

**CANADIAN FORCES
PERSONNEL SUPPORT AGENCY**



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

Reviewed Financial Statements 2005-2006

**Audited and Reviewed
Financial Statements
2005-2006**

This publication is an addendum to the Canadian Forces Personnel Support Agency's Annual Report 2005-2006. The Audit and Accountability Committee of the NPP Board of Directors approved these audited and reviewed financial statements in July 2006.

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**CANADIAN FORCES
PERSONNEL SUPPORT AGENCY**



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

Canadian Forces Personnel Support Agency

FINANCIAL STATEMENTS
For
CANADIAN FORCES PERSONNEL SUPPORT AGENCY
For the fiscal year ended
APRIL 2, 2006

AUDITORS' REPORT

To the Non-Public Property Board of Directors of

CANADIAN FORCES PERSONNEL SUPPORT AGENCY

We have audited the statement of financial position of Canadian Forces Personnel Support Agency as at April 2, 2006 and the statements of changes in net assets, revenue and expense and cash flows for the fiscal year then ended. These financial statements are the responsibility of the Agency'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 Agency as at April 2, 2006 and the changes in net assets, the results of its operations and cash flows for the fiscal year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "Welch & Company LLP". The signature is written in a cursive, flowing style.

CHARTERED ACCOUNTANTS

Ottawa, Ontario
June 16, 2006.

CANADIAN FORCES PERSONNEL SUPPORT AGENCY

STATEMENT OF FINANCIAL POSITION

APRIL 2, 2006

(No comparative figures required - see note 1)

ASSETS

CURRENT ASSETS

Cash	\$ 1,300
Accounts receivable	8,880,533
Prepaid expenses	<u>260,118</u>
	9,141,951

OTHER ASSETS

Furnishings and equipment (note 4)	<u>1,732,312</u>
	<u>\$ 10,874,263</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$ 6,949,656
Due to Canadian Forces Central Fund (note 5)	<u>769,802</u>
	<u>7,719,458</u>

NET ASSETS

Unrestricted	640,836
Internally restricted (note 6)	
Future personnel costs (Public)	1,547,012
Future insurance costs	<u>966,957</u>
	<u>3,154,805</u>
	<u>\$ 10,874,263</u>

Approved on behalf of the board:

..... Director

.....Director

(See accompanying notes)

CANADIAN FORCES PERSONNEL SUPPORT AGENCY

STATEMENT OF CHANGES IN NET ASSETS

FISCAL YEAR ENDED APRIL 2, 2006

(No comparative figures required - see note 1)

		<u>Internally restricted</u>		
		Future Personnel Costs (Public)	Future insurance costs	<u>Total</u>
	<u>Unrestricted</u>			
Amounts transferred from Canadian Forces Central Fund on April 4, 2005	\$ -	\$ 2,942,914	\$ 775,957	\$ 3,718,871
Net NPF operating revenue	809,878	-	-	809,878
Net Public programs and operating expense	(424,093)	-	-	(424,093)
Employer costs charged to restricted future personnel costs	<u>-</u>	<u>(949,851)</u>	<u>-</u>	<u>(949,851)</u>
Net expense	385,785	(949,851)	-	(564,066)
Net asset reallocations	<u>255,051</u>	<u>(446,051)</u>	<u>191,000</u>	<u>-</u>
Balance, end of year	<u>\$ 640,836</u>	<u>\$ 1,547,012</u>	<u>\$ 966,957</u>	<u>\$ 3,154,805</u>

(See accompanying notes)

CANADIAN FORCES PERSONNEL SUPPORT AGENCY

STATEMENT OF REVENUE AND EXPENSE

FISCAL YEAR ENDED APRIL 2, 2006

(No comparative figures required - see note 1)

Revenue

User Fees for Services

Canadian Forces Exchange System (CANEX)	\$ 2,964,246
Service Income Security Insurance Plan (SISIP)	595,064
Base/Wing Funds/Messes	3,542,764
Canadian Forces Central Fund (CFCF)	434,899
Pension Administration	<u>156,838</u>
	<u>7,693,811</u>

Contributions

CANEX Contribution to Non-Public Fund (NPF) Services and Operations	750,000
SISIP Contribution to Programs and Distributions	4,203,829
CFCF Contribution to Programs and Distributions	982,500
CFCF Contribution to NPF Services and Operations	2,898,000
Other Revenue	<u>543,310</u>
	<u>9,377,639</u>
	<u>17,071,450</u>

Expenses

NPF Services

NPF Accounting	3,888,627
Information Management/Information Technology (IM/IT)	1,991,977
Human Resources (HR) Management Services	2,681,679
Consolidated Insurance Program	<u>887,631</u>
	<u>9,449,914</u>

Corporate Operations

Canadian Forces Personal Support Agency (CFPSA) Executive Management	794,543
Personnel Support Program (PSP) Management - Headquarters	1,441
Internal Audit and Review	180,116
Services Support/Shipping & Receiving	284,814
Other	<u>137,516</u>
	<u>1,398,430</u>

Programs

Sports Grant	64,602
Conseil International du Sport Militaire (CISM)	42,687
Sports Banquet	96,773
Volunteers Recognition Program	96,180
Youth Program	188,930
Customer Relationship Management	185,048
Amenities	<u>4,677</u>
	<u>678,897</u>

Distributions

Capital Projects	2,000,000
CANEX/SISIP Morale and Welfare Grant	2,674,451
PSP Grant	<u>59,880</u>
	<u>4,734,331</u>
	<u>16,261,572</u>

Net NPF operating revenue

809,878

Net Public operating expense - schedule A

(1,373,944)

Net expense

\$ (564,066)

(See accompanying notes)

CANADIAN FORCES PERSONNEL SUPPORT AGENCY

STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED APRIL 2, 2006

(No comparative figures required - see note 1)

CASH PROVIDED FROM (USED IN)

Operating activities

Net expense \$ (564,066)

Item not affecting cash:

Amortization 693,896

129,830

Changes in level of:

Accounts receivable (8,880,533)

Prepaid expenses 127,938

Accounts payable and accrued liabilities 6,949,656

(1,673,109)

Investing activities

Purchase of furnishings and equipment (834,693)

Financing activities

Advances from Canadian Forces Central Fund (CFCF) 769,802

Other activities

Assets transferred from CFCF at their net carrying value:

Prepaid expenses (388,056)

Furnishings and equipment (1,591,515)

(1,979,571)

Internally restricted net assets transferred from CFCF 3,718,871

1,739,300

Increase in cash and cash, at end of year

\$ 1,300

(See accompanying notes)

CANADIAN FORCES PERSONNEL SUPPORT AGENCY
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED APRIL 2, 2006

1. NATURE OF OPERATIONS

At the June 29, 2005 meeting of the Non-Public Property Board of Directors, the creation of a new financial entity, The Canadian Forces Personnel Support Agency ("CFPSA"), was approved with an effective date of April 4, 2005. Previously, there had not been a financial entity that detailed the financial status and results of CFPSA, rather these results had been rolled into the financial statements of the Canadian Forces Central Fund and as such, no comparative figures have been provided for the operations of CFPSA. The CFPSA is both a staff/headquarters organization for the NPF and Public funded programs, Public reimbursed NPF programs as well as Public funded programs. With the establishment of the CFPSA, there now is a separate accounting of the aforementioned activities.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Furnishings and equipment*

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

Office furniture	12% straight-line
Computer equipment	24% straight-line

(b) *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.

3. FINANCIAL INSTRUMENTS

Financial instruments recognized in the statement of financial position consist of cash, accounts receivable, accounts payable and due to Canadian Forces Central Fund. The fair value of these financial instruments approximates their carrying value due to their short-term nature.

4. FURNISHINGS AND EQUIPMENT

	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>
Office furniture	\$ 195,015	\$ 121,506	\$ 73,509
Computer equipment	<u>5,295,320</u>	<u>3,636,517</u>	<u>1,658,803</u>
	<u>\$ 5,490,335</u>	<u>\$ 3,758,023</u>	<u>\$ 1,732,312</u>

5. DUE TO CANADIAN FORCES CENTRAL FUND (CFCF)

The amount due to CFCF represents the net amount owing to CFCF at April 2, 2006 for amounts paid on behalf of CFPSA in the fiscal year. This amount is non-interest bearing and has no fixed terms of repayment.

**CANADIAN FORCES PERSONNEL SUPPORT AGENCY
NOTES TO FINANCIAL STATEMENTS – Cont'd.**

FISCAL YEAR ENDED APRIL 2, 2006

6. INTERNALLY RESTRICTED NET ASSETS

(a) *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.

(b) *Future Insurance Costs*

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

7. COMMITMENT

CFPSA has entered into a contract for radio and television satellite broadcasting with an annual cost for the 2007 fiscal year-end of approximately \$2,600,000. 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 PSP for Deployed Operations.

8. 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 CFPSA employees are eligible to be members of the Plan. Based on an actuarial valuation of December 31, 2005, the net liabilities of the Plan exceeded the net assets. CFPSA's estimated remaining obligation for this shortfall is \$784,933 to be repaid until the shortfall is eliminated. In 2006 fiscal, CFPSA contributed \$281,568 for this shortfall in addition to \$938,559 of regular employer contributions to the Plan.

9. RELATED PARTY TRANSACTIONS

During the fiscal year, CFPSA 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:

	<u>CANEX</u>	<u>SISIP</u>	<u>CFCF</u>	<u>Bases/ Wings/ Messes</u>	<u>Total</u>
Accounting	\$ 1,519,755	\$ 135,150	\$ 170,957	\$ 1,814,191	\$ 3,640,053
HR	573,326	159,841	5,702	1,258,887	1,997,756
IM/IT	550,295	275,005	258,240	-	1,083,540
CIP	320,870	-	-	469,686	790,556
Graphic Fee	-	<u>25,068</u>	<u>-</u>	<u>-</u>	<u>25,068</u>
	<u>\$2,964,246</u>	<u>\$ 595,064</u>	<u>\$ 434,899</u>	<u>\$ 3,542,764</u>	<u>\$ 7,536,973</u>

Schedule A

**CANADIAN FORCES PERSONNEL SUPPORT AGENCY
STATEMENT OF PUBLIC OPERATING REVENUE AND EXPENSE
FISCAL YEAR ENDED APRIL 2, 2006**

(No comparative figures required - see note 1)

Revenue	
C108 - Military Family Support	\$ 19,663,023
C109 - Personnel Support Program	46,927,770
Other Public Funds	<u>10,579,620</u>
Total Revenues	<u>77,170,413</u>
Expenses	
C108 - Military Family Support	19,663,023
C109 - Personal Support Program	
CFPSA Executive Management	675,037
Human Performance	82,666
PSP Management - HQ and Field	3,984,058
Military Physical Fitness and Sports Program	19,334,552
Mess Management	2,257,130
PSP for Deployed Operations	3,837,201
PSP in Support to Small Units	859,623
Youth Program	321,601
SISIP Financial Counseling and Education	2,842,856
Accidental Dismemberment Insurance	900,000
CANEX Management	2,295,168
NPF Accounting	4,589,789
NPF HR Management	2,972,179
Information Management/Information Technology (IM/IT)	1,293,331
Internal Audit and Review	961,384
Other	346,616
Other Public Funds	<u>10,378,292</u>
Total Expenses	<u>77,594,506</u>
Net Public programs and operating expense	(424,093)
Employer costs charged to restricted future personnel costs	<u>(949,851)</u>
Net Public operating expense	<u>\$ (1,373,944)</u>

Section 2



CANEX

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Auditors' Report

To the Non-Public Property Board of Directors

We have audited the balance sheet of CANEX as at 2 April 2006 and the statements of earnings and retained earnings and of cash flows for the year 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 2 April 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants

16 June 2006

CANEX

Balance Sheet

as at 2 April 2006

(in 000's of Canadian dollars)

	<u>2 April 2006</u>	<u>3 April 2005</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,216	\$ 3,066
Short-term investments	-	127
Accounts receivable	19,043	13,659
Inventory	16,376	17,565
Prepaid expenses	405	298
	41,040	34,715
CAPITAL ASSETS (Note 3)		
ACCOUNTS RECEIVABLE	21,146	24,724
	3,361	2,647
	\$ 65,547	\$ 62,086
CURRENT LIABILITIES		
Due to Canadian Forces Central Fund (Note 4)	\$ 5,901	\$ 2,804
Accounts payable and accrued liabilities	13,802	10,867
Current portion of loans payable (Note 5)	1,858	2,074
	21,561	15,745
LOANS PAYABLE (Note 5)		
	11,200	13,863
	32,761	29,608
EQUITY		
Contributed capital (Note 6)	23,280	23,112
Retained earnings	11,270	9,225
Foreign currency translation adjustment	(1,764)	141
	32,786	32,478
	\$ 65,547	\$ 62,086

CANEX

Statement of Earnings and Retained Earnings

year ended 2 April 2006

(in 000's of Canadian dollars)

	2 April 2006	3 April 2005
	(12 months)	(13 months)
Sales	\$ 136,253	\$ 148,490
Cost of merchandise sold and services provided	104,227	112,818
Gross profit	32,026	35,672
Other revenue (Note 7)	8,617	8,682
	40,643	44,354
Operating expenses		
Payroll and benefits (Note 10)	18,210	22,326
Other operating expenses (Note 13)	12,017	12,165
Amortization of capital assets	2,888	3,495
Levies (Note 8)	323	330
Interest on loans payable	560	543
	33,998	38,859
Earnings before royalties and contributions	6,645	5,495
Royalties and contributions (Note 11)	(4,600)	(5,303)
NET EARNINGS	2,045	192
RETAINED EARNINGS, BEGINNING OF YEAR	9,225	9,033
RETAINED EARNINGS, END OF YEAR	\$ 11,270	\$ 9,225

CANEX

Statement of Cash Flows

year ended 2 April 2006

(in 000's of Canadian dollars)

	<u>2 April</u> <u>2006</u> (12 months)	<u>3 April</u> <u>2005</u> (13 months)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings	\$ 2,045	\$ 192
Add items not affecting cash		
Amortization	2,888	3,495
Loss on disposal of capital assets	977	362
	<u>5,910</u>	<u>4,049</u>
Net changes in non-cash operating working capital items (Note 14)	<u>(2,166)</u>	<u>(3,961)</u>
Cash provided by operating activities	<u>3,744</u>	<u>88</u>
INVESTING		
Proceeds from sale of short-term investments	127	1,851
Purchase of capital assets	(1,050)	(7,288)
Proceeds on disposal of capital assets	54	234
Cash used for investing activities	<u>(869)</u>	<u>(5,203)</u>
FINANCING		
Increase in advances from Canadian Forces Central Fund	3,097	2,804
Issuance of loans payable	336	6,353
Repayment of loans payable	(3,047)	(1,899)
Cash provided by financing activities	<u>386</u>	<u>7,258</u>
Effect of exchange rate on foreign currency translation adjustment	<u>(1,111)</u>	<u>(817)</u>
NET CASH INFLOW	<u>2,150</u>	<u>1,326</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,066</u>	<u>1,740</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,216</u>	<u>\$ 3,066</u>

Supplemental cash flow information:

Cash paid for interest on loans payable	\$ 560	\$ 543
Non-cash investing and financing activities (see Note 6)		

CANEX

Notes to the Financial Statements

year ended 2 April 2006
(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 Bases, 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.

CANEX
Notes to the Financial Statements
year ended 2 April 2006
(in 000's of Canadian dollars)

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 and include the following significant accounting policies:

Financial presentation and fiscal 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.

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

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 terms 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 with the CFCF.

Short-term investments

Short-term investments consist of readily tradable triple A rated bonds and guaranteed investment certificates (GICs) 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 GICs include accrued interest and approximate market value.

CANEX

Notes to the Financial Statements

year ended 2 April 2006
(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%
POS system	17%
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 2005/06 or FY 2004/05.

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
year ended 2 April 2006
(in 000's of Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

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. CANEX is an unincorporated entity and is therefore 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

	2 April 2006			3 April 2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Buildings	\$ 21,244	\$ 10,910	\$ 10,334	\$ 11,197
Motor vehicles and computer equipment	2,379	1,893	486	1,778
POS system	1,930	842	1,088	811
Fixtures and equipment	9,723	6,673	3,050	3,699
Building improvements	16,986	10,798	6,188	7,239
	\$ 52,262	\$ 31,116	\$ 21,146	\$ 24,724

CANEX

Notes to the Financial Statements

year ended 2 April 2006

(in 000's of Canadian dollars)

4. DUE TO CANADIAN FORCES CENTRAL FUND

The Canadian Forces Central Fund (CFCF) provides banking services and financial assistance to Non-Public Property activities at Bases, Wings and Stations as well as to CANEX/NATEX. The CFCF is a separate entity under the control of the Non-Public Property Board of Directors which also has ultimate responsibility for CANEX/NATEX. The amount due to Canadian Forces Central Fund is non-interest-bearing and due on demand.

5. LOANS PAYABLE

Loans payable, held by the CFCF, bear interest at a rate of 4% (FY 2004/05 - 4%) per annum and are unsecured. Principal repayments over the next five years and thereafter are as follows:

FY 2006/2007	\$ 1,858
FY 2007/2008	1,819
FY 2008/2009	1,772
FY 2009/2010	1,494
FY 2010/2011	1,108
Thereafter	<u>5,007</u>
	13,058
Less: Current portion	<u>1,858</u>
Long-term portion	<u>\$ 11,200</u>

6. CONTRIBUTED CAPITAL

In FY 2004/05, CANEX closed the Multimedia Printing Services ("MPS") operations. In FY 2005/06, CANEX sold the MPS capital assets for \$300. This amount was recorded as accounts receivable and prepaid expenses. At the time of closure, \$468 of loans payable to the CFCF outstanding related to the MPS capital assets. In connection with the sale of the MPS capital assets, CANEX repaid \$300 of the loans payable. The balance of the loans payable of \$168 was forgiven by the CFCF and has been recorded as an increase to contributed capital in FY 2005/06. There was no change in contributed capital in FY 2004/05.

CANEX
Notes to the Financial Statements
year ended 2 April 2006
(in 000's of Canadian dollars)

7. 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 programs. In addition, in FY 2005/06, \$524 of interest revenue was earned (FY 2004/05 - \$472) and is recorded in other revenue.

8. LEVIES

Levies are paid to the Canadian Forces Personnel Assistance Fund at the rate of 0.15% of total sales. Levies on AMSTO revenue are paid at a rate of 20% of revenue earned by AMSTO.

9. 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 2005/06 and FY 2004/05, CANEX incurred no additional costs 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 \$117 (FY 2004/05 - \$300) is included in accounts payable and accrued liabilities. The estimate for FY 2005/06 represents management's 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 2 April 2006.

10. 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 2005, the net liabilities of the Plan exceeded the net assets. CANEX's estimated remaining obligation for this shortfall is \$840 to be repaid until the shortfall is eliminated. In FY 2005/06 CANEX contributed \$301 (FY 2004/05 - \$255) for this shortfall in addition to \$869 (FY 2004/05 - \$757) of regular employer contributions to the Plan. Plan contributions are included in payroll and other benefits.

CANEX

Notes to the Financial Statements

year ended 2 April 2006
(in 000's of Canadian dollars)

11. RELATED PARTY TRANSACTIONS

Royalties and contributions

In FY 2005/06, CANEX paid royalties of \$3,108 (FY 2004/05 - \$3,467) 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 2005/06, NATEX contributed \$1,492 (FY 2004/05 - \$1,836) 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 2005/06, DND contributed \$2,067 (FY 2004/05 - \$1,974) to CANEX in support of payroll costs and \$183 (FY 2004/05 - \$186) in support of travel, audit, and office expenses. All amounts received are recorded against the corresponding operating expense in the statement of earnings. In addition, in FY 2005/06, DND contributed \$45 (FY 2004/05 - \$677) to CANEX as reimbursement for the closure of certain outlets.

DND provides certain facilities, pays for, and provides other services on behalf of, and at no cost to CANEX. These services include payments in lieu of taxes and the use of legal, environmental and other advisory services. The fair value of the facility and services provided to CANEX by DND has not been determined and has not been recorded in the financial statements.

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 in other operating expenses at the exchange amount of \$2,440 (FY 2004/05 - \$2,377). This is the amount of consideration established and agreed to by the related parties and represents management's best estimate of fair value.

CANEX

Notes to the Financial Statements

year ended 2 April 2006
(in 000's of Canadian dollars)

12. 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.

13. FINANCIAL INSTRUMENTS

Fair value

The fair value of cash and cash equivalents, short-term investments, current accounts receivable, accounts payable and accrued liabilities and amounts due to the CFCF 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 \$121 (FY 2004/05 - \$15).

CANEX
Notes to the Financial Statements
year ended 2 April 2006
(in 000's of Canadian dollars)

14. NET CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	2 April 2006	3 April 2006
	(12 months)	(13 months)
Accounts receivable	\$ (6,031)	\$ (2,931)
Inventory	2,267	(796)
Prepaid expenses	(52)	60
Accounts payable and accrued liabilities	1,650	(294)
	\$ (2,166)	\$ (3,961)

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

Section 3



SISIP FS Proper



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Chartered Accountants
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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, 2005. 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.

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.

In our opinion, 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, 2005 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Halifax, Canada
April 7, 2006



SERVICE INCOME SECURITY INSURANCE PLAN

Year ended December 31, 2005

Proper

Premium collected	\$ 38,680,984
-------------------	---------------

Investment income	\$ 27,817,928
-------------------	---------------

Claims paid	\$ 29,104,446
-------------	---------------

Expenses paid	\$ 8,273,084
---------------	--------------

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

	(In 000s dollars)	
	Year end FY 2005	Previous Year End FY 2004
ASSETS		
Funds	437,089	368,784
Total Assets	437,089	368,784
LIABILITIES		
Liabilities - Reserves	173,787	167,896
Total Liabilities	173,787	167,896
SURPLUS		
Total Surplus	263,302	200,888
Total Liabilities & Surplus	437,089	368,784

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

SISIP Proper
Year End Financial Results - FY 2005

	(In 000s dollars)	
	Year end 2005 (Note 1)	Year end 2004 (Note 1)
Revenues		
Premiums	38,681	36,786
Investment income on actuarial reserves	7,816	8,202
Investment income on segregated fund	20,002	13,268
Total Revenues	66,499	58,256
Operating Expenses		
Claims and Related Expenses	29,104	27,300
Reserve Increase	6,862	1,410
Other	8,273	8,030
Total Operating Expenses	44,239	36,740
Operating Income	22,260	21,516
Extraordinary Items		
Transfer to Re-capitalization Project	43,177 Note 2	0
Transfer to CFPSA Morale & Welfare Unit Grant	(2,500)	(2,500)
Other	(523)	(5,092)
Net Income	62,414	13,924
Adjusted Net Income	19,237 Note 3	13,924

Notes:

1 Premiums, investment income, claims and other expenses verified by KPMG.

2 \$43.2M represents a partial reimbursement of SISIP's contributions to the CEP.

3 Eliminating the Re-capitalization Project transfers.

Section 4

Canadian Forces Personnel Assistance Fund

FINANCIAL STATEMENTS
For
CANADIAN FORCES PERSONNEL ASSISTANCE FUND
For year ended
DECEMBER 31, 2005

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, 2005 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, 2005 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
April 10, 2006

CANADIAN FORCES PERSONNEL ASSISTANCE FUND
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2005

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Deposit with Canadian Forces Central Fund	\$ 2,043,575	\$ 1,961,331
Cash held by bases for loans	300,715	303,168
Contributions and other receivables	8,276	27,901
Current portion of self-improvement loans receivable (note 4)	5,071,548	5,662,020
Current portion of distress loans receivable (note 4)	775,295	892,115
Current portion of education loans receivable (note 4)	<u>1,809,352</u>	<u>1,596,293</u>
	<u>10,008,761</u>	<u>10,442,828</u>
OFFICE EQUIPMENT , net of accumulated amortization of \$21,542 (2004 - \$24,274)	469	1,897
SELF-IMPROVEMENT LOANS RECEIVABLE (note 4)	1,307,829	1,217,094
DISTRESS LOANS RECEIVABLE (note 4)	1,190,090	1,197,819
EDUCATION LOANS RECEIVABLE (note 4)	<u>2,558,458</u>	<u>2,202,130</u>
	<u>5,056,846</u>	<u>4,618,940</u>
TRUST ASSETS (note 5)		
Deposit with Canadian Forces Central Fund	<u>39,118</u>	<u>34,526</u>
	<u>\$ 15,104,725</u>	<u>\$ 15,096,294</u>
<u>LIABILITIES AND FUND BALANCE</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 8,196	\$ 8,797
TRUST LIABILITIES (note 5)	<u>39,118</u>	<u>34,526</u>
	47,314	43,323
FUND BALANCE	<u>15,057,411</u>	<u>15,052,971</u>
	<u>\$ 15,104,725</u>	<u>\$ 15,096,294</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, 2005

	<u>2005</u>	<u>2004</u>
Revenue		
Interest on loans receivable	\$ 483,878	\$ 515,481
Contributions from levies	281,740	272,744
Interest on deposits	111,911	79,137
Donations	<u>3,220</u>	<u>2,687</u>
	<u>880,749</u>	<u>870,049</u>
Expenses		
Salaries and employee benefits	409,421	425,408
Grants	170,865	190,467
Bad debts - net of recoveries	284,326	260,536
Amortization	1,428	3,849
Miscellaneous	<u>10,269</u>	<u>6,810</u>
	<u>876,309</u>	<u>887,070</u>
Net revenue (expense)	4,440	(17,021)
Fund balance - beginning of year	<u>15,052,971</u>	<u>15,069,992</u>
Fund balance - end of year	<u>\$ 15,057,411</u>	<u>\$ 15,052,971</u>

(See accompanying notes)

CANADIAN FORCES PERSONNEL ASSISTANCE FUND
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2005

	<u>2005</u>	<u>2004</u>
CASH PROVIDED FROM (USED IN)		
Operating activities		
Net revenue (expense)	\$ 4,440	\$ (17,021)
Items not affecting cash -		
Loans written off	294,666	272,135
Amortization	1,428	3,849
Changes in level of:		
Contributions and other receivables	19,625	(2,653)
Payables	3,991	(769)
	<u>324,150</u>	<u>255,541</u>
Investing activities		
Self-improvement loans advanced	(7,720,300)	(8,552,170)
Distress loans advanced	(1,050,370)	(784,652)
Education loans advanced	(2,561,900)	(2,655,500)
Repayment of self-improvement loans	8,074,612	9,466,548
Repayment of distress loans	1,075,491	1,163,018
Repayment of education loans	1,942,700	1,744,768
	<u>(239,767)</u>	<u>382,012</u>
Increase in cash	84,383	637,553
Cash and deposits, beginning of year	<u>2,299,025</u>	<u>1,661,472</u>
Cash and deposits, end of year	<u>\$ 2,383,408</u>	<u>\$ 2,299,025</u>
Cash and deposits consist of:		
Deposits with Canadian Forces Central Fund		
- operating fund	\$ 2,043,575	\$ 1,961,331
- trust fund	39,118	34,526
	<u>2,082,693</u>	<u>1,995,857</u>
Cash held by bases for loans	<u>300,715</u>	<u>303,168</u>
	<u>\$ 2,383,408</u>	<u>\$ 2,299,025</u>

(See accompanying notes)

CANADIAN FORCES PERSONNEL ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

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) *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%.

(b) *Contributions*

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

(c) *Interest on loans receivable*

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

(d) *Grants*

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

(e) *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.

(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.

CANADIAN FORCES PERSONNEL ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED DECEMBER 31, 2005

3. 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 serving and 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. As outlined in note 4, anticipated bad debts of \$369,357 (2004 - \$306,201) 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 outlined in note 4.

4. 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 5 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.

Loans receivable are comprised of the following:

	<u>Self-Improvement</u>		<u>Distress</u>		<u>Education</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Total loans receivable	\$ 6,575,697	\$ 7,050,777	\$ 2,091,679	\$ 2,197,807	\$ 4,414,553	\$ 3,825,088
Allowance for doubtful accounts	<u>(196,320)</u>	<u>(171,663)</u>	<u>(126,294)</u>	<u>(107,873)</u>	<u>(46,743)</u>	<u>(26,665)</u>
	6,379,377	6,879,114	1,965,385	2,089,934	4,367,810	3,798,423
Current portion	<u>5,071,548</u>	<u>5,662,020</u>	<u>775,295</u>	<u>892,115</u>	<u>1,809,352</u>	<u>1,596,293</u>
Long-term portion	<u>\$ 1,307,829</u>	<u>\$ 1,217,094</u>	<u>\$ 1,190,090</u>	<u>\$ 1,197,819</u>	<u>\$ 2,558,458</u>	<u>\$ 2,202,130</u>

CANADIAN FORCES PERSONNEL ASSISTANCE FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2005

5. 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:

	<u>Distress Trust</u>	<u>Corporal Ronald MacDonald Memorial Trust Fund</u>	<u>Logistics Branch Bursary Fund</u>	<u>2005 Total</u>	<u>2004 Total</u>
Balance, beginning of year	\$ 46	\$ 20,421	\$ 14,059	\$ 34,526	\$ 37,165
Deposits	19,604	-	500	20,104	3,931
Interest received	-	752	356	1,108	1,015
Disbursements	<u>(13,620)</u>	<u>(1,000)</u>	<u>(2,000)</u>	<u>(16,620)</u>	<u>(7,585)</u>
Balance, end of year	<u>\$ 6,030</u>	<u>\$ 20,173</u>	<u>\$ 12,915</u>	<u>\$ 39,118</u>	<u>\$ 34,526</u>

6. 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, 2005, the net liabilities of the Plan exceeded the net assets. CFPAF's estimated remaining obligation for this shortfall is \$28,550 to be repaid until the shortfall is eliminated. For 2005 fiscal, CFPAF contributed \$10,213 (2004 - \$9,750) for this shortfall in addition to \$43,887 (2004 - \$29,357) of regular employer contributions to the Plan. Plan contributions are included in salaries and employee benefits.

Section 5

Canadian Forces Central Fund

FINANCIAL STATEMENTS
For
CANADIAN FORCES CENTRAL FUND
For the fiscal year ended
APRIL 2, 2006

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 2, 2006 and the statements of changes in net assets, revenue and expense and cash flows for the fiscal 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 April 2, 2006 and the changes in net assets, the results of its operations and cash flows for the fiscal year 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 16, 2006.

**CANADIAN FORCES CENTRAL FUND
STATEMENT OF FINANCIAL POSITION
APRIL 2, 2006**

	<u>April 2, 2006</u>	<u>April 3, 2005</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents (note 4)	\$ 8,599,683	\$ 1,873,234
Accrued interest receivable	994,077	525,181
Accounts receivable (note 5)	-	19,044,264
Prepaid expenses (note 2(a))	-	388,056
Current portion of project loans receivable (note 7)	<u>3,368,437</u>	<u>3,021,220</u>
	<u>12,962,197</u>	<u>24,851,955</u>
OTHER ASSETS		
Due from Canadian Forces Personnel Support Agency (note 6)	769,802	-
Project loans receivable (note 7)	22,141,929	26,658,946
Long-term investments (note 8)	82,211,237	64,824,449
Furnishings and equipment (note 2(a))	-	1,591,515
	<u>105,122,968</u>	<u>93,074,910</u>
	<u>118,085,165</u>	<u>117,926,865</u>
TRUST ASSETS (note 9)		
Cash and investments	48,802,573	45,945,361
Receivable	-	76,252
	<u>48,802,573</u>	<u>46,021,613</u>
	<u>\$ 166,887,738</u>	<u>\$ 163,948,478</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and employee deductions payable	\$ 192,470	\$ 7,529,090
TRUST LIABILITIES		
	<u>48,802,573</u>	<u>46,021,613</u>
	<u>48,995,043</u>	<u>53,550,703</u>
NET ASSETS		
Unrestricted	117,892,695	106,678,904
Internally restricted (note 10)		
Future personnel costs (Public)	-	2,942,914
Future insurance costs	-	775,957
	<u>117,892,695</u>	<u>110,397,775</u>
	<u>\$ 166,887,738</u>	<u>\$ 163,948,478</u>

Approved on behalf of the board:

..... Director

..... Director

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND
STATEMENT OF CHANGES IN NET ASSETS
FISCAL YEAR ENDED APRIL 2, 2006

(With comparative figures for the thirteen month period ended April 3, 2005)

	<u>Unrestricted</u>	<u>Internally Restricted</u>		<u>April 2, 2006</u>	<u>April 3, 2005</u>
		<u>Future personnel costs (public)</u>	<u>Future insurance costs</u>		
Balance, beginning of year	\$ 106,678,904	\$ 2,942,914	\$ 775,957	\$ 110,397,775	\$ 95,136,366
Net revenue	11,213,791	-	-	11,213,791	15,261,409
Amounts transferred to CFPSA at inception of new financial entity	<u>-</u>	<u>(2,942,914)</u>	<u>(775,957)</u>	<u>(3,718,871)</u>	<u>-</u>
Balance, end of year	<u>\$ 117,892,695</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 117,892,695</u>	<u>\$ 110,397,775</u>

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND
STATEMENT OF REVENUE AND EXPENSE
FISCAL YEAR ENDED APRIL 2, 2006

(With comparative figures for the thirteen month period ended April 3, 2005)

	<u>April 2,</u> <u>2006</u>	<u>April 3,</u> <u>2005</u>
Operating revenue		
Investment income (note 8)	\$ 18,441,595	\$ 8,899,512
Loan interest	1,003,264	893,197
Other	<u>510,200</u>	<u>366,845</u>
	<u>19,955,059</u>	<u>10,159,554</u>
Operating expenses		
CFCF management	535,574	347,214
Interest to base/wing funds, messes and trusts	3,722,505	2,863,353
CFCF user fees	434,899	477,585
Loans written off	<u>167,790</u>	<u>-</u>
	<u>4,860,768</u>	<u>3,688,152</u>
Net operating income before item below and CFCF contributions	15,094,291	6,471,402
Reimbursement for prior years' NPF Funding for PSP Infrastructure Recapitalization (note 5)	<u>-</u>	<u>12,777,778</u>
Net operating income before CFCF contributions	<u>15,094,291</u>	<u>19,249,180</u>
CFCF contributions (note 11)		
Programs and distributions	982,500	849,275
NPF services and operations	<u>2,898,000</u>	<u>2,919,185</u>
	<u>3,880,500</u>	<u>3,768,460</u>
Net CFCF operating revenue	11,213,791	15,480,720
Net Public operating expense (note 2(a))	<u>-</u>	<u>(219,311)</u>
Net revenue	<u>\$ 11,213,791</u>	<u>\$ 15,261,409</u>

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND
STATEMENT OF CASH FLOWS
FISCAL YEAR ENDED APRIL 2, 2006

(With comparative figures for the thirteen month period ended April 3, 2005)

	<u>April 2,</u> <u>2006</u>	<u>April 3,</u> <u>2005</u>
CASH PROVIDED FROM (USED IN)		
Operating activities		
Net revenue	\$ 11,213,791	\$ 15,261,409
Items not affecting cash -		
Loans written off	167,790	-
Amortization	<u>-</u>	<u>614,094</u>
	11,381,581	15,875,503
Changes in level of:		
Accrued interest receivable	(468,896)	182,550
Accounts receivable	19,044,264	(1,652,682)
Prepaid expenses	-	(88,904)
Accounts payable and employee deductions payable	<u>(7,336,620)</u>	<u>(639,551)</u>
	<u>22,620,329</u>	<u>13,676,916</u>
Financing activities		
Decrease (increase) in project loans receivable	<u>4,002,010</u>	<u>(8,814,529)</u>
Investing activities		
Increase in long-term investments	(17,386,788)	(8,548,664)
Repayment from Task Force Bosnia-Herzegovina	-	1,438,600
Purchase of furnishings and equipment	-	(615,668)
Advances to Canadian Forces Personnel Support Agency (CFPSA)	<u>(769,802)</u>	<u>-</u>
	<u>(18,156,590)</u>	<u>(7,725,732)</u>
Other activities		
Assets transferred to CFPSA at their carrying value:		
Prepaid expenses	388,056	-
Furnishings and equipment	<u>1,591,515</u>	<u>-</u>
	1,979,571	-
Internally restricted net assets transferred to CFPSA	<u>(3,718,871)</u>	<u>-</u>
	<u>(1,739,300)</u>	<u>-</u>
Increase (decrease) in cash	6,726,449	(2,863,345)
Cash and cash equivalents, beginning of year	<u>1,873,234</u>	<u>4,736,579</u>
Cash and cash equivalents, end of year	<u>\$ 8,599,683</u>	<u>\$ 1,873,234</u>

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND

NOTES TO FINANCIAL STATEMENTS

FISCAL YEAR ENDED APRIL 2, 2006

(With comparative figures for the thirteen month period ended April 3, 2005)

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) Creation of CFPSA Financial Entity

At the June 29, 2005 meeting of the Non-Public Property Board of Directors, the creation of a new financial entity was approved with an effective date of April 4, 2005. This new financial entity would detail the financial status and results of The Canadian Forces Personnel Support Agency (CFPSA). All of the operational activities of this newly created entity have been accounted through the entity known as CFPSA with certain assets being transferred from CFCF to CFPSA at their April 3, 2005 carrying values.

(b) 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.

(c) 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.

(d) 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.

(e) 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.

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
FISCAL YEAR ENDED APRIL 2, 2006

(With comparative figures for the thirteen month period ended April 3, 2005)

3. FINANCIAL INSTRUMENTS

Financial instruments recognized in the statement of financial position consist of cash and cash equivalents, due from CFPSA, 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 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.

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, due from CFPSA, project loans receivable, accounts payable and employee deductions payable approximates their carrying value due to their short-term nature.

Investment in foreign equities or foreign equity index securities may not exceed 30% of the market value of the equity portion of the portfolio; of which a maximum of 25% may be US holdings and a maximum of 15% in all other countries. These foreign investments subject the fund to foreign currency movements.

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.

4. CONCENTRATION BANK ACCOUNT ("CBA")

CFCF maintains cash, which it does not control in its concentration 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 CFCF liabilities; while trust accounts receive varying percentages based on cash balances and options selected).

	<u>April 2,</u> <u>2006</u>	<u>April 3,</u> <u>2005</u>
Guaranteed Investment Certificates and other fixed income securities	\$ 12,231,041	\$ 3,205,068
Cash	<u>990,187</u>	<u>(41,438)</u>
	13,221,228	3,163,630
Less allocated to trust assets	<u>(4,621,545)</u>	<u>(1,290,396)</u>
	<u>\$ 8,599,683</u>	<u>\$ 1,873,234</u>

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
FISCAL YEAR ENDED APRIL 2, 2006

(With comparative figures for the thirteen month period ended April 3, 2005)

5. 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.

6. DUE FROM CANADIAN FORCES PERSONNEL SUPPORT AGENCY (CFPSA)

The amount due from CFPSA represents the net amount owing to CFCF at April 2, 2006 for amounts paid on behalf of CFPSA in the fiscal year. This amount is non-interest bearing and has no fixed terms of repayment.

7. 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 \$167,790 (2005 - \$472,259) was forgiven.

	<u>April 2, 2006</u>	<u>April 3, 2005</u>
Interest bearing loans	\$ 25,104,651	\$ 29,274,451
Interest free loans	<u>405,715</u>	<u>405,715</u>
	25,510,366	29,680,166
Less current portion	<u>(3,368,437)</u>	<u>(3,021,220)</u>
	<u>\$ 22,141,929</u>	<u>\$ 26,658,946</u>

8. LONG-TERM INVESTMENTS

	<u>April 2, 2006</u>		<u>April 3, 2005</u>	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Corporate stocks and options	\$ 64,908,146	\$ 57,259,257	\$ 52,936,250	\$ 47,449,832
Government bonds	64,664,645	59,509,177	53,883,420	53,183,407
Other indexed securities	<u>11,884,385</u>	<u>9,623,831</u>	<u>9,378,445</u>	<u>8,846,175</u>
	<u>\$ 141,457,176</u>	126,392,265	<u>\$ 116,198,115</u>	109,479,414
Less allocation to trusts		<u>(44,181,028)</u>		<u>(44,654,965)</u>
		<u>\$ 82,211,237</u>		<u>\$ 64,824,449</u>

Terms to maturity of bonds and debentures range from 2007 to 2033 with the majority of these investments maturing within 5 to 6 years. Interest rates on government bonds vary from 4.25% to 8.0%.

Investment income includes net gains from sales of investments which amounted to \$14,357,229 (April 3, 2005 net gains - \$5,190,120).

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
FISCAL YEAR ENDED APRIL 2, 2006

(With comparative figures for the thirteen month period ended April 3, 2005)

9. TRUST ASSETS

CFCF maintains trust assets on behalf of the following entities:

	<u>April 2, 2006</u>	<u>April 3, 2005</u>
Base funds	\$ 27,634,881	\$ 25,142,438
Messes	10,116,261	9,397,110
CANEX (overdraft)	(5,901,237)	(3,166,176)
SISIP/CFPAF	2,866,513	3,337,738
NPF Pension/Benefits	3,729,698	3,969,003
Museums, Regimental funds and alike	<u>10,356,457</u>	<u>7,341,500</u>
	<u>\$ 48,802,573</u>	<u>\$ 46,021,613</u>

10. INTERNALLY RESTRICTED NET ASSETS

On April 4, 2005, on the creation of CFPSA, the internally restricted amounts for future personal costs (Public) and future insurance costs were transferred to CFPSA.

11. CFCF CONTRIBUTIONS

CFCF contributed \$982,500 (2005 - \$849,275) to programs and distributions. CFCF also contributed \$2,898,000 (2005 - \$2,919,185) to NPF services and operations representing financial support provided for the NPF wide services of accounting, human resources management, information management and information technology and consolidated insurance programs as well as the corporate operating costs.

12. CONTINGENT LIABILITY

CFCF is contingently liable for \$300,000 (2005 - \$466,500) for letters of credit supplied to various provincial liquor boards on behalf of unit messes.

13. COMPARATIVE FIGURES

Comparative figures have been reclassified where necessary to conform to the presentation adopted in the current fiscal year.

Section 6

Non-Public Funds Employee Pension Plan

Financial Statements

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

December 31, 2005

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 surplus of **Canadian Forces Non-Public Funds Employees Pension Plan** as at December 31, 2005 and the statements of changes in surplus (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, surplus of the Plan as at December 31, 2005 and the changes in surplus (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,
June 30, 2006.

Chartered Accountants

Canadian Forces Non-Public Funds Employees Pension Plan
STATEMENT OF NET ASSETS AVAILABLE FOR
BENEFITS AND ACCRUED PENSION BENEFITS
AND SURPLUS (DEFICIT)

As at December 31

NET ASSETS AVAILABLE FOR BENEFITS

	2005	2004
	\$	\$
Investments, at market <i>[note 3 and schedule A]</i>	98,661,308	79,170,048
Cash	743,354	79,470
Due from Canadian Forces Central Fund <i>[note 7]</i>	1,055,331	881,479
Pension receivable <i>[note 4]</i>	826,286	2,128,406
Prepaid expense	12,198	12,526
	101,298,477	82,271,929
Less: Accrued liabilities	109,208	389,712
Net assets available for benefits	101,189,269	81,882,217

ACCRUED PENSION BENEFITS AND SURPLUS (DEFICIT)

Actuarial value of accrued pension benefits <i>[note 6]</i>	95,406,000	84,349,000
Surplus (deficit) <i>[Note 6]</i>	5,783,269	(2,466,783)
Accrued pension benefits and surplus (deficit)	101,189,269	81,882,217

See accompanying notes

Canadian Forces Non-Public Funds Employees Pension Plan

STATEMENT OF CHANGES IN SURPLUS (DEFICIT)

Year ended December 31	2005	2004
	\$	\$
Deficit of net assets available for benefits versus accrued pension benefits, beginning of year	(2,466,783)	
	(4,196,253)	
Net increase in net assets available for benefits	19,307,052	15,071,470
Net increase in accrued pension benefits	(11,057,000)	(13,342,000)
Surplus (deficit) of net assets available for benefits versus accrued pension benefits, end of year	5,783,269	(2,466,783)

See accompanying notes

Canadian Forces Non-Public Funds Employees Pension Plan

**STATEMENT OF CHANGES
IN ACCRUED PENSION BENEFITS**
[note 6]

Year ended December 31

	2005	2004
	\$	\$
INCREASE IN BENEFITS		
Interest accrued on benefits	5,768,273	4,861,987
Benefits accrued	9,496,583	12,317,692
Increase in accrued benefits	15,264,856	17,179,679
DECREASE IN ACCRUED BENEFITS		
Annuity payments and refunds	4,207,856	3,837,679
Decrease in accrued benefits	4,207,856	3,837,679
Net increase in accrued pension benefits	11,057,000	13,342,000
Accrued pension benefits, beginning of year	84,349,000	71,007,000
Accrued pension benefits, end of year <i>[note 6]</i>	95,406,000	84,349,000

See accompanying notes

Canadian Forces Non-Public Funds Employees Pension Plan

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

Year ended December 31

	2005 \$	2004 \$
INCREASE IN NET ASSETS		
Contributions		
Employer	7,841,778	6,748,346
Employees	3,150,825	5,312,673
	10,992,603	12,061,019
INVESTMENTS		
Unrealized market gain	7,988,337	5,233,962
Interest income	348,968	363,942
Dividend income	732,862	523,418
Loss on currency	(1,296)	(12)
Realized gain - equities	4,123,935	1,777,836
	13,192,806	7,899,146
	24,185,409	19,960,165
DECREASE IN NET ASSETS		
Withdrawals		
Annuity payments	3,361,577	3,169,413
Refunds	846,279	668,266
	4,207,856	3,837,679
OPERATING EXPENSES		
Professional fees	205,079	555,235
Pension administration	156,839	223,168
Investment management fees	176,156	147,869
Miscellaneous	132,427	114,797
Amortization	—	9,947
	670,501	1,051,016
	4,878,357	4,888,695
Net increase in net assets during the year	19,307,052	15,071,470
Net assets available for benefits, beginning of year	81,882,217	66,810,747
Net assets available for benefits, end of year	101,189,269	81,882,217

See accompanying notes

Canadian Forces Non-Public Funds Employees Pension Plan

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

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, 2005.

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.

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.

Canadian Forces Non-Public Funds Employees Pension Plan

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

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.

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.

Canadian Forces Non-Public Funds Employees Pension Plan

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

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.

4. PENSION RECEIVABLE

The pension receivable in the amount of \$826,286 consists of the remaining 2004 pension buy-back instalment owing from employees of \$729,880 which will be paid over 109 equal monthly payments, plus additional buybacks set up in fiscal 2005 of \$31,176, the interest portion of buyback payments of \$23,305 and employer contributions receivable as at December 31, 2005 in the amount of \$41,925.

5. CAPITAL ASSETS

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, 2005, by Mercer Human Resource Consulting, the Plan's actuaries. The Plan is required to have its next actuarial valuation performed as at December 31, 2006.

Canadian Forces Non-Public Funds Employees Pension Plan

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

The significant assumptions used are:

- life expectancy of participants as per the Uninsured Pensioners 1994 table projected to 2015;
- 6.25% interest rate; and
- 4.0% salary escalation rate.

Based on Canadian generally accepted accounting principles, the surplus in net assets available for benefits versus accrued pension benefits as at December 31, 2005 is \$5,783,269. The actuarial valuation completed as at December 31, 2005 assessed the financial position of the Plan for future funding purposes on both the going-concern basis and the solvency basis which resulted in an unfunded liability of \$4,628,000 and \$3,659,000 respectively. These valuations are utilized to assess monthly and annual employer contributions.

7. DUE FROM CANADIAN FORCES CENTRAL FUND (CFCF)

The amount due from CFCF of \$1,055,331 [2004 - \$881,479] represents amounts held in trust by a related party.

8. 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

As at December 31

	2005		2004	
	Market	Acquisition	Market	Acquisition
	\$	\$	\$	\$
EQUITIES				
Canadian stocks	41,697,565	29,039,337	35,516,819	27,891,651
Indexed US equity fund	14,197,929	12,717,907	11,418,237	10,142,907
Indexed EAFA fund	9,680,067	6,625,325	7,924,095	5,725,325
	65,575,561	48,382,569	54,859,151	43,759,883
BONDS AND DEBENTURES				
Bond index fund	23,573,583	20,358,033	15,482,034	13,433,033
Government of Canada real return bonds	8,172,600	5,571,708	7,421,486	5,571,708
	31,746,183	25,929,741	22,903,520	19,004,741
Short-term notes	1,172,578	1,172,578	1,298,043	1,298,043
OTHER				
Accrued investment income	166,986	166,986	109,334	109,334
	1,339,564	1,339,564	1,407,377	1,407,377
Total investments	98,661,308	75,651,874	79,170,048	64,172,001

See accompanying notes

Non-Public Funds Employee Group Insurance Plan

FINANCIAL STATEMENTS
For
NPF EMPLOYEE GROUP INSURANCE PLAN
For the period from
MARCH 1, 2004 TO JUNE 30, 2005

AUDITORS' REPORT

To the Non-Public Property Board of Directors of

NPF EMPLOYEE GROUP INSURANCE PLAN

We have audited the statement of financial position of the NPF Employee Group Insurance Plan as at June 30, 2005 and the statements of operations and reserves available for future claims for the period from March 1, 2004 to June 30, 2005. These financial statements are the responsibility of the Plan'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 Plan as at June 30, 2005 and the changes in its reserves available for future claims and the results of its operations for the period from March 1, 2004 to June 30, 2005 in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "Welch & Company LLP". The signature is written in a cursive, flowing style.

CHARTERED ACCOUNTANTS

Ottawa, Ontario
June 19, 2006.

**NPF EMPLOYEE GROUP INSURANCE PLAN
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2005**

	<u>June 30, 2005</u>	<u>Feb. 29, 2004</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Deposit with Canadian Forces Central Fund	\$ 3,335,007	\$ 3,376,410
Accounts receivable	152,547	1,535
Prepaid expenses	<u>5,000</u>	<u>-</u>
	<u>\$ 3,492,554</u>	<u>\$ 3,377,945</u>
<u>LIABILITIES AND RESERVES AVAILABLE FOR FUTURE CLAIMS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 540,767	\$ 229,199
Deferred GECA contributions	105,750	-
Group life waiver (note 4)	97,497	97,497
Claims incurred but not reported (IBNR)	<u>88,034</u>	<u>176,241</u>
	832,048	502,937
RESERVES AVAILABLE FOR FUTURE CLAIMS (note 5)	<u>2,660,506</u>	<u>2,875,008</u>
	<u>\$ 3,492,554</u>	<u>\$ 3,377,945</u>

Approved by:

.....Director

.....Director

(See accompanying notes)

NPF EMPLOYEE GROUP INSURANCE PLAN
STATEMENT OF OPERATIONS AND RESERVES AVAILABLE FOR FUTURE CLAIMS
FOR THE PERIOD FROM MARCH 1, 2004 TO JUNE 30, 2005
(With comparative figures for the year ended February 29, 2004)

	June 30, <u>2005</u>	Feb. 29, <u>2004</u>
Income		
Employee contribution - Canada and Europe	\$ 1,615,030	\$ 1,099,186
Employer contribution - Canada and Europe	2,075,976	1,471,428
Interest income	190,846	115,502
GECA	176,250	141,000
Employee/employer contribution - Deployed Operations	30,453	148,408
Group life waiver	-	39,986
	<u>4,088,555</u>	<u>3,015,510</u>
Expenses		
Premiums paid - Canada and Europe	3,633,848	2,603,917
Premiums paid - Deployed Operations	131,649	92,021
GECA	559,623	436,801
Professional fees and general	66,144	46,868
IBNR (recovery)	(88,207)	31,473
	<u>4,303,057</u>	<u>3,211,080</u>
Net expense	(214,502)	(195,570)
Reserves available for future claims at beginning of period	<u>2,875,008</u>	<u>3,070,578</u>
Reserves available for future claims at end of period	<u>\$ 2,660,506</u>	<u>\$ 2,875,008</u>

(See accompanying notes)

NPF EMPLOYEE GROUP INSURANCE PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD FROM MARCH 1, 2004 TO JUNE 30, 2005
(With comparative figures for the year ended February 29, 2004)

1. DESCRIPTION OF PLAN

The Non-Public Funds (NPF) Employee Group Insurance Plan provides health, dental, long-term disability and employer sponsored life insurance to full-time NPF/Canadian Forces Personnel Support Agency ("CFPSA(NPF)") employees. Full-time employees who have completed three month's employment are required to participate except where exemptions are specified. The Plan is funded by employee and employer contributions.

All rights with respect to a covered person are governed solely by the group contracts issued by The Manufacturers Life Insurance Company ("Manulife") to the Chief of the Defence Staff operating under section 38 of the National Defence Act. Manulife's services with respect to hospital, major medical and dental benefits are provided on an administrative basis only. Such benefits are not incurred by Manulife. All other benefits are underwritten and insured by Manulife Financial Corporation except for sick leave benefits which are self insured by CFPSA(NPF). Effective July 1, 2005, the aforementioned plan was switched to Great-West Life Assurance Company with the financial statements encompassing the activities of the plan to the date of transfer.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Employee and employer contributions (Premiums)

Employee and employer contributions are the amount of premiums estimated and requested by the insurer to meet cash expenses anticipated to be incurred in the upcoming twelve month period. The premiums include amounts collected on an experience rated basis to reimburse the insurer for prior year's deficits, if applicable, and those to fund current and subsequent year's deficits. These premiums are paid in advance for the following month.

Claims incurred but not reported (IBNR)

The group Plan does not include amount for claims incurred by policyholders but not reported to the insurer by the end of the policy period. These amounts, on termination, are the direct responsibility of the plan. This provision is estimated by an actuarial formula on an annual basis.

Government Employees Compensation Act (GECA)

Effective January 1, 1999, the employees stopped contributing to GECA until the Support Agency surplus is reduced to a reasonable level.

Services provided without charge

Canadian Forces Personnel Support Agency provides administrative services to the Plan. Because of the difficulty of determining the fair market value, these services are not recognized in the financial statements.

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.

NPF EMPLOYEE GROUP INSURANCE PLAN
NOTES TO FINANCIAL STATEMENTS - Cont'd.
FOR THE PERIOD FROM MARCH 1, 2004 TO JUNE 30, 2005
(With comparative figures for the year ended February 29, 2004)

3. FINANCIAL INSTRUMENTS

The Plan's financial instruments consist of deposit with Canadian Forces Central Fund, accounts receivable and accounts payable. The fair value of these amounts approximates their carrying value due to their short-term nature.

4. GROUP LIFE WAIVER

In 1987 a decision was made to discontinue the Premium Waiver provision of the life insurance policy. This provision was replaced by an agreement whereby the CFPSA (NPF) would continue to pay premiums on behalf of these members. CFPSA (NPF) established a provision to protect the Agency against the increased risk of insurance payouts on this group of members based upon their increased mortality and morbidity rates. This agreement covers all employees who commenced LTD benefits between March 1, 1987 and February 29, 2000. The Premium Waiver clause was reinstated effective March 1, 2000 and will eventually be eliminated as these members retire or terminate LTD benefits.

5. RESERVES AVAILABLE FOR FUTURE CLAIMS

The reserves available for future claims are comprised of the following:

	<u>June 30,</u> <u>2005</u>	<u>Feb. 29,</u> <u>2004</u>
Reserve LTD 1 (Non Taxable)	\$ 163,451	\$ 163,451
Reserve GECA	1,321,541	1,606,691
Reserve Dental	(59,367)	(99,834)
Reserve Dental - Deployed Operations	36,106	35,077
Reserve Medical	(140,507)	(181,642)
Reserve Medical - Deployed Operations	36,060	34,989
Reserve LTD 2 (Taxable)	891,684	894,890
Reserve LTD 2 - Deployed Operations	59,533	57,908
Reserve Group Life	423,076	432,023
Reserve Group Life - Deployed Operations	26,426	28,952
Group Life Waiver	<u>(97,497)</u>	<u>(97,497)</u>
Total	<u>\$ 2,660,506</u>	<u>\$ 2,875,008</u>

Management monitors the reserve balances on a regular basis. Furthermore, the premiums for the 2006 fiscal year-end have been adjusted accordingly to fund the deficits that currently exist in the reserve for dental and medical.

6. STATEMENT OF CASH FLOWS

A statement of cash flows has not been provided as information about significant funding and investing activities is readily available from other financial statements.