AUDITORS' REPORT

To the President of the Treasury Board

We have audited the Consolidated Balance Sheet of the Public Sector Pension Investment Board ("PSP Investments") as at March 31, 2006 and the Consolidated Statements of Net Income from Operations and of Changes in Net Assets for the year then ended. These financial statements are the responsibility of PSP Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of PSP Investments as at March 31, 2006 and the results of its operations and of changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of PSP Investments and those of its subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with the applicable provisions of Part X of the *Financial Administration Act* and, as appropriate, the *Public Sector Pension Investment Board Act* (the "*Act*") and regulations and the by-laws of PSP Investments and its subsidiaries.

PUBLIC SECTOR PENSION INVESTMENT BOARD

Deloitte & Touche LLP

Chartered Accountants
Toronto, Ontario
April 28, 2006

CONSOLIDATED BALANCE SHEET

As at March 31, 2006

($000's)	2006	2005
ASSETS		
Investments (Note 2)	$27,996,289	$19,368,448
Cash	1,950	3,341
Other assets (Note 3)	5,518	4,508
TOTAL ASSETS	28,003,757	19,376,297
LIABILITIES		
Investment-related liabilities (Note 2)	350,131	–
Accounts payable and accrued liabilities	37,998	15,333
	388,129	15,333
NET ASSETS	$27,615,628	$19,360,964
Public Service Pension Plan Account	$19,996,489	$13,975,270
Canadian Forces Pension Plan Account	5,618,750	3,961,356
Royal Canadian Mounted Police Pension Plan Account	2,000,389	1,424,338
NET ASSETS	$27,615,628	$19,360,964
Commitments (Note 11)		

On behalf of the Board of Directors:

Lynn Loewen
Director and Chair of the Audit and Conflics Committee

PUBLIC SECTOR PENSION INVESTMENT BOARD

CONSOLIDATED STATEMENT OF NET INCOME FROM OPERATIONS

For the year ended March 31, 2006

($000's)	2006	2005
INVESTMENT INCOME (Note 5)		
Interest and dividends	$ 597,085	$ 441,640
Net realized gains	2,406,558	432,138
Change in unrealized appreciation in value of investments	1,133,065	474,362
	4,136,708	1,348,140
EXPENSES		
Operating expenses (Note 7)	39,270	20,793
External investment management fees	39,869	14,325
	79,139	35,118
NET INCOME FROM OPERATIONS (Note 8)	$ 4,057,569	$ 1,313,022

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended March 31, 2006

($000's)	2006	2005
NET ASSETS, BEGINNING OF YEAR	$19,360,964	$14,231,929
Fund transfers (Note 4)	4,197,095	3,816,013
Net income from operations	4,057,569	1,313,022
Increase in net assets for the year	8,254,664	5,129,035
NET ASSETS, END OF YEAR	$27,615,628	$19,360,964

ORGANIZATION

The Public Sector Pension Investment Board ("PSP Investments") was formed pursuant to the *Public Sector Pension Investment Board Act* (the "*Act*") with a mandate to invest the contributions of the Public Service, Canadian Forces and Royal Canadian Mounted Police pension plans in financial markets.

The Public Service, Canadian Forces and Royal Canadian Mounted Police Pension Funds were established by amendments to the *Public Service Superannuation Act*, the *Canadian Forces Superannuation Act* and the *Royal Canadian Mounted Police Superannuation Act* (the "*Superannuation Acts*"), to receive contributions and make benefit payments in respect of member service after April 1, 2000. The excess of contributions over benefits is transferred, by each Pension Fund, to their respective PSP Investments – Plan Account for investment.

PSP Investments is responsible for managing amounts that are transferred to it in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. The amounts are to be invested with a view of achieving a maximum rate of return, without undue risk of loss, with regards to the funding, policies and requirements of the pension plans established under the *Superannuation Acts*.

1 Summary of Significant Accounting Policies

Basis of Presentation

These consolidated financial statements present the financial position and operations of PSP Investments and its wholly-owned subsidiaries as they pertain to the investment of the excess funds transferred to it from the Public Service, Canadian Forces and Royal Canadian Mounted Police Pension Funds. Accordingly, they do not reflect all of the assets, or the details of the pension contributions, payments and liabilities of all three Pension Funds. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the *Act*.

The consolidated financial statement presentation has been changed from the prior year's presentation. References to the "PSP Funds" have been eliminated in the current year's presentation. Whereas prior years' consolidated financial statements presented a statement of investment portfolio comprised of the "PSP Funds", this has been replaced by Note 2 (a), an investment portfolio depicting actual asset class holdings.

Comparative figures have been re-classified to conform with the current year's presentation.

Plan Accounts

PSP Investments maintains records of each Pension Fund's net contributions, as well as the allocation of its investments and the results of its operations to each of the plan accounts. Separate financial statements for each plan account have been prepared.

Valuation of Investments

Investments for each asset class are recorded as of the trade date and are stated at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value for investments in pooled funds is based on unit values, which reflect the quoted market prices or other generally accepted pricing methodologies for the underlying securities.

1 Summary of Significant Accounting Policies (continued)

Valuation of Investments (continued)

Fair values of investments are determined as follows:

(a) Short-term deposits are recorded at cost which, together with accrued interest income, approximates fair value.

(b) Market prices for equities and unit values for pooled funds are used to represent the fair value of these investments. Unit values reflect the quoted market prices of the underlying securities.

(c) Private equity investments, where quoted market prices are not available, are fair-valued annually by external managers of limited partnerships and funds in which the investments are made. The fair value is determined by the external managers using acceptable industry valuation methods. These methods include considerations such as earnings multiples of comparable publicly traded companies, discounted cash flow and third party transactions.
In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for private equity investments unless there is an indication of permanent impairment of value.

(d) The fair value of investments in real estate is determined at least annually, using acceptable industry valuation methods, such as discounted cash flows and comparable transactions.
In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for real estate, unless there is an indication of permanent impairment of value.
Management may use the services of a third party appraiser to determine the fair value of real estate investments.

(e) Fixed income securities are valued at quoted market prices at the end of the year, where available. Where quoted market prices are not available, estimated values are calculated using either an appropriate interest rate curve with a spread associated with the credit quality of the issuer or other generally accepted pricing methodologies.

(f) All derivative financial instruments are recorded at fair value using market prices. Where quoted market prices are not available, appropriate valuation techniques are used to determine fair value.

Income Recognition

Investment income is recorded on the accrual basis and represents realized gains and losses on the disposal of investments, change in unrealized appreciation (depreciation) on investments held at the end of the year, interest income and dividends, and net operating income from private market real estate investments. These income items include the related distributions from pooled funds and limited partnerships.

Translation of Foreign Currencies

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the transaction date. Investments denominated in foreign currencies and held at the end of the year are translated at exchange rates in effect at the year-end date. The resulting realized and unrealized gains and losses on foreign exchange are included in investment income.

Fund Transfers

Amounts received from each pension fund are recorded on a cash basis in their respective plan account.

Use of Estimates

In preparing these consolidated financial statements, management must make certain estimates and assumptions which can affect the reported values of assets and liabilities, related income and expenses and note disclosures. Actual results may differ from estimates.

2 Investments

(a) Investment Portfolio

The investment portfolio, as at March 31, is as follows:

($000's)	2006		2005	
ASSET CLASS	FAIR VALUE	COST	FAIR VALUE	COST
Developed World Equity				
Canadian Equity	$9,346,482	$8,055,943	$7,757,542	$6,426,182
US Large Cap Equity	2,617,747	2,422,685	2,314,191	2,293,138
EAFE Large Cap Equity	3,216,781	2,600,772	2,505,913	2,302,200
Small Cap Developed World Equity	2,006,456	1,817,066	105,178	94,110
Emerging Markets Equity	1,943,143	1,525,373	354,029	359,547
Private Equity	301,355	306,470	2,995	3,618
Nominal Fixed Income				
Cash Equivalents	392,810	392,810	437,926	437,926
Canadian Fixed Income	5,242,962	5,311,540	5,142,507	5,083,188
Real Return Assets				
World Inflation-linked Bonds	421,439	385,079	219,490	208,392
Real Estate	1,933,346	1,858,450	429,071	426,477
Absolute Return	573,768	555,068	99,606	101,702
INVESTMENTS	$27,996,289	$25,231,256	$19,368,448	$17,736,480
Investment-related liabilities (Note 9)	(350,131)	(350,131)	–	–
NET INVESTMENTS	$27,646,158	$24,881,125	$19,368,448	$17,736,480

World Government Bonds and Infrastructure were introduced as asset classes during the current fiscal year and no investments have been made as at March 31, 2006.

Direct investments, derivative contracts, and investment-related receivables and liabilities are classified by asset-mix category based on the intent of the investment strategies of PSP Investments. In addition to the different asset classes outlined in the asset mix policy, PSP Investments employs a number of absolute return strategies.

The investment portfolio includes investment receivables of $1,614 million (2005 – $56 million) and investment payables of $2,125 million (2005 – $82 million) pertaining to pending trades and forward currency contracts for a net payable of $511 million (2005 – $26 million) as well as accrued income of $118 million (2005 – $37 million). The investment receivables of $1,614 million are primarily made up of forward bond contracts in the amount of $1,582 million having maturity dates within 30 days of year-end. The investment payables of $2,125 million are also made up primarily of forward bond contracts in the amount of $1,893 million having maturity dates within 30 days of year-end.

2 Investments (continued)

(b) Derivative Financial Instruments

Derivative financial instruments are financial contracts, the value of which is derived from changes in underlying assets, interest or exchange rates. PSP Investments uses derivative financial instruments to increase returns or to replicate investments synthetically. Derivatives are also used to reduce the risk associated with existing investments.

Notional value represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows and it does not represent the potential gain, loss or net exposure associated with the market or credit risk of such transactions. Rather, it serves as the basis upon which the returns from, and the fair value of the contracts, are determined.

On November 10, 2005, PSP Investments commenced writing credit default derivatives and, hence, indirectly guaranteed the underlying reference obligations. The maximum potential exposure is the notional amount of written credit default derivatives as shown in the table below. No payments related to written credit default derivatives have been made to date.

The following table summarizes PSP Investments' derivatives portfolio as at March 31:

($000's)	2006		2005	
INVESTMENTS	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
Equity derivatives				
Options	$1,676,816	$240,148	$4,597	$484
Swaps	2,227,418	46,060	365,581	1,314
Futures	968,250	12,013	94,987	(436)
Currency derivatives				
Forwards	4,628,854	(31,460)	261,695	(2,091)
Options	478,659	923	181,475	3,552
Interest Rate derivatives				
Bond forwards	3,438,819	56	–	–
Options	12,033,513	4,734	–	–
Swaps	7,121,432	2,990	–	–
Swaptions	3,134,448	(3,573)	–	–
Futures	1,707,593	1,306	–	–
Credit Default derivatives				
Swaps	3,092,432	(4,339)	–	–
Other derivatives				
Variance swaps	681,136	(525)	–	–
	$41,189,370	$268,333	$908,335	$2,823

The term to maturity based on notional value for the derivatives listed in the above table is as follows:

($000's)	2006	2005
Under 1 year	$26,372,689	$542,754
1 to 5 years	11,136,741	365,581
Over 5 years	3,679,940	–
	$41,189,370	$908,335

PUBLIC SECTOR PENSION INVESTMENT BOARD

2 Investments (continued)

(c) Investment Asset Mix

PSP Investments has established a Statement of Investment Policies, Standards and Procedures (the "SIP&P"). The SIP&P sets out the manner in which the assets shall be invested for the three plan accounts. During the course of the year, PSP Investments modified its asset mix policy.

The investment asset mix, as set out in the SIP&P as at March 31, is as follows:

	2006		2005	
	ACTUAL ASSET MIX	POLICY PORTFOLIO	ACTUAL ASSET MIX	POLICY PORTFOLIO
Equities	70.2%	62.0%	67.3%	63.0%
Fixed Income	22.4	15.0	29.4	22.0
Real Return Assets	7.4	23.0	3.3	15.0
	100.0%	100.0%	100.0%	100.0%

Differences between the actual asset mix and the policy portfolio targets are due principally to target weights of certain asset classes which have yet to be attained. For instance, real return assets include real estate and infrastructure assets with policy portfolio target weights of 10% and 8%, respectively, and actual asset weights of only 7% and nil, respectively.

(d) Foreign Currency Risk

PSP Investments and its subsidiaries are exposed to currency risk through holdings of securities, units in pooled funds and units in limited partnerships of non-Canadian assets where investment values will fluctuate due to changes in foreign exchange rates. To mitigate this risk, PSP Investments may take, through derivative contracts, trading positions in foreign currencies.

The underlying net foreign currency exposures, as at March 31, were as follows:

	2006		2005	
CURRENCY	FAIR VALUE	% OF TOTAL	FAIR VALUE	% OF TOTAL
(in Canadian $)	($000'S)		($000's)	
US Dollar	$5,805,006	57.0%	$2,750,457	49.8%
Euro	1,575,911	15.4	958,352	17.3
Yen	924,143	9.1	497,156	9.0
British Pound	672,838	6.6	521,480	9.4
Other	1,213,759	11.9	799,325	14.5
	$10,191,657	100.0%	$5,526,770	100.0%

PSP Investments and its subsidiaries also have commitments, denominated in foreign currencies, in real estate and private equity investments for an amount of $3,316 million ($1,927 million US, €645 million Euros and £78 million GBP) which are not included in the foreign currency exposure table above.

2 Investments (continued)

(e) Credit Risk

PSP Investments is exposed to the risk that a counterparty will default or become insolvent.

As at March 31, 2006, PSP Investments' highest concentration of credit risk is with the Government of Canada through holdings of $1.8 billion of Government of Canada issued securities. In order to minimize derivative contract credit risk, PSP Investments deals only with counterparties which are major financial institutions with a minimum credit rating of "A", as supported by a recognized credit rating agency.

(f) Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. PSP Investments has a diversification strategy to mitigate this risk.

(g) Interest Rate Risk

Interest rate risk refers to the effect on the market value of PSP Investments' net asset value due to fluctuations in interest rates. Changes in interest rates will directly affect the market value of PSP Investments' assets.

As at March 31, 2006, the fixed income asset class was managed with an average duration of 6.3 years. An increase of 1% in interest rates would result in a decline in the value of the fixed income securities of 6.3%, or $351 million.

(h) Securities Lending

PSP Investments participates in securities lending programs whereby it lends securities in order to enhance portfolio returns. Any such securities lending requires collateral in cash, high quality debt instruments or shares securities with a fair value equal to no less than 102% of the value of the securities lent. As at March 31, 2006, securities with an estimated fair value of $2,964 million (2005 – $1,981 million) were loaned out, while securities contractually receivable as collateral had an estimated fair value of $3,125 (2005 – $2,118 million). Securities lending income amounted to $3 million in fiscal 2006 (2005 – $2 million).

(i) Private Equity Investments

PSP Investments' Private Equity asset class is comprised of interests in limited partnerships and in funds which are managed by general partners. The underlying investments represent equity ownerships or investments with the risk and return characteristics of equity.

Investment management fees for these private equity investments are generally incurred by the partnerships and funds. Accordingly, PSP Investments' gains (losses) on investments are net of such fees.

(j) Real Estate Investments

PSP Investments' Real Estate asset class is comprised of investments which are owned by either PSP Investments or its wholly-owned subsidiaries and managed by general partners or external advisors. The underlying investments comprise a diversified portfolio of income-producing properties, third party loans and public and private funds.

Investment management fees for these real estate investments are generally incurred by the partnerships or the funds. Accordingly, PSP Investments' gains (losses) on investments are net of such fees.

3 Other Assets

Other assets, as at March 31, consist of the following:

($000's)	2006	2005
Fixed assets	$3,515	$2,281
Other assets	2,003	2,227
	$5,518	$4,508

4 Fund Transfers

During the year, PSP Investments received fund transfers of $4,197 million (2005 – $3,816 million) from the three pension funds. The transfers received are comprised of net current employer and employee contributions to their respective pension plan.

The breakdown of the fund transfers is as follows:

($000's)	2006	2005
Public Service Pension Fund	$3,087,787	$2,825,086
Canadian Forces Pension Fund	827,735	720,665
Royal Canadian Mounted Police Pension Fund	281,573	270,262
	$4,197,095	$3,816,013

5 Investment Income

(a) Investment Income

Investment income, before allocating the net realized and unrealized gains on investments, is as follows:

($000's)	2006	2005
Interest-bearing investments		
Short-term	$36,709	$14,572
Canadian bonds and debentures	224,164	216,627
Foreign bonds and debentures	4,982	–
Real Return Bonds	10,891	5,986
	276,746	237,185
Equity investments		
Canadian equities dividends	88,719	113,306
Foreign equities dividends	124,383	84,002
	213,102	197,308
Real estate investments	106,536	7,147
Private equity investments	701	–
Total interest and dividends	$597,085	$441,640
Net gain on investments	3,539,623	906,500
Investment income	$4,136,708	$1,348,140

5 Investment Income (continued)

(b) Investment Income by Asset Mix

Investment income by asset mix, after allocating net realized and unrealized gains and losses on investments, is as follows:

($000's)	2006	2005
Equities	$3,565,243	$1,096,230
Fixed Income	263,096	239,161
Real Return Assets	225,143	17,105
Absolute Return	83,226	(4,356)
	$4,136,708	$1,348,140

Investment income includes foreign currency realized loss of $3 million (2005 – $16 million) and foreign currency unrealized gain of $50 million (2005 – unrealized loss of $159 million).

6 Investment Performance

Portfolio and benchmark returns, for the year ended March 31, are as follows:

	2006		2005	
	PORTFOLIO RETURNS	BENCHMARK RETURNS	PORTFOLIO RETURNS	BENCHMARK RETURNS
Developed World Equity				
Canadian Equity	28.8%	28.7%	15.6%	13.9%
US Large Cap Equity	9.5%	7.7%	(0.6)%	(1.8)%
EAFE Large Cap Equity	20.8%	20.0%	4.3%	5.9%
Small Cap Developed World	18.6%	19.3%	n.a.	n.a.
Emerging Markets Equity	39.6%	42.6%	n.a.	n.a.
Private Equity	0.6%	n.a.	(33.8)%	n.a.
Nominal Fixed Income				
Cash Equivalents	2.7%	2.8%	2.9%	2.2%
Canadian Fixed Income	4.7%	4.9%	5.0%	5.0%
Real Return Assets				
World Inflation-linked Bonds	10.9%	11.8%	8.8%	9.2%
Real Estate	21.6%	8.3%	7.9%	6.7%
Total Return	19.1%	18.0%	7.9%	7.2%

Returns have been calculated in accordance with the performance calculation methodology recommended by the CFA Institute. Returns are presented gross of expenses.

PSP Investments has identified relevant benchmarking for each asset class. The asset class benchmark returns are used in evaluating the relative performance of each asset class.

The total benchmark return aggregates the asset class benchmark returns according to the weights under the actual asset mix. The return of the private equity asset class is not being measured against any benchmark during the ramp-up period as disclosed in PSP Investments' SIP&P. However, for purposes of calculating the total 2006 and 2005 benchmark returns, the actual private equity portfolio returns of 0.6% and (33.8)%, respectively, are used.

The total portfolio returns includes the performance impact of absolute return strategies. Hedging investment returns have been netted against respective hedged assets.

7 Expenses

(a) Operating Expenses

Operating expenses consist of the following:

($000's)	2006	2005
Salaries and benefits	$22,615	$10,570
Professional and consulting fees	5,499	3,046
Office supplies and equipment	3,696	2,461
Other operating expenses	2,184	937
Custodial fees	1,441	994
Occupancy costs	1,254	770
Depreciation of fixed assets	1,046	749
Travel and meeting expenses	686	459
Remuneration earned by Directors	585	536
Communication expenses	137	148
Travel and related expenses for Directors	127	123
	$39,270	$20,793

Professional and consulting fees paid and accrued to the external auditors include audit fees paid and accrued of $450,000 (2005 – $395,000), audit-related fees of $41,000 (2005 – $70,000), special exam fees of $348,000 (2005 – $188,000), and non-audit fees of $112,000 (2005 – $21,000). Audit fees of $177,000 (2005 – $237,000) and non audit fees of $209,000 (2005 – $5,000) were paid and accrued to the internal auditors of PSP Investments.

During the year, advisory fees of $55,000 (2005 – $110,000) were paid to Towers Perrin for compensation-related matters.

Total remuneration earned by Directors in fiscal year 2006 includes 1) an annual retainer of $98,000 for the Board Chairperson and of $20,000 for each Director; 2) an annual retainer of $7,500 for each committee chair; 3) Board meeting fees of $1,500 per meeting ($500 for meetings less than one hour); 4) Committee meeting fees of $1,000 per meeting ($500 for meetings less than one hour) and 5) a travel time meeting fee of $1,000 if the director's primary residence is outside Quebec and Ontario at the time of the meeting. Separate fees are not paid for investment committee meetings when they are held as a committee of the whole during Board meetings. The Board Chairperson is not eligible for Board and committee meeting fees.

Directors of PSP Investments come from various regions of the country and accordingly they incur travel and accommodation expenses in attending meetings of the Board and committees.

7 Expenses (continued)

(b) Executive Compensation

Included in salaries and benefits is compensation earned by executive officers. The total compensation earned by the five most highly compensated executive officers was as follows:

Employee / Position	Year	Base Salary ($)	Annual Incentive Plan[1] ($)	Deferred Incentive Plan[2] ($)	Other[3] ($)	Total Compensation ($)
Gordon J. Fyfe	**2006**	**425,000**	**555,900**	**–**	**35,000**	**1,015,900**
President and Chief Executive Officer	2005	385,000	454,300	184,800	36,000	1,060,100
André Collin	**2006**	**283,500**	**453,500**	**–**	**23,000**	**760,000**
First Vice President, Real Estate Investments	2005	221,000	324,000	–	23,000	568,000
Derek Murphy	**2006**	**221,000**	**244,100**	**–**	**25,000**	**490,100**
First Vice President, Private Equity	2005	200,000	224,000	–	41,000	465,000
John Valentini	**2006**	**240,000**	**119,100**	**–**	**73,000**	**432,100**
First Vice President and Chief Financial Officer	2005	–	–	–	–	–
Pierre Malo	**2006**	**200,000**	**130,100**	**–**	**24,000**	**354,100**
First Vice President, Public Market Investments	2005	200,000	119,600	–	24,000	343,600

[1] The annual incentive plan, effective April 1, 2004, is based on a combination of achieving corporate and individual performance targets, including investment performance targets and strategic objectives. Investment performance targets are based on a combination of total fund and asset class performance. Investment performance is measured in dollars or basis points of value-added above established benchmarks. Incentives are paid annually, based on investment performance measured over a retroactive period of four consecutive fiscal years ("performance period") and/or strategic objectives measured over the current fiscal year. The performance period is subject to transitional provisions during the first four years of the plan.

[2] The deferred incentive plan, effective April 1 2004, awards incentives based on a combination of total fund and asset class investment performance targets over the performance period, as defined in point (1) above, and are paid two fiscal years thereafter. The performance period is subject to transitional provisions during the first four years of the plan, as described in point (1) above.

[3] Includes allowances, other taxable benefits and a signing bonus of $55,000 for John Valentini, who joined PSP Investments on April 4, 2005.

(c) Retirement Benefits

All PSP Investment employees participate in the Public Sector Pension Investment Board Pension Plan (the "Employee Pension Plan") and in the Supplemental Employee Retirement Plan of Public Sector Pension Investment Board (the "SERP"). The Employee Pension Plan provides indexed pension benefits equal to 2% of the employee's best average of three consecutive years of base earnings for each year of service.

The benefits payable under the Employee Pension Plan are limited from provisions under the *Income Tax Act* (Canada). The SERP has been established for all employees, as an unfunded arrangement, to provide benefits in excess of the Employee Pension Plan, where such benefits are limited by reason of the requirements in respect of registered pension plans under the *Income Tax Act* (Canada).

8 Allocation of Net Income from Operations

The allocation of the net income from operations of PSP Investments to each plan account is as follows:

(a) Investment Income

The investment income is allocated proportionately based upon the asset value held by each plan account.

(b) Expenses

The *Act* requires that the costs of operation of PSP Investments be charged to the three plans for which it provides investment services. Under section 4(3) of the *Act*, the president of the Treasury Board shall determine to which plan account these costs will be charged in consultation with the Minister of National Defense and the Minister of Public Safety. An allocation policy has been developed which allocates the direct costs of investment activities, such as external investment management fees and custodial fees, to each plan account, and allocates, on a quarterly basis, operating expenses excluding custodial fees, based upon the asset value of each plan account.

Operating expenses, excluding custodial fees, for the year ended March 31, have been allocated as follows:

	2006	2005
Public Service Pension Plan Account	72.2%	71.7%
Canadian Forces Pension Plan Account	20.5	20.9
Royal Canadian Mounted Police Pension Plan Account	7.3	7.4
	100.0%	100.0%

Expenses are paid by PSP Investments by way of an advance from the Public Service pension plan account, which is reimbursed by the other plan accounts on a quarterly basis.

9 PSP Capital Inc.

As of March 31, 2006, PSP Capital Inc., a wholly-owned subsidiary of PSP Investments, has $350 million of short-term promissory notes outstanding with maturity dates within 60 to 90 days of issuance. The capital raised was used primarily to finance real estate investments.

The operating expenses incurred by PSP Capital Inc. were allocated to each plan account as described in Note 8 (b).

10 Guarantees and Indemnity

PSP Investments provides guarantees to its directors. Under these agreements, PSP Investments may be required to compensate, without limitation but subject to the *Act*, these parties for costs incurred, such as claims, actions or litigations. This indemnity is explicitly declared to be in excess and in addition to any indemnity of any policy of insurance purchased and maintained by PSP Investments under subsection 18 (1) of the *Act*. To date, PSP Investments has not received any claims nor made any payment for such indemnity.

PSP Investments also unconditionally and irrevocably guarantees all short-term promissory notes issued by its wholly-owned subsidiary, PSP Capital Inc.

11 Commitments

PSP Investments and its subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. As at March 31, 2006, the outstanding commitments, in funds and real estate-related investments amounted to $3,584 million ($2,692 million for private equity investments and $892 million for real estate investments).