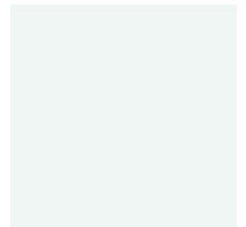
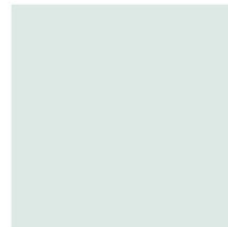
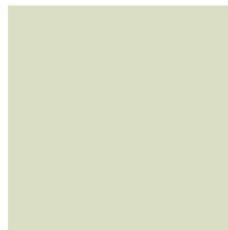
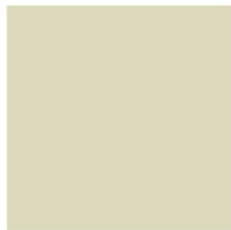
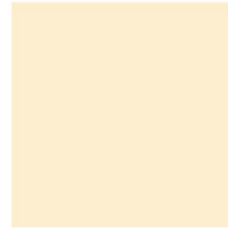
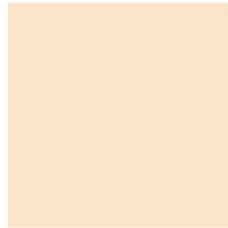
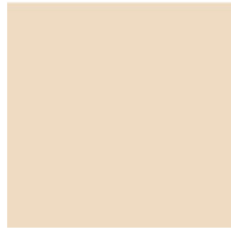


**CANADIAN FORCES
PERSONNEL SUPPORT AGENCY**



**AGENCE DE SOUTIEN DU PERSONNEL
DES FORCES CANADIENNES**



Financial Statements

2004 - 2005

**Audited and Reviewed
Financial Statements
2004-2005**

This publication is an addendum to the Canadian Forces Personnel Support Agency's Annual Report 2004-2005. The Audit and Accountability Committee of the NPP Board of Directors approved these audited and reviewed financial statements on July 19, 2005.

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Section 1



CANEX

3 April 2005

PRESIDENT'S REPORT - FISCAL YEAR 2004/2005

For the retailing industry, the year 2004/2005 was very challenging. The competitive marketplace, coupled with other internal and unforeseen factors, placed CANEX/NATEX sales and profit margins under siege. Large troop deployments in Canada and Europe, extremely poor weather conditions through the important spring and summer selling seasons, gas prices and the trends of reduced married quarters occupancy and foreign training in Canada, all contributed to a negative impact on certain aspects of our Canadian and European operations. In spite of this environment, CANEX/NATEX was successful in maintaining a strong focus on the operational priorities and core pillars that formed the basis of the 2004/2005 Business Plan. In responding to these significant pressures, CANEX/NATEX implemented strategic decisions that directly supported growth in market share and consequently increased royalties to Canadian Bases/Wings and the E3A-Geilenkirchen Morale and Welfare Funds.

During the 13 month period of fiscal year 2004/2005 CANEX achieved consolidated sales of \$148.5M compared to \$137.6M for the 12 month period of the previous fiscal year, an increase of 7.9 percent. Gross Profit grew by \$2.7M from \$33.0M to \$35.7M, an increase of 8.1 percent. Income from operations was down significantly, from \$6.7M to \$5.5M, as was net income, from \$1.8M to \$0.2M. These results, directly attributed to strategies implemented to maintain market share, ensured that inventories stayed in line and royalty estimates established for the BASE/Wings/E3A-Geilenkirchen Morale and Welfare Funds were met. On a consolidated basis Royalties and Contributions increased from \$4.9M to \$5.3M. While the start of 2004/2005 presented many challenges for retailers, a more positive business environment was prevalent through the second half, confirming that the aggressive strategies adopted by CANEX/NATEX were sound.

The consolidated financial position of CANEX continued to improve, with total assets growing by \$2.7M and current liabilities reducing by \$0.3M. The increase to long-term liabilities, in the form of loans payable, is attributable to meeting our commitment to improving facilities, product offerings and services. Fiscal year 2004/2005 saw the opening of a new retail store in Halifax, a new ExpressMart/Tim Horton's at Valcartier, a major upgrade to Point of Sale equipment throughout CANEX/NATEX, purchase of PRINTX equipment and continued investment in our corporate loss prevention and asset protection program.

The nature of the retailing business will always present a challenge, however, CANEX clearly understands the important role it has in contributing to the overall quality of life of members of the Canadian Forces and their families. In spite of ever increasing competition and the changing dynamics of the marketplace CANEX/NATEX, through the commitment and dedication of its people, continues to operate a financially sound business while successfully meeting customer needs and expectations.

G.M. Mahon
President
CANEX/NATEX

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Auditors' Report

To the Non-Public Property Board of Directors

We have audited the balance sheet of CANEX as at 3 April 2005 and the statements of earnings and retained earnings and of cash flows for the thirteen-month period then ended. These financial statements are the responsibility of CANEX's 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 financial statements present fairly, in all material respects, the financial position of CANEX as at 3 April 2005 and the results of its operations and its cash flows for the thirteen-month period then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants

22 June 2005

CANEX

Balance Sheet

as at 3 April 2005

(in 000's of Canadian dollars)

	<u>3 April 2005</u>	<u>29 February 2004</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 262	\$ 1,740
Short-term investments	127	1,978
Accounts receivable	13,659	11,622
Inventory	17,565	17,116
Prepaid expenses	298	370
	31,911	32,826
CAPITAL ASSETS (Note 3)	24,724	21,952
ACCOUNTS RECEIVABLE	2,647	1,827
	\$ 59,282	\$ 56,605
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 10,867	\$ 11,586
Current portion of loans payable (Note 4)	2,074	1,652
	12,941	13,238
LOANS PAYABLE (Note 4)	13,863	9,832
	26,804	23,070
EQUITY		
Contributed capital	23,112	23,112
Retained earnings	9,225	9,033
Foreign currency translation adjustment	141	1,390
	32,478	33,535
	\$ 59,282	\$ 56,605

APPROVED BY THE BOARD

_____ Director

_____ Director

CANEX

Statement of Earnings and Retained Earnings

for the thirteen-month period ended 3 April 2005

(in 000's of Canadian dollars)

	<u>3 April 2005</u> (13 months)	<u>29 February 2004</u> (12 months)
Revenue	\$ 148,490	\$ 137,584
Cost of merchandise sold and services provided	<u>112,818</u>	<u>104,595</u>
Gross profit	35,672	32,989
Other revenue (Note 5)	<u>8,682</u>	<u>7,774</u>
	<u>44,354</u>	<u>40,763</u>
Operating expenses		
Payroll and benefits	22,326	19,662
Other operating expenses (Note 11)	12,165	10,269
Amortization of capital assets	3,495	2,984
Levies (Note 6)	330	646
Interest on loans payable (Note 4)	<u>543</u>	<u>453</u>
	<u>38,859</u>	<u>34,014</u>
Earnings before royalties and other items	5,495	6,749
Gas bar decommissioning costs (Note 7)	-	(100)
Royalties and contributions (Note 9)	<u>(5,303)</u>	<u>(4,896)</u>
NET EARNINGS	192	1,753
RETAINED EARNINGS, BEGINNING OF PERIOD	<u>9,033</u>	<u>7,280</u>
RETAINED EARNINGS, END OF PERIOD	<u>\$ 9,225</u>	<u>\$ 9,033</u>

CANEX

Statement of Cash Flows

for the thirteen-month period ended 3 April 2005

(in 000's of Canadian dollars)

	<u>3 April 2005</u>	<u>29 February 2004</u>
	(13 months)	(12 months)
OPERATING ACTIVITIES		
Net earnings	\$ 192	\$ 1,753
Add items not affecting cash		
Amortization of capital assets	3,495	2,984
Loss on disposal of capital assets	362	221
	<u>4,049</u>	<u>4,958</u>
Net change in non-cash working capital items (Note 12)	(3,961)	(1,372)
Cash provided by operating activities	<u>88</u>	<u>3,586</u>
INVESTING ACTIVITIES		
Proceeds from sale of short-term investments	1,851	92
Purchase of capital assets	(7,288)	(4,367)
Proceeds on disposal of capital assets	234	-
Cash used for investing activities	<u>(5,203)</u>	<u>(4,275)</u>
FINANCING ACTIVITIES		
Issuance of loans payable	6,353	1,986
Repayment of loans payable	(1,899)	(1,751)
Cash provided by financing activities	<u>4,454</u>	<u>235</u>
Effect of exchange rate changes on cash and cash equivalents	(817)	473
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(1,478)</u>	<u>19</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>1,740</u>	<u>1,721</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 262	\$ 1,740
Supplemental cash flow information:		
Cash paid for interest on loans payable	\$ 543	\$ 453

CANEX

Notes to the Financial Statements

for the thirteen-month period ended 3 April 2005
(in 000's of Canadian dollars)

1. BASIS OF ORGANIZATION

The Canadian Forces Exchange System (CANEX) is a Division of the Canadian Forces Personnel Support Agency (CFPSA), operating under the authority of the Chief of the Defence Staff in a Non-Public Funds capacity. Responsibility for directing the affairs of CANEX rests with the Non-Public Property Board of Directors.

Personnel Support Programs is the term used to describe those activities of the Department of National Defence (DND) designed to contribute to the morale, well being and efficiency of Canadian Forces personnel, and which are normally supported by both Public and Non-Public resources. CANEX is included in these activities.

The level of Public Support provided to CANEX is outlined in Chapter 6 of DND Manual A-PS-110-001/AG-002 - "Public Support of Personnel Support Programs" and under Treasury Board Directive No. 689194, which states in part that:

"A reasonable level of goods, services and recreation facilities should be available to Canadian Forces personnel in their area of service. Where the levels are inadequate, the Department's responsibility, as an employer, to ensure their availability, where practical and desirable, may be discharged through a system of non-public fund organizations."

DND provides direct and indirect Public Support to CANEX based on the location of the Base, Wings and Units. Bases, Wings and Units are classified as being remote, rural, semi-urban or urban, with each classification having a specified level of DND Public Fund Support.

In Canada, business consists of merchandising operations at Canadian Forces Bases, Wings and Units, operating under the name CANEX. In Germany, similar businesses are operated at the NATO Air Base at Geilenkirchen ("NATO Air Base"), under the name NATEX, in accordance with the Concession Contract ("NATEX contract") between CANEX and the NAEWF E-3A Component HQ. CANEX also operates an automotive sales transaction office in Germany under the name AMSTO.

Substantially all of the profit of CANEX is distributed to Bases, Wings and Units at which CANEX operates. NATEX distributes profits to the NATO Air Base in accordance with the NATEX contract.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. As a government business enterprise carrying on a business, the financial statements of CANEX are prepared on the same basis as a private sector business. The more significant accounting policies are as follows:

CANEX

Notes to the Financial Statements

for the thirteen-month period ended 3 April 2005
(in 000's of Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial presentation and change in year-end

These financial statements include the accounts of CANEX, NATEX and AMSTO. These entities are collectively referred to as CANEX for purposes of these financial statements. All significant transactions and balances between the various entities have been eliminated.

DND provides certain facilities at no cost to CANEX. Accordingly, the accompanying financial statements reflect only those assets and costs that are owned or have been paid for by CANEX.

In FY 2004/05, the Non-Public Property Board of Directors approved a change in the fiscal year from February to March. As a result, the FY 2004/05 financial statements present a fiscal period consisting of the 13-month period ended 3 April 2005. The comparative FY 2003/04 financial statements present the 12-month period ended 29 February 2004.

Revenue recognition

Revenue from the sale of merchandise is recorded upon acceptance by the customer. CANEX records revenue from sales under its credit plan when the customer takes possession of the merchandise and collectibility is assured. Amounts due under the credit plan beyond the next fiscal year are recorded as long-term accounts receivable. Concession and administration fees are recognized each period in accordance with the term of the agreements.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with original maturities of three months or less. CANEX uses both the Canadian Forces Central Fund (CFCF) banking facility and local banking arrangements. Cash and cash equivalents include amounts on deposit and overdraft arrangements with the CFCF.

Short-term investments

Short-term investments consist of readily tradable triple A rated bonds and guaranteed investment certificates with terms to maturity of greater than three months and less than 12 months. They are carried at the lower of cost and market value. It is CANEX's practice to hold these securities until maturity. Carrying values of bonds and Guaranteed Investments Certificates (GICs) include accrued interest and approximate market value.

CANEX

Notes to the Financial Statements

for the thirteen-month period ended 3 April 2005
(in 000's of Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory is recorded at the lower of cost and net realizable value less normal profit margins, as determined by the retail method for substantially all inventory. Cost is substantially determined using average cost.

Capital assets

Capital assets are recorded at cost and are amortized on a straight-line basis over their estimated useful lives at the following rates:

Buildings	5%
Motor vehicles and computer equipment	24%
Fixtures and equipment	12%
Building improvements	9%

Impairment of capital assets

Capital assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value. No impairment loss was recorded in FY 2004/05 or FY 2003/04.

Foreign currency translation

CANEX's reporting currency and functional currency is the Canadian dollar. The functional currency of NATEX and AMSTO is the Euro. Transactions in currencies other than the functional currencies are converted to the functional currency at the exchange rate in effect at the time the transaction occurs. Monetary assets and liabilities, which are denominated in currencies other than the functional currency, are translated at year-end exchange rates. Exchange gains and losses resulting from the translation of these amounts are included in the determination of net income.

NATEX and AMSTO are considered self-sustaining foreign operations. NATEX and AMSTO assets and liabilities have been translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. NATEX and AMSTO revenues and expenses are translated at the average rate of exchange for the year. Gains and losses resulting from translation of the accounts of NATEX and AMSTO are recorded in equity as a foreign currency translation adjustment.

CANEX
Notes to the Financial Statements
for the thirteen-month period ended 3 April 2005
(in 000's of Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

CANEX, an unincorporated entity, is not subject to income taxes in Canada or Germany. No provision for income taxes has been recorded in these financial statements.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from those estimates. The significant estimates included in these financial statements relate to inventory valuation, useful lives of capital assets, Pension Plan, and gas bar decommissioning costs.

3. CAPITAL ASSETS

	3 Apr 05			29 Feb 04
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Buildings	\$ 21,446	\$ 10,249	\$ 11,197	\$ 8,775
Motor vehicles and computer equipment	4,759	2,981	1,778	1,256
Fixtures and equipment	11,179	6,669	4,510	4,332
Building improvements	17,257	10,018	7,239	7,589
	\$ 54,641	\$ 29,917	\$ 24,724	\$ 21,952

4. LOANS PAYABLE

Loans payable, held by the CFCF, bear interest at a rate of 4% (FY 2003/04 4%) per annum and are unsecured. Principal repayments over the next five years and thereafter are as follows:

CANEX

Notes to the Financial Statements

for the thirteen-month period ended 3 April 2005

(in 000's of Canadian dollars)

4. LOANS PAYABLE (Continued)

FY 2005/2006	\$ 2,074
FY 2006/2007	2,195
FY 2007/2008	2,096
FY 2008/2009	1,938
FY 2009/2010	1,573
Thereafter	<u>6,061</u>
	15,937
Less: Current portion	<u>2,074</u>
Long-term portion	<u>\$ 13,863</u>

5. OTHER REVENUE

Other revenue consists primarily of concession fees at Bases, Wings and Units across Canada and administration fees for the Home Heating Oil and insurance program. In FY 2004/05, interest revenue received from investments was \$472 (FY 2003/04 - \$418).

6. LEVIES

In FY 2004/05, levies were paid to the Canadian Forces Personnel Assistance Fund at the rate of 0.15% of total sales. In FY 2003/04 the levies were paid to the CFCF and Canadian Forces Personnel Assistance Fund at a rate of 0.45% of total sales. Levies on AMSTO revenue are paid at a rate of 20% (FY 2003/04 - 20%) of the total automotive sales volume handled by AMSTO.

7. GAS BAR DECOMMISSIONING COSTS

CANEX continues to work closely with Shell Canada Products Limited and DND on the decommissioning of former CANEX gas bars and the remediation of contaminated sites. During FY 2004/05, CANEX incurred no additional costs (FY 2003/04 - \$100) related to the decommissioning efforts. Total closure and remediation costs incurred to date by CANEX are \$3,700. The ultimate cost of this decommissioning cannot be determined at this time. A reserve of \$300 (FY 2003/04 - \$406) is included in accounts payable and accrued liabilities. The estimate for FY 2004/05 represents managements' best estimate of CANEX's known future liability relating to this matter. No provision for known or probable site restoration costs for current gas bar operations have been recorded as of 3 April 2005.

CANEX

Notes to the Financial Statements

for the thirteen-month period ended 3 April 2005

(in 000's of Canadian dollars)

8. PENSION PLAN

Substantially all CANEX employees are eligible to be members of the Non-Public Funds Employees Pension Plan (the "Plan"). This Plan is a multi-employer, defined benefit pension plan, which provides retirement benefits relating to contributions and years of service. Based on the actuarial valuation dated 31 December 2004, the net liabilities of the Plan exceeded the net assets. CANEX's estimated remaining obligation for this shortfall is \$1,439 to be repaid until the shortfall is eliminated. In FY 2004/05 CANEX contributed \$255 (FY 2003/04 - \$295) for this shortfall in addition to \$757 (FY 2003/04 - \$662) of regular employer contributions to the Plan. Plan contributions are included in payroll and other benefits.

9. RELATED PARTY TRANSACTIONS

Royalties and contributions

In FY 2004/05 CANEX paid royalties of \$3,467 (FY 2003/04 - \$3,298) to Canadian Forces Bases, Wings and Units. In Canada, royalties consist of CANEX's contribution to the per capita CFPSA grant and a direct distribution of 1.5% of total sales plus 30% of net concession revenues, with the exception of CFB Suffield and CFB Wainwright. Royalties at these two bases are based on 5% of total sales plus 30% of net concession revenues.

In FY 2004/05 NATEX contributed \$1,836 (FY 2003/04 - \$1,598) to the NATO Air Base. NATEX contributions are based on various percentages of consumer sales, in accordance with the NATEX contract.

Department of National Defence

During FY 2004/05, DND contributed \$1,974 (FY 2003/04 - \$1,775) to CANEX in support of payroll costs and \$186 (FY 2003/04 - \$164) in support of travel, audit, and office expenses. All amounts received are recorded against the corresponding operating expense in the statement of income. In addition, in FY 2004/05, DND contributed \$677 (FY 2003/04 - \$NIL) to CANEX as reimbursement for the closure of certain outlets.

DND also pays for and provides other services on behalf of, and at no cost to CANEX. These include payments in lieu of taxes and the use of legal, environmental and other advisory services. The value of these payments and services has not been determined.

Canadian Forces Central Fund

The Canadian Forces Central Fund (CFCF) provides accounting, information technology, and human resources services to CANEX. These transactions are in the normal course of operations and are recorded at the exchange amount of \$2,377 (FY 2003/04 - \$2,135), which is the amount of consideration established and agreed to by the related parties, and represents managements' best estimate of fair value and is reported in other operating expenses.

CANEX
Notes to the Financial Statements
for the thirteen-month period ended 3 April 2005
(in 000's of Canadian dollars)

10. CONTINGENCIES

From time to time, CANEX is involved in claims in the normal course of business. Management assesses such claims and where considered likely to result in a material exposure and, where the amount of the claim is quantifiable, provisions for loss are made based on management's assessment of the likely outcome. CANEX does not provide for claims that are considered unlikely to result in a significant loss, claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated. Any settlement or awards under such claims are provided for when reasonably determinable.

11. FINANCIAL INSTRUMENTS

Fair value

The fair value of cash and cash equivalents, short-term investments, current accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts in the financial statements due to the relatively short period to maturity of these instruments.

The estimated fair value of long-term accounts receivable and loans payable has not been determined as that information is not readily obtainable. Long-term accounts receivable mature within 24 months at inception of the contract and are non-interest-bearing.

Credit risk

CANEX provides credit to its customers through its credit plan. CANEX has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. Anticipated bad debt losses have been provided for in the allowance for doubtful accounts.

Currency risk

CANEX earns certain revenue and incurs certain expenses in currencies other than its functional currencies (Canadian dollar and Euro) and is therefore subject to foreign currency risk. Included in the other operating expenses is a foreign exchange gain of \$15 (FY 2003/04 - \$285).

Interest rate risk

CANEX has exposure to fluctuations in interest rates as a result of its short-term investments and loans payable.

CANEX

Notes to the Financial Statements

for the thirteen-month period ended 3 April 2005

(in 000's of Canadian dollars)

12. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	<u>3 Apr 05</u> (13 months)	<u>29 Feb 04</u> (12 months)
Accounts receivable	\$ (2,931)	\$ 319
Inventory	(796)	775
Prepaid expenses	60	(159)
Accounts payable	(294)	(2,307)
Total	<u>\$ (3,961)</u>	<u>\$ (1,372)</u>

NON-PUBLIC PROPERTY BOARD OF DIRECTORS

General	R. Hillier (Chairman)	Chief of the Defence Staff
General	J.M.G. Baril (Retired)	Past Chair
VAdm	R.D. Buck	Vice Chief of the Defence Staff
LGen	M.J. Dumais	Deputy Chief of the Defence Staff
VAdm	G.E. Jarvis	Assistant Deputy Minister (HR-MIL)
VAdm	M.B. MacLean	Chief of the Maritime Staff
LGen	J.H.P.M. Caron	Chief of the Land Staff
LGen	J.S. Lucas	Chief of the Air Staff
Mr.	R. Monette	Assistant Deputy Minister (Finance and Corporate Services)
Ms.	L. Holland	DND/CF Legal Advisor
Ms.	S. Siegel	Assistant Deputy Minister (HR-Civ)
MGen	J.S.T. Pitzul	Judge Advocate General
MGen	H. Petras	Chief Reserves and Cadets
CWO	D.L.J. Gilbert	CF Chief Warrant Officer
CWO	V.P. Rioux	DCDS Gp CWO
CPO1	K.E. Davis	CMS Command Chief Petty Officer
CWO	G.R. Lacroix	CLS Command Chief Warrant Officer
CWO	R. Bouchard	CAS Command Chief Warrant Officer
CWO	C.V. Tkacz	Assistant Deputy Minister (HR-MIL) Group Command CWO
MGen	D. Langton	CFPSA/Chief Executive Officer

MANAGEMENT

Mr.	Gerry Mahon	President CANEX/NATEX
Mr.	Mac McMillian	Vice President CANEX
Mr.	Bill Thomson	Vice President NATEX

AUDITORS

Deloitte & Touche LLP	Ottawa, Ontario
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SISIP FS Proper



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AUDITORS' REPORT ON THE SCHEDULE OF PREMIUM COLLECTED, INVESTMENT INCOME, CLAIMS PAID AND EXPENSES PAID FOR THE SERVICE INCOME SECURITY INSURANCE PLAN – PROPER

To the Non-Public Property Board of Directors

We have audited the attached schedule of premium collected, investment income, claims paid and expenses paid in connection with the amounts reported in the Income Statement for the Service Income Security Insurance Plan ("SISIP") – Proper for the year ended December 31, 2004. This financial information is the responsibility of the management of SISIP Financial Services ("SISIP FS"). Our responsibility is to express an opinion on this financial information based on our audit.

Except as explained in the following paragraph, 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 information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

Included in investment income is interest income totaling \$8,257,589 for SISIP – Proper which is calculated based on actuarial reserves. Management has engaged independent actuaries to assess the valuation of SISIP's actuarial reserves. As a result, we were instructed not to perform any procedures in this area and were not able to satisfy ourselves whether any adjustments might be necessary to investment income.

SISIP FS accounts for its investment in segregated funds on a mark to market basis with unrealized gains of \$13,267,687 being recorded as investment income. In this respect, this financial information is not in accordance with Canadian generally accepted accounting principles as life and health insurance enterprises are required to account for such investments on a moving average market basis. If investment income relating to segregated funds were accounted for in accordance with Canadian generally accepted accounting principles, investment income for SISIP – Proper would have decreased by \$6,469,710.

SISIP FS accounts for capital expenditures as expenses paid in the year of acquisition. In this respect, this financial information is not in accordance with Canadian generally accepted accounting principles, which require capital expenditures to be deferred and amortized over their estimated useful life in a rational and systematic manner. If capital expenditures were accounted for in accordance with Canadian generally accepted accounting principles, expenses paid for SISIP – Proper would have decreased by \$111,056. An estimate of the amount of depreciation expense in respect of SISIP – Proper's capital expenditures has not been determined.



In our opinion, except for the effects of the accounting treatment of investments in segregated funds and capital expenditures, as described in the preceding paragraphs, and the effects of adjustments to investment income, if any, which we might have determined to be necessary had we been allowed to perform procedures regarding the valuation of actuarial reserves, the attached schedule presents fairly, in all material respects, the premium collected, investment income, claims paid and expenses paid as reported in the Income Statement for SISIP – Proper for the year ended December 31, 2004 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Halifax, Canada
April 8, 2005

SERVICE INCOME SECURITY INSURANCE PLAN

Year ended December 31, 2004

Proper

Premium collected	\$ 36,786,235
Investment income	\$ 21,469,665
Claims paid	\$ 27,300,204
Expenses paid	\$ 8,030,108

**SISIP Proper
Balance Sheet (note 1)**

	(In 000's of dollars)	
	Year end FY 2004	Previous Year End FY 2003
ASSETS		
Funds	368,784	344,256
Total Assets	368,784	344,256
LIABILITIES		
Liabilities - Reserves	167,896	157,292
Total Liabilities	167,896	157,292
SURPLUS		
Total Surplus	200,888	186,964
Total Liabilities & Surplus	368,784	344,256

Note 1: This balance sheet was reviewed by Mercer HR Consulting in their financial experience report.

**SISIP Proper
Year End Financial Results - FY 2004**

	(In 000's of dollars)	
	Year End 2004	Year End 2003
	\$ (note 1)	\$ (note 1)
Revenues		
Premiums	36,786	34,473
Investment income on actuarial reserves	8,202	8,881
Investment income on segregated fund	13,268	16,993
Total Revenues	58,256	60,347
Operating Expenses		
Claims and Related Expenses	27,300	27,496
Reserve Increase	1,410	5,714
Other	8,030	8,149
Total Operating Expenses	36,740	41,359
Operating Income	21,516	18,988
Extraordinary Items		
Transfer to Re-capitalization Project	-	(10,000)
Transfer to CFPSA Morale & Welfare Unit Grant	(2,500)	-
Other	(5,092)	(1,666)
Net Income	13,924	7,322
Adjusted Net Income (Loss) (note 2)	13,924	17,322

Notes:

1. Premiums, investment income, claims and other expenses verified by KPMG.
2. Eliminating the Re-capitalization Project transfers.

Canadian Forces Personnel Assistance Fund

FINANCIAL STATEMENTS
For
CANADIAN FORCES PERSONNEL ASSISTANCE FUND
For year ended
DECEMBER 31, 2004

AUDITORS' REPORT

To the Non-Public Property Board of Directors of

CANADIAN FORCES PERSONNEL ASSISTANCE FUND

We have audited the statement of financial position of Canadian Forces Personnel Assistance Fund as at December 31, 2004 and the statements of revenue and expense and fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Fund's 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 financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Welch & Company LLP

CHARTERED ACCOUNTANTS

Ottawa, Ontario
May 4, 2005.

CANADIAN FORCES PERSONNEL ASSISTANCE FUND
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2004

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Deposit with Canadian Forces Central Fund	\$ 1,961,331	\$ 1,372,920
Cash held by bases for loans	303,168	251,387
Contributions and other receivables	27,901	25,248
Current portion of self-improvement loans receivable (note 3)	5,662,020	6,490,633
Current portion of distress loans receivable (note 3)	892,115	932,917
Current portion of education loans receivable (note 3)	<u>1,596,293</u>	<u>1,388,040</u>
	<u>10,442,828</u>	<u>10,461,145</u>
OFFICE EQUIPMENT , net of accumulated amortization of \$24,274 (2003 - \$20,425)	1,897	5,746
SELF-IMPROVEMENT LOANS RECEIVABLE (note 3)	1,217,094	1,469,463
DISTRESS LOANS RECEIVABLE (note 3)	1,197,819	1,601,522
EDUCATION LOANS RECEIVABLE (note 3)	<u>2,202,130</u>	<u>1,539,043</u>
	<u>4,618,940</u>	<u>4,615,774</u>
TRUST ASSETS (note 4)		
Deposit with Canadian Forces Central Fund	<u>34,526</u>	<u>37,165</u>
	<u>\$ 15,096,294</u>	<u>\$ 15,114,084</u>
<u>LIABILITIES AND FUND BALANCE</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 8,797	\$ 6,927
TRUST LIABILITIES (note 4)	<u>34,526</u>	<u>37,165</u>
	43,323	44,092
FUND BALANCE	<u>15,052,971</u>	<u>15,069,992</u>
	<u>\$ 15,096,294</u>	<u>\$ 15,114,084</u>

Approved by the Board:

..... Director

..... Director

(See accompanying notes)

CANADIAN FORCES PERSONNEL ASSISTANCE FUND
STATEMENT OF REVENUE AND EXPENSE AND FUND BALANCE
YEAR ENDED DECEMBER 31, 2004

	<u>2004</u>	<u>2003</u>
Revenues		
Interest on loans receivable	\$ 515,481	\$ 473,526
Contributions from Canadian Forces Central Fund	272,744	290,352
Interest on deposits	79,137	107,794
Miscellaneous	<u>2,687</u>	<u>3,150</u>
	<u>870,049</u>	<u>874,822</u>
Expenses		
Salaries and employee benefits (note 5)	425,408	443,379
Grants	190,467	185,284
Loans written off - net of recoveries	260,536	284,013
Amortization	3,849	4,044
Miscellaneous	<u>6,810</u>	<u>8,995</u>
	<u>887,070</u>	<u>925,715</u>
Net expense	(17,021)	(50,893)
Fund balance - beginning of year	<u>15,069,992</u>	<u>15,120,885</u>
Fund balance - end of year	<u>\$ 15,052,971</u>	<u>\$ 15,069,992</u>

(See accompanying notes)

CANADIAN FORCES PERSONNEL ASSISTANCE FUND
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2004

	<u>2004</u>	<u>2003</u>
CASH PROVIDED FROM (USED IN)		
Operating activities		
Net expense	\$ (17,021)	\$ (50,893)
Items not affecting cash -		
Loans written off	272,135	292,175
Amortization	3,849	4,044
Changes in level of:		
Contributions and other receivables	(2,653)	(3,848)
Accounts payable	(769)	(1,649)
	<u>255,541</u>	<u>239,829</u>
Investing activities		
Self improvement loans advanced	(8,552,170)	(10,043,800)
Distress loans advanced	(784,652)	(1,380,487)
Education loans advanced	(2,655,500)	(2,558,000)
Repayment of loans	12,374,334	12,276,491
Purchase of office equipment	-	(1,065)
	<u>382,012</u>	<u>(1,706,861)</u>
Increase (decrease) in cash	637,553	(1,467,032)
Cash and deposits, beginning of year	<u>1,661,472</u>	<u>3,128,504</u>
Cash and deposits, end of year	<u>\$ 2,299,025</u>	<u>\$ 1,661,472</u>
Cash and deposits consist of:		
Deposits with Canadian Forces Central Fund		
- operating fund	\$ 1,961,331	\$ 1,372,920
- trust fund	34,526	37,165
	<u>1,995,857</u>	<u>1,410,085</u>
Cash held by bases for loans	<u>303,168</u>	<u>251,387</u>
	<u>\$ 2,299,025</u>	<u>\$ 1,661,472</u>

(See accompanying notes)

CANADIAN FORCES PERSONNEL ASSISTANCE FUND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004

1. AUTHORITY, PURPOSE AND OBJECTIVES

The Canadian Forces Personnel Assistance Fund ("CFPAF") operates as a charitable organization and was established under the authority of the National Defence Act Section 39, by CDS Order - CFPAF, on December 8, 1969. CFPAF is registered with the Canada Revenue Agency as a charitable organization and is exempt from paying income tax under Part I of Income Tax Act. The purpose of CFPAF is to provide financial assistance to serving or former members of the Canadian Forces and their dependants when warranted by distress or other deserving circumstances. These objectives are achieved by means of counseling and financial assistance in the form of self-improvement loans, distress loans, education loans and grants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Financial instruments*

Financial instruments recognized in the statement of financial position consist of cash, deposit with Canadian Forces Central Fund ("CFCF"), contributions and other receivables, loans receivable and liabilities. Financial instruments, which potentially subject the fund to a concentration of credit risk, consist principally of cash deposit with CFCF and loans receivable. Funds are deposited with CFCF and are part of the CFCF investment portfolio performance. CFPAF does not require collateral or other security to support loans advanced to former members of the Canadian Forces and therefore, bears an element of credit risk. Interest risk is heightened for loans receivable given that interest rates are fixed or loans are non-interest bearing. CFPAF has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. Anticipated bad debts of \$306,201 (2003 - \$284,900) have been provided at year-end on these loans.

The fair value of deposit with Canadian Forces Central Fund, cash held by bases for loans, contributions and other receivables and accounts payable approximates their carrying value due to their short term nature. It is not practicable to determine the fair value of the self-improvement, distress and education loans receivable. The terms and conditions of these loans have been enclosed in the notes.

(b) *Office equipment*

Office equipment is recorded at cost and amortized on a straight-line basis over its estimated useful life at an annual rate of 24%.

(c) *Contributions*

Contributions from CFCF are recorded monthly upon allocation in accordance with the agreement between the CFCF and the Fund.

(d) *Interest on loans receivable*

Interest on loans receivable are recorded as revenue over the term of the related loan.

(e) *Grants*

Grants are recorded as expenses when paid or when conversions of loans to grants are approved by the CFPAF manager.

(f) *Services provided without charge*

SISIP Financial Services provides office accommodation to the Fund. In addition, departmental employees participate in the administration of loan applications, cheque issuance and collection of monies by payroll deductions, on behalf of the Fund. Because of the difficulty of determining their fair value, these services are not recognized in the financial statements.

(g) *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results

could differ from those estimates.

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CANADIAN FORCES PERSONNEL ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED DECEMBER 31, 2004

3. LOANS RECEIVABLE

(a) *Self-improvement loans*

Member loans range from \$500 to \$4,000. Terms of repayment vary from 12 to 24 months and bear an annual interest rate of 5.5%.

(b) *Distress loans*

Individual loans of up to \$25,000 may be granted with payment terms extending to 6 years and bear an annual interest rate of 2%.

(c) *Education loans*

Applicants may request a maximum of \$4,000 per student, with repayment over 12, 24, 36 or 48 months at an annual interest rate of 3%. The lifetime maximum per student is \$16,000.

4. TRUST LIABILITIES

The Canadian Forces Personnel Assistance Fund administers three trust funds.

The Distress Trust Account was established to control loans or grant payments disbursed by CFPAF. The loans and grants are determined by CFPAF and payments are distributed upon receipt of invoices or supporting documents.

Mrs. Isabelle MacDonald established a Memorial Trust Fund in memory of her son, Corporal Ronald MacDonald, who died on December 10, 1975 while serving with the Canadian Forces in West Germany. The purpose of the fund is to assist in alleviating financial problems incurred by members of the Canadian Forces and their families. Grants will be paid out of the Trust Fund by the CFPAF Manager to a maximum of \$500 per case. The original endowment of \$20,000 is to remain in perpetuity. Interest is paid monthly to the Trust Fund calculated at the monthly CFCF interest rate payable to CFPAF less 1%.

The Logistics Branch Bursary Fund was established in January 1994 by members of the Logistics Branch of the Canadian Forces to provide educational bursaries to dependants of Logistics members to assist with their post secondary studies. Adjudication of awards rests solely with a special committee established by the Logistics Advisor. Interest is paid monthly to the Trust Fund calculated at the monthly CFCF interest rate payable to CFPAF less 2%.

The following is a summary of transactions for the year:

	Distress Trust	Corporal Ronald MacDonald Memorial Trust Fund	Logistics Branch Bursary Fund	2004 Total	2003 Total
Balance, beginning of year	\$ 1,200	\$ 20,741	\$ 15,224	\$ 37,165	\$ 41,060
Interest received	-	680	335	1,015	1,290
Disbursements	(5,085)	(1,000)	(1,500)	(7,585)	(12,836)
Receipts to Trust Account	<u>3,931</u>	-	-	<u>3,931</u>	<u>7,651</u>
Balance, end of year	<u>\$ 46</u>	<u>\$ 20,421</u>	<u>\$ 14,059</u>	<u>\$ 34,526</u>	<u>\$ 37,165</u>

CANADIAN FORCES PERSONNEL ASSISTANCE FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2004

5. PENSION PLAN

The Non-Public Funds Employees Pension Plan (the "Plan") is a defined benefit pension plan which provides retirement benefits relating to contributions and years of service. Substantially all CFPAF employees are eligible to be members of the Plan. Based on an actuarial valuation of December 31, 2004, the net liabilities of the Plan exceeded the net assets. CFPAF's estimated remaining obligation for this shortfall is \$62,165 to be repaid until the shortfall is eliminated. For 2004, CFPAF contributed \$9,750 (2003 - \$31,880) for this shortfall in addition to \$29,357 (2003 - \$28,441) of regular employer contributions to the Plan. Plan contributions are included in salaries and employee benefits.

Section 4

Canadian Forces Central Fund

FINANCIAL STATEMENTS
For
CANADIAN FORCES CENTRAL FUND
For the thirteen month period ended
APRIL 3, 2005

AUDITORS' REPORT

To the Non-Public Property Board of Directors of

CANADIAN FORCES CENTRAL FUND

We have audited the statement of financial position of Canadian Forces Central Fund as at April 3, 2005 and the statements of changes in net assets, revenue and expense and cash flows for the thirteen month period then ended. These financial statements are the responsibility of the Fund's 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 financial statements present fairly, in all material respects, the financial position of the Fund as at April 3, 2005 and the changes in net assets, the results of its operations and cash flows for the thirteen month period then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in cursive script that reads "PwC Company LLP".

CHARTERED ACCOUNTANTS

Ottawa, Ontario
June 17, 2005.

**CANADIAN FORCES CENTRAL FUND
STATEMENT OF FINANCIAL POSITION
APRIL 3, 2005**

	<u>April 3, 2005</u>	<u>Feb. 29, 2004</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents (note 3)	\$ 1,873,234	\$ 4,736,579
Accrued interest receivable	525,181	707,731
Accounts receivable (note 4)	19,044,264	17,391,582
Prepaid expenses	388,056	299,152
Current portion of project loans receivable (note 5)	<u>3,021,220</u>	<u>2,741,526</u>
	<u>24,851,955</u>	<u>25,876,570</u>
OTHER ASSETS		
Project loans receivable (note 5)	26,658,946	18,124,111
Advance to Task Force Bosnia - Herzegovina ("TFBH")	-	1,438,600
Long-term investments (note 6)	64,824,449	56,275,785
Furnishings and equipment (note 7)	<u>1,591,515</u>	<u>1,589,941</u>
	<u>93,074,910</u>	<u>77,428,437</u>
	<u>117,926,865</u>	<u>103,305,007</u>
TRUST ASSETS		
Cash and investments	45,945,361	44,644,780
Receivable	<u>76,252</u>	<u>267,188</u>
	<u>46,021,613</u>	<u>44,911,968</u>
	<u>\$ 163,948,478</u>	<u>\$ 148,216,975</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and employee deductions payable	\$ 7,529,090	\$ 8,168,641
TRUST LIABILITIES		
	<u>46,021,613</u>	<u>44,911,968</u>
	<u>53,550,703</u>	<u>53,080,609</u>
NET ASSETS		
Unrestricted	105,347,271	89,285,540
Internally restricted (note 8)		
Minor projects	1,331,633	1,584,633
Future personnel costs (Public)	2,942,914	3,770,441
Future insurance costs	<u>775,957</u>	<u>495,752</u>
	<u>110,397,775</u>	<u>95,136,366</u>
	<u>\$ 163,948,478</u>	<u>\$ 148,216,975</u>

Approved on behalf of the board:

..... Director

..... Director

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND
STATEMENT OF CHANGES IN NET ASSETS
FOR THE THIRTEEN MONTH PERIOD ENDED APRIL 3, 2005

(With comparative figures for the twelve month period ended February 29, 2004)

	<u>Unrestricted</u>	<u>Internally Restricted</u>		<u>Future insurance costs</u>	<u>April 3, 2005</u>	<u>Feb. 29, 2004</u>
		<u>Minor projects</u>	<u>Future personnel costs (public)</u>			
Balance, beginning of period	\$ 89,285,540	\$ 1,584,633	\$ 3,770,441	\$ 495,752	\$ 95,136,366	\$ 85,739,537
Net revenue	16,341,936	-	-	-	16,341,936	10,362,338
Project and personnel expenditures	<u>-</u>	<u>(253,000)</u>	<u>(827,527)</u>	<u>-</u>	<u>(1,080,527)</u>	<u>(965,509)</u>
	<u>16,341,936</u>	<u>(253,000)</u>	<u>(827,527)</u>	<u>-</u>	<u>15,261,409</u>	<u>9,396,829</u>
Net asset reallocations	<u>(280,205)</u>	<u>-</u>	<u>-</u>	<u>280,205</u>	<u>-</u>	<u>-</u>
Balance, end of period	\$ 105,347,271	\$ 1,331,633	\$ 2,942,914	\$ 775,957	\$ 110,397,775	\$ 95,136,366

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND
STATEMENT OF REVENUE AND EXPENSE
FOR THE THIRTEEN MONTH PERIOD ENDED APRIL 3, 2005

(With comparative figures for the twelve month period ended February 29, 2004)

	<u>April 3, 2005</u>	<u>Feb. 29, 2004</u>
Operating revenue		
Investment income (note 6)	\$ 8,899,512	\$ 10,552,722
Loan interest	893,197	679,387
Other	<u>366,845</u>	<u>208,687</u>
	<u>10,159,554</u>	<u>11,440,796</u>
Operating expenses		
CFCF management	347,214	396,565
Interest to base/wing funds, messes and trusts	2,863,353	2,581,341
CFCF user fees	<u>477,585</u>	<u>460,936</u>
	<u>3,688,152</u>	<u>3,438,842</u>
Net operating income before item below and CFCF contributions	6,471,402	8,001,954
Reimbursement for prior years' NPF Funding for PSP Infrastructure Recapitalization (note 4)	<u>12,777,778</u>	<u>-</u>
Net operating income before CFCF contributions	<u>19,249,180</u>	<u>8,001,954</u>
CFCF contributions		
Programs	355,395	302,848
Distributions		
Loan forgiven (note 5)	472,259	-
Capital projects	-	6,208,324
CANEX/SISIP moral, welfare and other grants	<u>21,621</u>	<u>190,962</u>
	849,275	6,702,134
NPF services and operations (note 9)	<u>2,919,185</u>	<u>3,203,168</u>
	<u>3,768,460</u>	<u>9,905,302</u>
Net CFCF operating revenue (expense)	15,480,720	(1,903,348)
Net Public operating revenue (expense) - schedule A	<u>(219,311)</u>	<u>11,300,177</u>
Net revenue	<u>\$ 15,261,409</u>	<u>\$ 9,396,829</u>

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND
STATEMENT OF CASH FLOWS
FOR THE THIRTEEN MONTH PERIOD ENDED APRIL 3, 2005
(With comparative figures for the twelve month period ended February 29, 2004)

	<u>April 3,</u> <u>2005</u>	<u>Feb. 29,</u> <u>2004</u>
CASH PROVIDED FROM (USED IN)		
Operating activities		
Net revenue	\$ 15,261,409	\$ 9,396,829
Items not affecting cash -		
Amortization	<u>614,094</u>	<u>350,128</u>
	15,875,503	9,746,957
Changes in level of:		
Accrued interest receivable	182,550	301,507
Accounts receivable	(1,652,682)	(11,205,061)
Prepaid expenses	(88,904)	(154,856)
Accounts payable and employee deductions payable	<u>(639,551)</u>	<u>(3,336,031)</u>
	<u>13,676,916</u>	<u>(4,647,484)</u>
Financing activities		
Increase in project loans receivable	<u>(8,814,529)</u>	<u>(1,748,646)</u>
Investing activities		
Decrease (increase) in long-term investments	(8,548,664)	4,489,820
Repayment from (advance to) TFBH	1,438,600	(1,600)
Purchase of furnishings and equipment - net	<u>(615,668)</u>	<u>(1,036,503)</u>
	<u>(7,725,732)</u>	<u>3,451,717</u>
Total cash used	(2,863,345)	(2,944,413)
Cash and cash equivalents, beginning of period	<u>4,736,579</u>	<u>7,680,992</u>
Cash and cash equivalents, end of period	<u>\$ 1,873,234</u>	<u>\$ 4,736,579</u>

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE THIRTEEN MONTH PERIOD ENDED APRIL 3, 2005
(With comparative figures for the twelve month period ended February 29, 2004)

1. NATURE OF OPERATIONS

The Canadian Forces Central Fund ("CFCF") was established by the Chief of the Defence Staff on February 1, 1968, under Section 2 and Sections 38 to 41 of the National Defence Act, to provide banking services to units and trusts from non-public funds and financial assistance to units in establishing and improving messes, recreational and social facilities for the benefit of Canadian Forces personnel and their dependants.

In common with other non-public funds, CFCF is exempt from paying income tax under Part 1 of the Income Tax Act.

A significant portion of the transactions in these financial statements relate to military base activity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Financial presentation and change in year-end

In fiscal year 2004/05, the Non-Public Property Board of Directors approved a change in the fiscal year from February to March. As a result, the 2004/05 annual statements present a fiscal period consisting of a 13 month period ended April 3, 2005. The comparative 2003/04 financial statements present a 12 month period ended February 29, 2004.

(b) Furnishings and equipment

Furnishings and equipment are recorded at cost and amortized at the following annual rates:

Leasehold improvements	9% straight-line
Office furniture	12% straight-line
Computer equipment	24% straight-line

(c) Cash and cash equivalents

Cash and cash equivalents consist of balances with banks, short-term investments and cash at brokers' account.

Short-term investments are carried at the lower of cost and market. Fair value of securities is based upon the quoted market prices.

(d) Long-term investments

Investments are actively traded to generate capital, interest and dividend income. Equity securities are recorded at cost while bonds and debentures are recorded at their amortized cost. Bond premiums and discounts are amortized over the term of the investment. Long-term investments are written down to fair value when declines in value are other than temporary.

Investment income includes interest, gains and losses on disposal of investment securities, and dividends. Gains and losses on disposal are calculated based on the average cost of the security sold.

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
FOR THE THIRTEEN MONTH PERIOD ENDED APRIL 3, 2005
(With comparative figures for the twelve month period ended February 29, 2004)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Cont'd.**

(e) *Financial instruments*

Financial instruments recognized in the balance sheet consist of cash and cash equivalents, accounts receivable, project loans receivable, long-term investments and accounts payable and employee deductions payable.

Financial instruments which potentially subject the Fund to concentrations of credit risk consist principally of cash, investments, accounts receivable and project loans receivable. CFCF generally places its cash and short-term investments in Canadian federal and provincial government bonds, bonds of corporations with high credit ratings and bankers' acceptances.

Credit risk with respect to accounts receivable is considered moderate owing to historically high turnover rates. CFCF does not require collateral or other security to support project loans advanced to military bases and ships and therefore these loans bear an element of credit risk. However, losses due to amounts proving uncollectible have traditionally been low due in part to the fact that the Fund administers the cash balances of most of its creditors.

The fair value of cash and cash equivalents, accounts receivable, project loans receivable, accounts payable and employee deductions payable approximates their carrying value due to their short term nature.

Up to 18% of the CFCF investment portfolio may be denominated in foreign currency, and the Fund accepts the market risks associated with foreign currency exchange rate fluctuations.

Interest rate risk is heightened for project loans receivable given that interest rates are generally fixed at 4%. Risk of this nature is reduced for long-term investments given the extended maturity dates. Rates on short-term investments are subject to higher volatility depending on the stability of the market.

(f) *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(g) *Translation of foreign currencies*

Investments acquired and paid for in foreign currencies are carried at their Canadian dollar equivalent at the date of acquisition. Income received in foreign currencies is translated to Canadian dollars at the rate of exchange in effect at the date of the receipt.

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.

FOR THE THIRTEEN MONTH PERIOD ENDED APRIL 3, 2005

(With comparative figures for the twelve month period ended February 29, 2004)

3. CONSOLIDATED BANK ACCOUNT ("CBA")

CFCF maintains cash, which it does not control in its concentrated bank account on behalf of other funds, trusts and units. CFCF controls interest earned on such funds less a percentage paid back to the units and funds (Base/Wing Funds and Messes receive 3% with options to elect at the bank prime rate plus 0.25% or CFCF's investment rate of return less 0.5% for its cash balance in excess of liabilities; while trust accounts receive varying percentages based on cash balances and options selected).

	<u>April 3, 2005</u>	<u>Feb. 29, 2004</u>
Guaranteed Investment Certificates and other fixed income securities	\$ 3,205,068	\$ 5,603,927
Cash	<u>(41,438)</u>	<u>2,598,565</u>
	3,163,630	8,202,492
Less allocated to trust assets	<u>(1,290,396)</u>	<u>(3,465,913)</u>
	<u>\$ 1,873,234</u>	<u>\$ 4,736,579</u>

4. ACCOUNTS RECEIVABLE

Included in the statement of revenue and expense for the thirteen month period ended April 3, 2005 is funding of \$12,777,778 from the Public for the reimbursement of the amount paid with Non-Public funds for the Personnel Support Program Infrastructure Recapitalization Program. Accounts receivable at April 3, 2005 included \$11,177,778 as the above revenue figure has been reduced by \$1,600,000 for the commitment to the Borden outdoor facilities expensed as capital projects by CFCF in the February 29, 2004 fiscal year-end.

Included in accounts receivable at February 29, 2004 was a receivable of \$13,896,258 from the Public for a funding shortfall pertaining to underfunded services of human resources management and IM/IT of Public reimbursed Personnel Support Program costs for the 1998 to 2004 fiscal year-ends. The portion specifically pertaining to the 2004 fiscal year-end of \$2,722,694 has already been reflected in the revenue amount for Personnel Support Program with the balance of \$11,173,564 pertaining to the previous fiscal year-ends being reflected as a separate line item on the statement of Public Operating Revenue and Expense outlined on schedule A.

5. PROJECT LOANS RECEIVABLE

CFCF provides unsecured loans to military bases and ships to share in the financing of capital projects. CFCF provides interest free working capital loans to units on UN operations for the duration of the deployment. Starting in May 2002, ships may obtain a line of credit on their CBA when being deployed on various operations instead of an interest free loan. Loans to CANEX and to bases bear interest at 4%. Repayment terms vary from 3 to 20 years. Periodically, the Board of Directors approves the full or partial forgiveness of specific loan balances. During the year, a project loan receivable in the amount of \$472,259 (2004 - \$nil) was forgiven.

	<u>April 3, 2005</u>	<u>Feb. 29, 2004</u>
Interest bearing loans	\$ 29,274,451	\$ 20,496,492
Interest free loans	<u>405,715</u>	<u>369,145</u>
	29,680,166	20,865,637
Less current portion	<u>(3,021,220)</u>	<u>(2,741,526)</u>
	<u>\$ 26,658,946</u>	<u>\$ 18,124,111</u>

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.

FOR THE THIRTEEN MONTH PERIOD ENDED APRIL 3, 2005

(With comparative figures for the twelve month period ended February 29, 2004)

6. LONG-TERM INVESTMENTS

	April 3, 2005		February 29, 2004	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Corporate stocks and options	\$ 52,936,250	\$ 47,449,832	\$ 46,197,375	\$ 40,887,361
Government bonds	53,883,420	53,183,407	49,830,050	48,373,651
Other indexed securities	<u>9,378,445</u>	<u>8,846,175</u>	<u>8,513,348</u>	<u>8,193,640</u>
	<u>\$ 116,198,115</u>	<u>109,479,414</u>	<u>\$ 104,540,773</u>	<u>97,454,652</u>
Less allocation to trusts		<u>(44,654,965)</u>		<u>(41,178,867)</u>
		<u>\$ 64,824,449</u>		<u>\$ 56,275,785</u>

Terms to maturity of bonds and debentures range from 2006 to 2035 with the majority of these investments maturing within 5 to 6 years. Interest rates on government bonds vary from 4.1% to 7.75%.

Investment income includes net gains from sales of investments which amounted to \$5,190,120 (2004 net gains - \$6,599,076).

7. FURNISHINGS AND EQUIPMENT

	April 3, 2005		February 29, 2004	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>	<u>Net book value</u>
Leasehold improvements	\$ -	\$ -	\$ -	\$ 8,142
Office furniture	190,755	94,165	96,590	106,001
Computer equipment	<u>3,931,792</u>	<u>2,436,867</u>	<u>1,494,925</u>	<u>1,475,798</u>
	<u>\$ 4,122,547</u>	<u>\$ 2,531,032</u>	<u>\$ 1,591,515</u>	<u>\$ 1,589,941</u>

8. INTERNALLY RESTRICTED NET ASSETS

(a) *Minor projects*

CFCF annually designates an amount for projects given specific approval during the year.

(b) *Future Personnel Costs (Public)*

Amounts have been designated to provide funding for future PSP personnel costs, such as severance pay, hiring costs, accumulated leave, maternity leave, etc.

(c) *Future Insurance Costs*

Amounts have been designated to provide funding for future NPF insurance claims based on premium savings resulting from the increase in property self insured retention levels to \$1 million for each and every loss, and aggregate limit.

CANADIAN FORCES CENTRAL FUND

NOTES TO FINANCIAL STATEMENTS - Cont'd.

FOR THE THIRTEEN MONTH PERIOD ENDED APRIL 3, 2005

(With comparative figures for the twelve month period ended February 29, 2004)

9. CFCF CONTRIBUTIONS TO NPF SERVICES AND OPERATIONS

CFCF contributions to NPF services and operations represent financial support provided of \$2,919,185 (2004 - \$3,203,168) to the NPF wide services of accounting, human resources management, information management and information technology and consolidated insurance program as well as the corporate operating costs.

10. CONTINGENT LIABILITY

CFCF is contingently liable for \$466,500 (2004 - \$523,000) for letters of credit supplied to various provincial liquor boards on behalf of unit messes.

11. COMMITMENTS

As at April 3, 2005, CFCF had approved loans to bases and ships totalling \$2,846,711 (2004 - \$3,505,981) which were not yet advanced.

In addition, the Fund has entered into a contract for radio and television satellite broadcasting with an annual cost for the 2006 fiscal year-end of approximately \$2,400,000. This contract is part of the Public reimbursed Personnel Support Program and will be reimbursed by the Public and is included as part of the Public Operating Revenue and Expense statement within Deployed Operations.

12. PENSION PLAN

The Non-Public Funds Employees Pension Plan (the "Plan") is a defined benefit pension plan which provides retirement benefits relating to contributions and years of service. Substantially all CFCF employees are eligible to be members of the Plan. Based on an actuarial valuation of December 31, 2004, the net liabilities of the Plan exceeded the net assets. CFCF's estimated remaining obligation for this shortfall is \$1,344,958 to be repaid until the shortfall is eliminated. In 2005 fiscal, CFCF contributed \$238,596 (2004 - \$282,192) for this shortfall in addition to \$707,636 (2004 - \$812,682) of regular employer contributions to the Plan. Plan contributions are included in CFCF Management and NPF Services and Operations.

13. RELATED PARTY TRANSACTIONS

During the year, CFCF charged other Non-Public Fund entities for accounting, human resources management, information management and information technology and consolidated insurance program services.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. The charges are as follows:

	April 3, 2005				February 29, 2004			
	<u>CANEX</u>	<u>SISIP</u>	<u>Bases/ Wings/ Messes</u>	<u>Total</u>	<u>CANEX</u>	<u>SISIP</u>	<u>Bases/ Wings/ Messes</u>	<u>Total</u>
Accounting	\$1,490,777	\$167,119	\$1,751,757	\$3,409,653	\$1,166,274	\$69,324	\$1,152,874	\$2,388,472
HR	608,914	194,528	1,184,516	1,987,958	683,255	138,374	888,425	1,710,054
IM/IT	276,759	246,244	-	523,003	250,000	202,566	-	452,566
CIP	<u>353,003</u>	-	<u>508,599</u>	<u>861,602</u>	<u>436,972</u>	-	<u>123,653</u>	<u>560,625</u>
	<u>\$2,729,453</u>	<u>\$607,891</u>	<u>\$3,444,872</u>	<u>\$6,782,216</u>	<u>\$2,536,501</u>	<u>\$410,264</u>	<u>\$2,164,952</u>	<u>\$5,111,717</u>

Schedule A

CANADIAN FORCES CENTRAL FUND
STATEMENT OF PUBLIC OPERATING REVENUE AND EXPENSE
FOR THE THIRTEEN MONTH PERIOD ENDED APRIL 3, 2005

(With comparative figures for the twelve month period ended February 29, 2004)

	April 3, <u>2005</u>	Feb. 29, <u>2004</u>
Revenue		
Military Family Support (C108)	\$ 19,184,377	
\$ 18,861,401		
Personnel Support Program (C109) – note 4	59,230,836	53,946,520
Other	<u>880,724</u>	<u>1,226,541</u>
	<u>79,295,937</u>	<u>74,034,462</u>
Expense		
Military family support	19,184,375	18,861,401
PSP HQ and field ops support management	20,943,338	18,398,483
Military fitness/sports	7,373,021	6,720,003
Deployed operations	10,099,010	11,024,430
CANEX management	1,973,584	1,938,336
SISIP financial counselling and education	3,029,837	2,816,159
Health promotion	3,830,082	3,450,815
Internal audit and review	1,158,392	1,027,683
NPF accounting	4,876,155	3,658,373
NPF human resources	3,391,671	2,835,716
Information management/information technology	1,763,827	1,725,563
Miscellaneous	<u>1,891,956</u>	<u>1,450,887</u>
	<u>79,515,248</u>	<u>73,907,849</u>
Net Public operating revenue (expense)	(219,311)	126,613
Funding adjustment for prior years' Personnel Support Program (note 4)	<u>-</u>	<u>11,173,564</u>
Net Public operating revenue (expense) after adjustment	<u>\$ (219,311)</u>	<u>\$11,300,177</u>

Section 5

Non-Public Funds Employee Pension Plan

Financial Statements

**Canadian Forces Non-Public Funds
Employees Pension Plan**

December 31, 2004

AUDITORS' REPORT

To the Chairperson and Members of the Employee Pension Plan Committee,
Canadian Forces Non-Public Funds Employees Pension Plan

We have audited the statement of net assets available for benefits and accrued pension benefits and deficit of **Canadian Forces Non-Public Funds Employees Pension Plan** as at December 31, 2004 and the statements of changes in deficit, accrued pension benefits and net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan 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 financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits, deficit of the Plan as at December 31, 2004 and the changes in deficit, accrued and pension benefits and net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Ottawa, Canada,
April 4, 2005. Chartered Accountants

Canadian Forces Non-Public Funds Employees Pension Plan

**STATEMENT OF NET ASSETS AVAILABLE FOR
BENEFITS AND ACCRUED PENSION BENEFITS
AND DEFICIT**

As at December 31

NET ASSETS AVAILABLE FOR BENEFITS

	2004	2003
	\$	\$
Investments, at market <i>[note 3 and schedule A]</i>	79,249,518	66,252,820
Cash	881,479	568,138
Pension receivable <i>[note 4]</i>	2,128,406	—
Prepaid expense	12,526	12,198
Capital assets <i>[note 5]</i>	—	9,947
	82,271,929	66,843,103
Less: Accrued liabilities	389,712	32,356
Net assets available for benefits	81,882,217	66,810,747

ACCRUED PENSION BENEFITS AND DEFICIT

Actuarial value of accrued pension benefits <i>[note 6]</i>	84,349,000	71,007,000
Deficit	(2,466,783)	(4,196,253)
Accrued pension benefits and deficit	81,882,217	66,810,747

See accompanying notes

Canadian Forces Non-Public Funds Employees Pension Plan

STATEMENT OF CHANGES IN DEFICIT

	2004	2003
	\$	\$
Deficit of net assets available for benefits versus accrued pension benefits, beginning of year	(4,196,253)	(9,918,997)
Net increase in net assets available for benefits	15,071,470	12,316,744
Net increase in accrued pension benefits	(13,342,000)	(6,594,000)
Deficit of net assets available for benefits versus accrued pension benefits, end of year	(2,466,783)	(4,196,253)

See accompanying notes

Canadian Forces Non-Public Funds Employees Pension Plan

**STATEMENT OF CHANGES
IN ACCRUED PENSION BENEFITS**

[note 6]

Year ended December 31

	2004	2003
	\$	\$
INCREASE IN BENEFITS		
Interest accrued on benefits	4,861,987	4,380,055
Benefits accrued	11,383,400	5,961,919
Adjustment to valuation	934,292	—
Increase in accrued benefits	17,179,679	10,341,974
DECREASE IN ACCRUED BENEFITS		
Annuity payments and refunds	3,837,679	3,693,991
Adjustment to valuation	—	53,983
Decrease in accrued benefits	3,837,679	3,747,974
Net increase in accrued pension benefits	13,342,000	6,594,000
Accrued pension benefits, beginning of year	71,007,000	64,413,000
Accrued pension benefits, end of year <i>[note 6]</i>	84,349,000	71,007,000

See accompanying notes

Canadian Forces Non-Public Funds Employees Pension Plan

**STATEMENT OF CHANGES IN NET ASSETS
AVAILABLE FOR BENEFITS**

Year ended December 31

	2004 \$	2003 \$
INCREASE IN NET ASSETS		
Contributions		
Employer	6,748,346	6,386,325
Employees	5,312,673	2,284,260
	12,061,019	8,670,585
INVESTMENTS		
Unrealized market gain	5,233,962	7,564,194
Interest income	363,942	290,652
Dividend income	523,418	434,569
Loss on currency	(12)	(615)
Realized gain (loss) - equities	1,777,836	(210,829)
	7,899,146	8,077,971
	19,960,165	16,748,556
DECREASE IN NET ASSETS		
Withdrawals		
Annuity payments	3,169,413	3,105,454
Refunds	668,266	588,537
	3,837,679	3,693,991
OPERATING EXPENSES		
Professional fees	555,235	204,056
Investment management fees	147,869	119,971
Custodial fees	38,409	111,980
Pension administration	223,168	177,379
Miscellaneous	76,388	77,904
Amortization	9,947	46,531
	1,051,016	737,821
	4,888,695	4,431,812
Net increase in net assets during the year	15,071,470	12,316,744
Net assets available for benefits, beginning of year	66,810,747	54,494,003
Net assets available for benefits, end of year	81,882,217	66,810,747

See accompanying notes

Canadian Forces Non-Public Funds Employees Pension Plan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

1. DESCRIPTION OF PENSION PLAN

The Canadian Forces Non-Public Funds Employees Pension Plan [the "Plan"] was established under the provisions of Section 38 of the National Defence Act to account for the accumulation of employee deductions and employer contributions from participating bases, the transfer of such funds to the custodian for investment purposes and the recording of fund assets and liabilities. The Plan is a contributory defined benefit plan integrated with the Canada/Quebec Pension Plan and registered under the Pension Benefits Standards Act of Canada. Plan membership is compulsory for all full-time employees over 18 years of age and having four years of service. The Plan is funded by the employee and employer. The employee contributes 4.5% of earnings which are not in excess of the Canada/Quebec Pension Plan Year's Maximum Pensionable Earnings ["YMPE"], and 6% of the member's annualized earnings in excess of the YMPE. The employer contributes actuarially recommended amounts sufficient to satisfy any experience deficiency and provide pension benefits accruing to plan members during the current year. The most recent actuarial valuation of the Plan was as at December 31, 2004.

Employees meeting eligibility conditions are entitled to annual pension benefits beginning at age sixty-five for service on or after January 1, 1997 equal to 1.5% of the employees' average pensionable earnings up to the average YMPE plus 2% of the employees' average pensionable earnings above the average YMPE times the number of years of pensionable service since January 1, 1997 plus, for service before January 1, 1997, the greater of: a) 40% of the employees' total required contributions before January 1, 1997, b) 1.5% of the employees' average pensionable earnings up to the average YMPE plus 2% of the employees' average pensionable earnings above the average YMPE, times the years of pensionable service before January 1, 1997, or c) 1.8% of the employees' average pensionable earnings for 1994, 1995 and 1996 up to \$34,900 plus 2.4% of the employees' average pensionable earnings for 1994, 1995 and 1996 above \$34,900 but below \$52,350 plus 2% of the employees' average pensionable earnings for 1994, 1995 and 1996 above \$52,350 times the number of years of pensionable service before January 1, 1997. Employees with less than three years of pensionable service are only eligible for the greater of a) or b) for their service prior to January 1, 1997. Pensions in payment have been indexed on an adhoc basis at a rate of 75% of the consumer price index. The most recent adjustment was effective January 1, 2004.

The Chief Executive Officer approved an initiative to give the Canadian Forces Non-Public Funds full-time and part-time employees the opportunity to buy-back pensionable services during the previously imposed mandatory or the voluntary waiting periods. The pension buy-back commenced in year 2004. For the previously imposed mandatory periods, the buy-back cost is shared between the employee and the employer and for the voluntary waiting periods, the employee is fully responsible for the cost.

The normal form of pension provides for monthly payments for life with 180 payments guaranteed. Should the employee die before receiving the guaranteed 180 monthly payments, the remainder will continue to be paid to the beneficiary. If the employee has a spouse at retirement, the automatic option provides that a joint pension in an amount that is the actuarial equivalent of the normal form is payable throughout the joint lifetime of the employee and spouse, reducing to 60% on the death of the employee. An employee may elect a joint and survivor pension which provides for a benefit of 100% to the surviving spouse after death. In the event the normal form is not the form payable, the benefit payable will be the actuarial equivalent of the normal form, which cannot exceed the amount payable under the normal form.

Canadian Forces Non-Public Funds Employees Pension Plan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

An employee who retires early from active service and who satisfies the eligibility requirements as follows; a] has attained age fifty-five at retirement, b] must have completed at least five years of pensionable service at retirement, and c] the sum of the employee's age and pensionable service at retirement must be equal to at least sixty-five, is entitled to also receive an annual bridge benefit payable in equal monthly instalments in an amount equal to \$15 per month for each completed year of pensionable service, to a maximum of twenty years. Such bridge benefit is payable from the date that early retirement pension commences and ceases with the payment immediately preceding or coinciding with the earlier of the employee's normal retirement date or the date of death.

Pensionable earnings means base salary and wages including overtime and performance pay, but excluding bonuses or other special remuneration. Average pensionable earnings mean the employee's average earnings as a plan member during the three highest-paid consecutive years in the ten years before the retirement date. If the employee has less than three years of pensionable service, then the actual average of earnings received will be used.

Employees who have ten or more years of pensionable service may retire at age sixty and receive an immediate unreduced pension. Employees who are age fifty with ten or more years of pensionable service may elect to retire early and receive a pension reduced by 0.25% for each month that the actual retirement date precedes their sixtieth birthday. Employees who are age fifty-five with less than ten years of pensionable service may elect to retire early and receive a pension reduced by 0.25% for each month that the actual retirement date precedes their sixty fifth birthday.

An employee with less than two years Plan membership is entitled to a refund of employee contribution plus interest on termination. After two years of Plan membership, the employee is entitled upon termination to a deferred pension under the Plan and depending on the circumstances may transfer the lump sum value of the employee's pension to a locked-in RRSP, purchase a deferred life annuity or transfer to a new employer's pension plan.

The beneficiary of a plan member who dies with less than two years service receives a refund of the member's contribution with interest.

If death occurs two or more years after Plan membership, the surviving spouse will be entitled to elect among the following alternatives: transfer to a locked-in RRSP; transfer to a registered pension plan; or purchase an immediate life annuity or a deferred life annuity.

2. SIGNIFICANT ACCOUNTING POLICY

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. Fund assets, liabilities, contributions and expenses are reported on the accrual basis of accounting.

3. PENSION INVESTMENTS

Pension investments, administered by an independent trustee, are valued at market, representing the value at the statement date which could be realized in the event that such investments were converted to cash. The net unrealized market gain or loss is reflected in the statement of changes in net assets available for benefits.

Canadian Forces Non-Public Funds Employees Pension Plan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

4. PENSION RECEIVABLE

Pension receivable in the amount of \$2,128,406 consists of pension buy-back instalment owing from employees of \$1,018,360 which will be paid over 121 remaining equal payments, pension buy-back from employees RRSP transfer of \$995,880 and employer pension contribution owed of \$114,166.

5. CAPITAL ASSETS

	2004		2003	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	\$	\$	\$	\$
Software	—	—	216,143	206,196
Accumulated amortization	—	—	(206,196)	
Net book value	—	—	9,947	

Capital assets were recorded at cost and amortized on a straight-line basis over their estimated useful life at 24% per annum. The assets were fully amortized in 2004 and have been removed from the accounts as at December 31, 2004.

6. ACCRUED PENSION BENEFITS

Accrued pension benefits is the actuarially determined present value amount required to satisfy all future pension obligations for active and retired plan members at the statement date. The most recent actuarial valuation of the Plan was made as at December 31, 2004, by Mercer Human Resource Consulting, the Plan's actuaries. The Plan is required to have its next actuarial valuation performed as at December 31, 2005. The significant assumptions used are:

- life expectancy of participants as listed in the 1994 Group Annuity Mortality Table,
- 6.5% interest rate, and
- 4.25% salary escalation rate.

7. COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified in order to confirm with presentation adopted in the current year.

Canadian Forces Non-Public Funds Employees Pension Plan Schedule A

INVESTMENTS

Year ended December 31

	2004		2003	
	Market \$	Acquisition cost \$	Market \$	Acquisition cost \$
EQUITIES				
Canadian stocks	35,516,819	27,891,651	28,001,853	22,733,414
Indexed US equity fund	7,924,095	5,725,325	10,470,974	9,377,784
Indexed EAFA fund	11,418,237	10,142,907	7,081,104	5,725,325
	54,859,151	43,759,883	45,553,931	37,836,523
BONDS AND DEBENTURES				
Bond index fund	15,482,034	13,433,033	13,096,885	12,033,033
Government of Canada real return bonds	7,421,486	5,571,708	6,554,534	5,571,708
	22,903,520	19,004,741	19,651,419	17,604,741
Short-term notes	1,298,043	1,298,043	898,578	898,578
OTHER				
Accrued investment income	109,334	109,334	76,476	76,476
Cash	79,470	79,470	72,416	72,416
	1,486,847	1,486,847	1,047,470	1,047,470
Total investments	79,249,518	64,251,471	66,252,820	56,488,734

See accompanying notes

Section 6

The CFPSA Executive Compensation Plan

The CFPSA Executive Compensation Plan Fiscal Year 2004-2005

The Canadian Forces Personnel Support Agency (CFPSA) operates with two essential principles in mind. These are: *“people matter”* and *“the focus is on the customer”* and the customers are the men and women of the Canadian Forces (CF), and their families. Our raison d’etre is reflected in our motto: *“Serving Those Who Serve”*. It is through the development and maintenance of a strong team of motivated people that the Staff of the Non-Public Funds, Canadian Forces (NPF Staff) achieves this goal.

As Chief Executive Officer of the CFPSA, I have a fundamental responsibility to ensure that the NPF Staff who serves CF members and their families are supported by a strong human resources system. Compensation and performance measures play an important role in this process because rewards and recognition are fundamental in motivating and recognizing excellence. This is true at all levels, including the Category III or Executive Level.

During 2004-2005, however, the Human Resources and Compensation (HR & COMP) Committee of the Non-Public Property (NPP) Board of Directors (BoD) examined Category III compensation. On the recommendation of the HR & Comp Committee, the Chief of the Defence Staff, with the advice of the NPP BoD, directed changes to the CFPSA Executive Compensation Plan to align it more closely with the public sector. Each of the Category III positions was assigned an equivalency to the Treasury Board (TB) Executive Categories (EX) and cash compensation (salary and performance pay) was adjusted according to the TB guidelines for the applicable categories. Adjustments were also made to the elements of non-cash compensation within the constraints of the separate employer status of NPF Staff.

Consistent with our values of accountability and transparency, this document elaborating the CFPSA Executive Compensation Plan is referenced in our fiscal year 2004-2005 annual report. This will be its final reference, however; I intend to include Category III compensation in our Human Resources Policy Manuals by the end of the next Fiscal Year.

Yours truly,



D.W. Langton
Major-General
Chief Executive Officer