schedule B**

# SPECIAL FORCES PENSION PLAN

## SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

## DECEMBER 31, 2002

($ thousands)

| | Plan's Share | |
|---|---|---|
| | 2002 | 2001 |
| Deposits and short-term securities | $ 2,014 | $ 4,398 |
| Public Equities (a) (b) | | |
| Consumer discretionary | 16,646 | 23,810 |
| Consumer staples | 8,627 | 9,870 |
| Energy | 27,761 | 29,790 |
| Financials | 52,582 | 68,882 |
| Health care | 6,344 | 12,170 |
| Industrials | 17,676 | 28,704 |
| Information technology | 9,643 | 29,675 |
| Materials | 29,736 | 33,523 |
| Telecommunication services | 8,780 | 11,993 |
| Utilities | 5,807 | 7,838 |
| | 183,602 | 256,255 |
| Passive index | 1,325 | 3,270 |
| | 184,927 | 259,525 |
| Private Equities | 1,944 | 2,723 |
| Receivable from sale of investments and accrued investment income | 2,258 | 3,323 |
| Liabilities for investment purchases | (566) | (1,466) |
| | 1,692 | 1,857 |
| | $ 190,577 | $ 268,503 |

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $31,936,000 (2001 $47,251,000) 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.

## Schedule C

# SPECIAL FORCES PENSION PLAN

## SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

## DECEMBER 31, 2002

($ thousands)

| | Plan's Share | |
|---|---|---|
| | 2002 | 2001 |
| Deposits and short-term securities | $ 1,307 | $ 602 |
| Public Equities (a) (b) | | |
| Consumer discretionary | 24,039 | 22,277 |
| Consumer staples | 14,790 | 11,880 |
| Energy | 10,205 | 10,156 |
| Financials | 36,220 | 30,050 |
| Health care | 25,364 | 23,205 |
| Industrials | 20,848 | 19,418 |
| Information technology | 24,765 | 28,856 |
| Materials | 5,370 | 4,759 |
| Telecommunication services | 6,153 | 7,955 |
| Utilities | 5,039 | 5,100 |
| | 172,793 | 163,656 |
| Receivable from sale of investments and accrued investment income | 1,070 | 1,423 |
| Liabilities for investment purchases | (2,211) | (278) |
| | (1,141) | 1,145 |
| | $ 172,959 | $ 165,403 |

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $104,478,000 (2001 $41,748,000), 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.

**Schedule D**

# SPECIAL FORCES PENSION PLAN
## SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES
## DECEMBER 31, 2002
($ thousands)

| | Plan's Share | |
|---|---|---|
| | 2002 | 2001 |
| Deposits and short-term securities | $ 4,136 | $ 3,806 |
| Public Equities (a) | | |
| Country | | |
| United Kingdom | 48,444 | 39,238 |
| Japan | 28,537 | 26,516 |
| Switzerland | 16,044 | 11,272 |
| France | 15,589 | 17,570 |
| Netherlands | 11,435 | 11,264 |
| Germany | 10,262 | 10,956 |
| Australia | 8,387 | 5,931 |
| Italy | 7,171 | 5,607 |
| Hong Kong | 4,839 | 5,524 |
| Spain | 3,961 | 4,818 |
| Finland | 3,524 | 2,941 |
| Sweden | 3,247 | 3,052 |
| Other | 16,723 | 10,799 |
| | 178,163 | 155,488 |
| Receivable from sale of investments and accrued investment income | 1,112 | 1,730 |
| Liabilities for investment purchases | (1,615) | (1,337) |
| | (503) | 393 |
| | $ 181,796 | $ 159,687 |

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $32,191,000 (2001 $6,441,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps.