

FINANCIAL STATEMENTS
For
CANADIAN FORCES NON-PUBLIC FUNDS EMPLOYEES PENSION PLAN
For year ended
DECEMBER 31, 2007

AUDITORS' REPORT

To the Chairperson and Members of the Employee Pension Plan Committee of:

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 the Canadian Forces Non-Public Funds Employees Pension Plan as at December 31, 2007 and the statements of changes in accrued pension benefits, surplus and net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management and the Pension Plan Committee. 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 and surplus of the Plan as at December 31, 2007 and the changes in the accrued pension benefits, surplus and net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants

Ottawa, Ontario
June 9, 2008.

CANADIAN FORCES NON-PUBLIC FUNDS EMPLOYEES PENSION PLAN

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

DECEMBER 31, 2007

	<u>2007</u>	<u>2006</u>
<u>NET ASSETS AVAILABLE FOR BENEFITS</u>		
Cash	\$ 51,747	\$ 88,178
Investments (note 5 and schedule A)	127,323,720	117,859,863
Due from Canadian Forces Central Fund (note 6)	1,080,890	947,133
Pension receivable (note 7)	<u>376,103</u>	<u>551,900</u>
	128,832,460	119,447,074
Less accounts payable and accrued liabilities	<u>111,263</u>	<u>102,334</u>
	<u>\$ 128,721,197</u>	<u>\$ 119,344,740</u>

<u>ACCRUED PENSION BENEFITS AND SURPLUS</u>		
Actuarial value of accrued pension benefits (note 8)	\$ 117,459,000	\$ 106,141,000
Surplus (note 8)	<u>11,262,197</u>	<u>13,203,740</u>
Net assets available for benefits	<u>\$ 128,721,197</u>	<u>\$ 119,344,740</u>

Signed:

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(See accompanying notes)

CANADIAN FORCES NON-PUBLIC FUNDS EMPLOYEES PENSION PLAN
STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS
YEAR ENDED DECEMBER 31, 2007

	<u>2007</u>	<u>2006</u>
INCREASE IN BENEFITS		
Interest accrued on benefits	\$ 6,775,490	\$ 6,254,365
Benefits accrued	<u>10,079,596</u>	<u>10,488,708</u>
Increase in accrued benefits	<u>16,855,086</u>	<u>16,743,073</u>
DECREASE IN ACCRUED BENEFITS		
Annuity payments and refunds	5,537,086	5,534,612
Adjustment to valuation	<u>-</u>	<u>473,461</u>
Decrease in accrued benefits	<u>5,537,086</u>	<u>6,008,073</u>
NET INCREASE IN ACCRUED PENSION BENEFITS	11,318,000	10,735,000
ACCRUED PENSION BENEFITS AT BEGINNING OF YEAR	<u>106,141,000</u>	<u>95,406,000</u>
ACCRUED PENSION BENEFITS AT END OF YEAR	<u>\$ 117,459,000</u>	<u>\$ 106,141,000</u>

(See accompanying notes)

CANADIAN FORCES NON-PUBLIC FUNDS EMPLOYEES PENSION PLAN
STATEMENT OF CHANGES IN SURPLUS
YEAR ENDED DECEMBER 31, 2007

	<u>2007</u>	<u>2006</u>
Surplus of net assets available for benefits versus accrued benefits at beginning of year	\$ 13,203,740	\$ 5,783,269
Net increase in net assets available for benefits	9,376,457	18,155,471
Net increase in accrued pension benefits	<u>(11,318,000)</u>	<u>(10,735,000)</u>
Surplus of net assets available for benefits versus accrued benefits at end of year	<u>\$ 11,262,197</u>	<u>\$ 13,203,740</u>

(See accompanying notes)

CANADIAN FORCES NON-PUBLIC FUNDS EMPLOYEES PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEAR ENDED DECEMBER 31, 2007

	<u>2007</u>	<u>2006</u>
INCREASE IN ASSETS		
Contributions - employer	\$ 7,675,346	\$ 7,870,703
- employee	<u>3,725,038</u>	<u>3,475,136</u>
	11,400,384	11,345,839
Realized gain - equities	5,923,126	3,913,930
Current period increase (decrease) in market value of investments	(2,934,205)	7,896,148
Dividend income	1,023,550	926,291
Interest earned on investments	295,783	267,139
Loss on currency	<u>(852)</u>	<u>(89)</u>
Total increase in assets	<u>15,707,786</u>	<u>24,349,258</u>
DECREASE IN ASSETS		
Withdrawals		
Annuity payments	3,779,501	3,576,101
Refunds	<u>1,757,585</u>	<u>1,958,511</u>
	<u>5,537,086</u>	<u>5,534,612</u>
Operating expenses		
Pension administration	200,780	209,348
Investment management fees	236,777	284,892
Professional fees	300,099	141,328
Miscellaneous	<u>56,587</u>	<u>23,607</u>
	<u>794,243</u>	<u>659,175</u>
Total decrease in assets	<u>6,331,329</u>	<u>6,193,787</u>
INCREASE IN NET ASSETS	9,376,457	18,155,471
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	<u>119,344,740</u>	<u>101,189,269</u>
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	<u>\$ 128,721,197</u>	<u>\$ 119,344,740</u>

(See accompanying notes)

CANADIAN FORCES NON-PUBLIC FUNDS EMPLOYEES PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007

1. DESCRIPTION OF PENSION PLAN

The Canadian Forces Non-Public Funds Employee 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 from the date of hire for all full-time employees over 18 years of age. The Plan is funded by the employee and employer. The employee contributes 4.5% of earnings which are not in excess of the Canada/Québec 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, 2006.

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 September 1, 2007.

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 services at retirement, and c) the sum of the employees' 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 the 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.

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.

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CANADIAN FORCES NON-PUBLIC FUNDS EMPLOYEES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED DECEMBER 31, 2007

1. DESCRIPTION OF PLAN - Cont'd.

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 employees' pension to a locked-in RRSP, purchase a deferred life annuity or transfer to a new employer's pension plan.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) *Basis of presentation*

These financial statements are prepared in accordance with Canadian generally accepted accounting principles and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the sponsors and plan members. The financial statements are prepared to assist plan members and others in reviewing the activities of the Plan for the fiscal period.

b) *Investments*

Investments are recorded as of the trade date and are carried at fair or market value with this value being the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties.

c) *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 at the date of the financial statements and the reported amounts of current period change in the fair value of investments. Actual results could differ from such estimates and assumptions.

CANADIAN FORCES NON-PUBLIC FUNDS EMPLOYEES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED DECEMBER 31, 2007

3. FUTURE ACCOUNTING STANDARDS

The Canadian Institute of Chartered Accountants recently issued four new accounting standards, Handbook Section 3855 (Financial Instruments - Recognition and Measurement), Handbook Section 3862 (Financial Instruments - Disclosures), Handbook Section 3863 (Financial Instruments - Presentation) and Handbook Section 1530 (Comprehensive Income). These new standards are new Sections, which replace Handbook Section 3860 (Financial Instruments - Disclosure and Presentation), specify when a financial instrument is to be recognized on the balance sheet and at what amount, how financial instrument gains and losses are to be presented and revise and enhance financial instrument presentation and disclosure requirements. Management does not believe that these changes will have a material effect on its financial statements.

4. FINANCIAL INSTRUMENTS

The Plan's financial instruments consist of cash, investments, due from Canadian Forces Central Fund, pension receivable and accounts payable and accrued liabilities. The Plan's investments consist predominantly of assets whose values are exposed to fluctuations in interest rates, foreign exchange rates and financial markets. Other financial instruments are not exposed to significant interest, currency or credit risks.

Interest rate risk

Interest rate risk refers to the impact of interest rate changes on the Plan's investments. Interest rate changes directly impact the fair value of the Plan's bonds and short-term notes. The Plan employs investment diversification to manage this risk.

Foreign currency risk

Foreign currency risk is the risk that the value of a foreign currency denominated investment will fluctuate due to changes in foreign exchange rates. The Plan employs investment diversification to manage this risk.

Market risk

Market risk is the risk that the fair value of an investment will fluctuate as a result of change in market price. Again, the Plan employs investment diversification to minimize this risk.

5. PENSION INVESTMENTS

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

CANADIAN FORCES NON-PUBLIC FUNDS EMPLOYEES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED DECEMBER 31, 2007

6. DUE FROM CANADIAN FORCES CENTRAL FUND (CFCF)

The amount due from CFCF of \$1,080,890 (2006 - \$947,133) represents amounts held in trust by a related party.

7. PENSION RECEIVABLE

The pension receivable consists of the remaining 2004 and 2005 pension buy-back instalments owing from employees that will be paid over 85 equal monthly payments.

8. ACTUARIAL VALUE OF 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, 2006, by Mercer Human Resource Consulting ("MHRC"), the Plan's actuaries. No valuation was performed at December 31, 2007, however, MHRC did project the Accrued Pension Benefits to December 31, 2007 using the Plan's 2007 fiscal actual cash flows, the current service cost percentage net of applicable expenses and a discount rate of 6.25%. Based on these projections, the Accrued Pension Benefits at December 31, 2007 amounted to \$117,459,000. The Plan is required to have its next actuarial valuation performed as at December 31, 2009.

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 with a one time additional increase of 2% in 2008.

Based on Canadian generally accepted accounting principles, the surplus in net assets available for benefits versus accrued pension benefits as at December 31, 2007 is \$11,262,197. The actuarial valuation completed as at December 31, 2006 assessed the financial position of the Plan for future funding purposes on both the going-concern basis and the solvency basis which resulted in a surplus of \$2,613,000 and \$5,052,000, respectively. These valuations are utilized to assess monthly and annual employer contributions.

9. RESTATEMENT OF COMPARATIVE FIGURES

The Plan's actuaries were granted an addendum to their December 31, 2006 valuation report which allowed for a change in the calculated value of the accrued pension benefits. The actuaries revised their initial cost of the adhoc indexation based on membership data as of December 31, 2006. As a result, the December 31, 2006 accrued pension benefits has been increased by \$1,320,000 from \$104,821,000 to \$106,141,000. Also, the December 31, 2006 surplus of net assets available for benefits versus accrued benefits was decreased by \$1,320,000 from \$14,523,740 to \$13,203,740. The addendum is effective for the 2006 fiscal year-end until the next required actuarial valuation as at December 31, 2009.

CANADIAN FORCES NON-PUBLIC FUNDS EMPLOYEES PENSION PLAN

INVESTMENTS

DECEMBER 31, 2007

	2007		2006	
	Market	Acquisition Cost	Market	Acquisition Cost
EQUITIES				
Canadian stocks	\$ 43,492,444	\$ 29,991,532	\$ 44,949,974	\$ 30,524,922
US stocks	238,160	240,352	-	-
Indexed US equity fund	18,904,526	18,699,978	19,654,633	15,567,907
Indexed EAFA fund	14,823,101	9,693,325	14,251,574	8,360,325
	<u>77,458,231</u>	<u>58,625,187</u>	<u>78,856,181</u>	<u>54,453,154</u>
BONDS				
Bond index fund	39,900,435	34,248,033	29,012,205	24,708,033
Government of Canada real return bonds	7,659,666	5,571,708	7,747,080	5,571,708
	<u>47,560,101</u>	<u>39,819,741</u>	<u>36,759,285</u>	<u>30,279,741</u>
SHORT-TERM NOTES	2,189,353	2,189,353	2,086,031	2,086,031
ACCRUED INVESTMENT INCOME	<u>116,035</u>	<u>116,035</u>	<u>158,366</u>	<u>158,366</u>
	<u>2,305,388</u>	<u>2,305,388</u>	<u>2,244,397</u>	<u>2,244,397</u>
TOTAL INVESTMENTS	<u>\$127,323,720</u>	<u>\$100,750,316</u>	<u>\$117,859,863</u>	<u>\$ 86,977,292</u>