

Saskatchewan Pension Plan

**Annual Report
for the year ending
December 31, 2006**

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Letters of Transmittal



His Honour
The Honourable Dr. Gordon L. Barnhart
Lieutenant Governor,
Province of Saskatchewan

Your Honour:

I have the honour to submit the Annual Report of the Saskatchewan Pension Plan for the year ended December 31, 2006.

Respectfully submitted,

SIGNED

Andrew Thomson
Minister Responsible
Saskatchewan Pension Plan



The Honourable Andrew Thomson
Minister Responsible
Saskatchewan Pension Plan

Sir:

On behalf of the Board of Trustees for the Saskatchewan Pension Plan, I have the honour to present the Annual Report for the Saskatchewan Pension Plan for the year ended December 31, 2006.

Respectfully submitted,

SIGNED

Katherine Strutt
General Manager
Saskatchewan Pension Plan

Chairperson's Message



In 2006, SPP celebrated 20 years of operation. The success of the Plan is largely attributed to the support received each year from Plan members. SPP began operations in August 1986 and was instantly accepted by the public. Originally located in Regina, as part of the Department of Finance, SPP relocated to Kindersley in 1990. Operations have been headquartered there for the past 16 years. The stability demonstrated by the organization in terms of investment performance, trustee commitment and long-serving staff have each contributed to the Plan's continued success.

The role of the Board is to act as trustee of the fund and this document reports on how the Board carried out those activities during 2006. This year the Board continued to formalize the governance structure for the Plan. Moving forward, SPP will use the Carver Policy Governance model.

Trustees are an integral part of the goal setting and monitoring for the organization. During the year under review, SPP achieved positive outcomes for all of its corporate goals including growth. SPP now ranks among Canada's top 50 defined contribution pension plans. The Board is extremely proud of this achievement and is committed to providing members with a superior investment opportunity and to the continued growth in members and assets under management.

In the year ahead, the Board is looking forward to new opportunities which will allow the Plan to grow and continue its service to members.

Respectfully submitted,

SIGNED

G. N. (Arnie) Arnott
Chairperson
Saskatchewan Pension Plan Board of Trustees

Corporate Philosophy

Our Mission

The Saskatchewan Pension Plan will grow through the provision of a superior investment opportunity that results in enhanced financial security at retirement.

Our Vision

The pension plan that people know and trust.

Our Values

Respect

- Listening and working to understand and meet stakeholder needs
- Communication must be direct, open, honest and timely

Integrity

- Behaving in a consistent manner towards each other and our members respecting commitments and being true to one's word
- Upholding the highest ethical standard

Initiative

- Encouraging creativity
- Learning and self development
- Planning and executing new approaches and methods

Teamwork

- Accepting diversity and difference
- Co-operating to accomplish common goals

Accountability

- We hold ourselves and each other accountable for delivering on commitments, agreements and promises
- We live up to what we say by following through on commitments and by demonstrating leadership
- We take ownership of problems and accept personal responsibility

Transparency

- Actions and the results of those actions are clear
- Relevant information is available and openly shared

Strategic Direction

Activities during the year under review are the product of a multi-year strategic planning process undertaken in 2001. The process for strategic planning follows a vigilant and reasoned method. Member satisfaction is paramount to the success of the plan and is therefore a key component that overarches the strategic planning process. Satisfaction is tracked using a set of service standards developed for all aspects of plan operations. One of the key sources of information and input for developing strategic direction is existing Plan membership. SPP values the loyalty demonstrated and input provided by these people.

Governance provides a solid foundation for the strategic direction of the Plan and is a key function of the Plan's Board of Trustees.

Governance refers to the structure and processes for overseeing, managing and administering the pension plan to ensure the fiduciary and other obligations of the Plan are met. This is the assurance to members that the Plan is prudently administered. Governance documents are reviewed annually.

The Board and Management continually monitor the Plan's external environment and core competencies so that the company's strengths can be leveraged to provide appropriate service to stakeholders. The mission at the core of the process is – grow through the provision of a superior investment opportunity that results in enhanced financial security at retirement.

Net assets under management at December 31, 2006 were \$279 million. The expense ratio for 2006 was 0.76 per cent.

Progress in 2006

Goal 1: Growth of SPP membership

SPP actively markets to bring in new members under forty years of age. Targeting younger people allows the Plan to establish a long-term relationship with its customers which aids in the achievement of the asset growth goal. The average age of the 1,345 new members in 2006 was 38 years (2005: 38 years). An effective marketing strategy coupled with the strong return in 2005 yielded excellent membership growth.

Goal 2: Growth of SPP assets

Actual contributions received from members during the year totalled \$6.4 million, more than 9.6 per cent ahead of 2005 levels. In addition to new members, SPP also re-engaged dormant members and some of the contribution growth is attributed to that strategy.

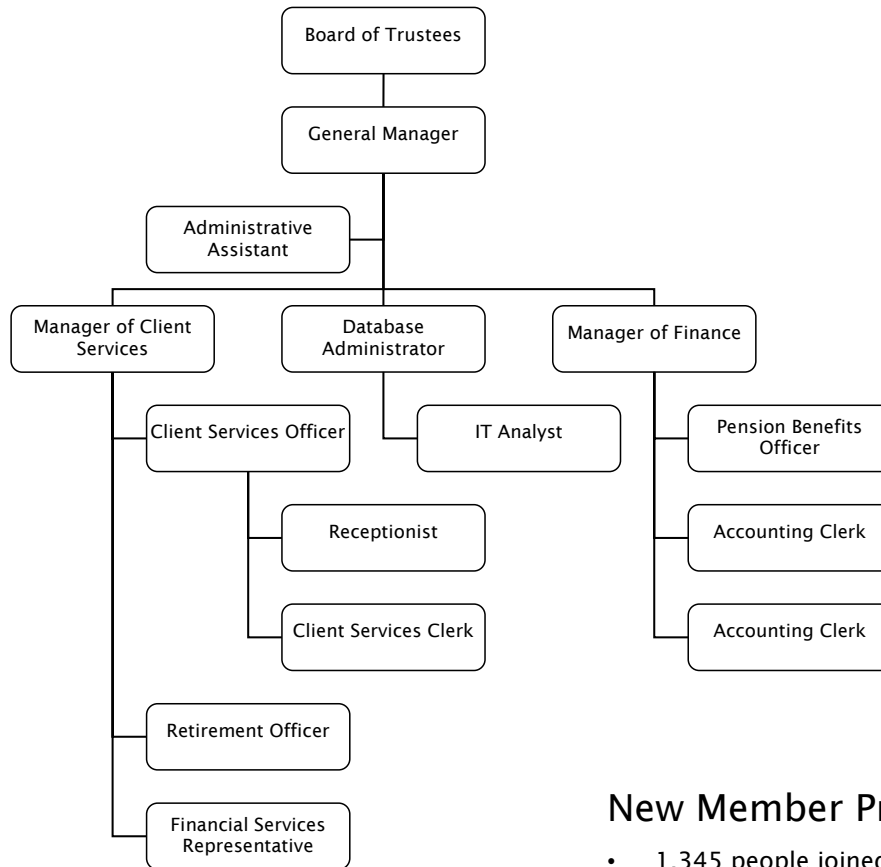
Goal 3: Manage SPP's business effectively and efficiently

Prudent administration is part of the Plan's fiduciary obligation to members. Skill and good judgement infuse each activity undertaken by SPP. A partial measure of success in this area is the expense ratio. During 2006, the ratio was 0.76 per cent.

Looking Ahead

SPP will measure member satisfaction through a formal research project. The plan continues to provide superior service to members on an individual basis through personal contacts and circulation of information and on a collective basis by providing competitive returns and improving the product offered.

Organization Chart



Plan Statistics

Status	%	Occupation	%	Age	%
Active	64	Homemaker	25	18-25	3
Retired	36	Farmer	10	26-34	6
		Self Employed	10	35-49	21
		Full time	22	50-65	34
		Part time	25	Over 65	36
		Student	4		
		Other	4		

Sex	%
Female	73
Male	27

New Member Profile

- 1,345 people joined SPP in 2006.
- 76 per cent identified themselves as full-time, part-time or self employed.
- Average age of new members in 2006 was 38 years.
- 56 per cent of the new members were women.

Retirement Profile

- 587 members retired in 2006.
- Average monthly pension for new retirees was \$110.
- Highest monthly pension was \$346.
- 11,650 members receive a pension from SPP at the end of 2006.
- 358 members started a pension in 2006 at an average age of 65 years.
- 229 members transferred into lifetime retirement income vehicles.

Plan Operations

SPP is a voluntary, capital accumulation plan available to anyone between 18 and 69 years of age. Eligibility is not dependent on residency, income, employment status, gender or membership in other plans. SPP members are full-time employees, part-time employees, self employed people, homemakers, farmers and students. At December 31, 2006, SPP had 31,199 members (2005: 30,429).

SPP has promotional literature available for individuals who want more detailed Plan information. This literature can be obtained by:

- visiting the Plan's website at www.saskpension.com;
- calling the toll-free line at 1-800-667-7153; or
- by e-mailing the Plan at: info@saskpension.com.

Features of SPP

The Plan is designed for flexibility so that members can make it fit their life situation and budget. The main features of SPP are:

- Voluntary - no obligation to contribute;
- Flexible - payment at any time during the Plan year;
- Portable - people can join and contribute to the Plan regardless of where they reside; and
- Professionally managed investments.

Members and the public use the toll-free inquiry line and the website to contact SPP. In 2006 the toll-free line received over 12,800 calls and web traffic continued to increase.

Contributing to SPP

SPP has an annual maximum contribution of \$600 and there is no minimum contribution. Contributions are tax deductible by the member or their spouse within RRSP guidelines. During 2006, 10,781 members contributed to SPP with an average contribution of \$591 (2005: 9,724; \$594).

Members like the easy payment options available at SPP. They can use the Pre-Authorized Contribution system; mail contributions to the Plan; use their Visa or Mastercard by phone, in person, or on SPP's website; use the telebanking service available at their financial institutions; or contribute, in person, at financial institutions.

Contributions are locked-in and vested and are used to provide the member with a pension at retirement. Contributions are creditor protected and cannot be seized, claimed or garnisheed in any way except by a court order under a marital division or Enforcement of Maintenance Order.

Assets of members who have not yet retired are held in the Contribution Fund (CF), an actively managed, balanced fund of bonds, equities and money markets. The purpose of the fund is to provide members with long term growth. The Plan balances the need for capital growth of younger members and the desire for capital preservation of older members with a mix of equities and fixed income investments. More information on the fund is found in the Investment Highlights section (page 13) and the Investment Policy Summary (page 16).

Employer Plan

SPP offers a unique opportunity to business owners and their employees. Employers can use SPP to offer the benefit of a pension plan to their employees without incurring the costs of administering it. Employers simply deduct the contributions from their payroll or contribute on behalf of their employees on whatever schedule they choose.

Plan Operations

Retiring from SPP

Plan members can choose to retire from SPP between the ages of 55 and 69. At the time of retirement, members may direct all or part of their account to purchase an annuity from SPP or transfer their account to a locked-in retirement account or prescribed registered retirement income fund with another financial institution. SPP also offers a small pension payout option for members whose monthly benefit is less than the prescribed amount. In 2006, pensions under \$17.54 per month qualified for this option.

Each annuity the Plan offers will pay the member lifetime monthly benefits with possible payments to a beneficiary or survivor after the member's death. Annuity payments are determined by the member's account balance, age at retirement, annuity option and interest and annuity rates in effect.

When members retire from SPP and choose an annuity from the Plan, their funds are transferred from the CF to the Annuity Fund (AF). The AF is managed by Greystone Managed Investments Inc. of Regina and invests in high quality long-term, fixed income instruments.

Administration

SPP is administered by a Board of Trustees who act as trustee of the fund and administer the Plan in accordance with *The Saskatchewan Pension Plan Act* and Regulations and Board policies.

Board members are appointed by Order-in-Council and serve staggered two year terms. The Chair is Arnie Arnott; Board members are Gloria Blanchard, Bob Devrome, Linda Kezima, and Owen Sebastian.

Responsibility for the daily administration of the Plan is delegated to the General Manager. In addition, the Board employs a number of consultants and specialists to assist them with managing member funds. These include:

- professional money managers, Greystone Managed Investments Inc. and Leith Wheeler Investment Counsel Ltd., who are responsible for investing member funds according to the Board's investment policies;
- a custodian, RBC Dexia Investor Services Trust, who holds all securities and cash in the funds and reports independently to the Board, thereby ensuring all funds are safeguarded; and
- a pension consultant, Hewitt Associates, who assists the Board in monitoring the performance of the investment managers.

Administrative expenses are paid from Plan earnings and SPP focuses on providing efficient service at a reasonable cost. Administrative expenses in 2006 were \$2.0 million, or 0.76 per cent of the fund's net asset base.



SPP Board of Trustees

From left to right: Bob Devrome, Owen Sebastian, Gloria Blanchard, and Arnie Arnott. Missing: Linda Kezima

Plan Operations

Privacy

Privacy of Plan member information has always been important to SPP. The Plan only collects the personal information necessary to run the program. The general rule of SPP's internal privacy policy stipulates that personal information can only be disclosed to the member or the authorized representative.

The Freedom of Information and Protection of Privacy Act was enacted in 1992 and is the major piece of provincial legislation governing privacy. In addition to complying with this legislation, SPP is also complying with the Overarching Personal Information Privacy Framework for Executive Government. Questions about privacy should be directed to the Plan's Privacy Officer.

Investment Highlights

Contribution Fund

Assets of members who have not yet retired are held in the Contribution Fund (CF). The purpose of the fund is to provide members with long term capital appreciation by investing assets in a prudent, risk-controlled manner. The two investment managers, Greystone Managed Investments, Inc. of Regina and Leith Wheeler Investment Counsel Ltd. of Vancouver, invest funds in a balanced portfolio of equities and bonds.

All equity markets enjoyed positive returns in the second half of the year which resulted in solid gains for 2006.

Bond markets also rallied strongly in the second half of the year and contributed to the CF's strong return. The Canadian dollar fell slightly against the US dollar in the fourth quarter, ending the year at 85.9 cents. The Bank of Canada's overnight rate ended the year at 4.25%. SPP's year end return was 12.5 per cent compared to a benchmark of 11.5 percent.

The following is a summary of the CF's performance by asset class in 2006. Information on the Annuity Fund can be found on page 15. The rates of return used in outlining investment highlights exclude fees which allows for a valid comparison to benchmarks.

Members in the CF earned 12.5 per cent in 2006. This fund has a ten-year annualized return of 9.2 per cent.

Canadian Equities

	% of Portfolio		% of Portfolio
1. Manulife Financial	7.5	6. Finning International	3.8
2. Royal Bank of Canada	6.9	7. Rogers Communications	3.5
3. Bank of Nova Scotia	5.5	8. Encana	3.5
4. Toronto Dominion Bank	4.6	9. Canadian National Railway	3.2
5. Shoppers Drug Mart	3.9	10. CIBC	3.2

The S&P/TSX Composite Index returned 17.3 per cent in the year, the fourth straight year of double digit returns. Most of the positive returns came in the first

and fourth quarters with the middle six months seeing weakness in oil, natural gas and base metals. The strongest performing sector was Materials, followed by Information Technology. The Energy sector, the driver of the Canadian equity market in 2005, ended with year in eighth place. Although oil prices hit record highs in July, they were at a seventeen month low by late November. Dividend payers were in favour

as interest rates fell, especially after the Canadian government changed the tax treatment of income trusts and announced that income trusts would have to start paying taxes in 2011. However, income trusts were underperforming even before the

finance minister's announcement due to their heavy exposure to the oil and gas industries. SPP's Canadian equity portfolio returned 20.7 per cent for the year.

The chart below shows the sector weighting of each portion of the SPP Canadian equity portfolio as at December 31, 2006. Similar information is provided for U.S. equities, Non-North American equities and bonds.

	S&P/TSX Weight (%)	Portfolio Weight (%)	Index Return (%)
Materials	16.1	9.0	39.8
Information Technology	3.7	4.7	27.3
Telecom Services	5.0	5.1	20.1
Financials	31.9	38.6	19.2
S&P/TSX 300			17.3
Consumer Discretionary	5.2	6.2	15.7
Industrials	5.3	14.4	14.7
Utilities	1.5	-	7.0
Energy	27.9	14.9	6.1
Consumer Staples	2.6	7.1	5.5
Health Care	0.8	-	0.7
Total	100.0	100.0	

Investment Highlights

U.S. Equities

Top 10 U. S. Equity Holdings in 2006			
	% of Portfolio		% of Portfolio
1. Citigroup	3.9	6. Microsoft	2.4
2. Berkshire Hathaway	2.9	7. Merck	2.3
3. Pfizer	2.9	8. Home Depot	2.2
4. Markel	2.6	9. American Int'l. Group	2.0
5. Gannett	2.4	10. Merrill Lynch	1.9

The S&P 500 returned 15.8 per cent in US\$ or 15.4 per cent in C\$. After hitting 28-year highs in the first half of 2006, the loonie fell in the second quarter to end the year flat. Currency, for the first time in a while, had an insignificant impact on returns. U.S. markets enjoyed a strong 2006 with upbeat earnings reports and low energy prices pushing the Dow to record highs. All ten sectors posted positive returns for the year with Telecom being the top performer and Health Care the worst. After seventeen consecutive quarter-point increases in interest rates, the Federal Reserve left rates on hold in July. SPP's U.S. equity portfolio returned 16.0 per cent for the year.

	S&P 500 Weight (%)	Portfolio Weight (%)	Index Return (C\$) (%)
Telecom Services	3.5	2.1	31.6
Energy	10.0	7.9	21.8
Consumer Discretionary	10.6	22.2	16.8
Utilities	3.4	1.0	16.4
Financials	22.3	23.8	15.7
S&P 500			15.4
Materials	3.0	3.0	15.3
Consumer Staples	9.3	4.9	11.3
Industrials	10.8	9.8	10.6
Information Technology	15.1	11.5	7.3
Health Care	12.0	13.8	5.4
Total	100.0	100.0	

Non-North American Equities

Top 10 Non-North American Equity Holdings in 2006			
	% of Portfolio		% of Portfolio
1. Total SA	1.8	6. Allied Irish Banks	1.4
2. Nestle SA	1.7	7. Petroleo Brasileiro SA	1.4
3. Novartis AG	1.7	8. Royal Bank of Scotland	1.2
4. Cash (C\$)	1.7	9. Lloyds TSB Group	1.2
5. Anglo American PLC	1.5	10. CRH	1.2

Non-North American equities, measured by the MSCI EAFE Index, soared 25.9 per cent in Canadian dollars and 16.5 per cent in local currency terms. The positive returns were broad based as all countries and sectors in the index were positive. All currencies in the index appreciated versus the Canadian dollar except for the

Country	EAFE Weight (%)	Portfolio Weight (%)	Index Return (C\$) (%)
Spain	4.1	3.3	48.8
Portugal	0.3	-	46.8
Singapore	1.0	3.1	46.2
Ireland	0.9	3.9	46.2
Norway	0.9	0.9	44.6
Sweden	2.6	0.8	42.8
Denmark	0.8	0.8	38.3
Belgium	1.3	0.9	36.1
Austria	0.6	1.1	36.0
Germany	7.4	5.7	35.5
Greece	0.6	0.7	34.5
France	10.1	5.3	34.0
Italy	3.9	3.3	32.0
Netherlands	3.4	3.9	30.9
Australia	5.6	2.1	30.4
United Kingdom	23.6	22.6	30.1
Hong Kong	1.8	4.9	29.9
Finland	1.4	0.4	29.4
MSCI EAFE			25.9
Switzerland	6.9	10.5	26.9
New Zealand	0.2	-	16.1
Japan	22.6	13.7	5.8
Emerging Markets	-	10.4	-
Cash	-	1.7	-
Total	100.0	100.0	

Investment Highlights

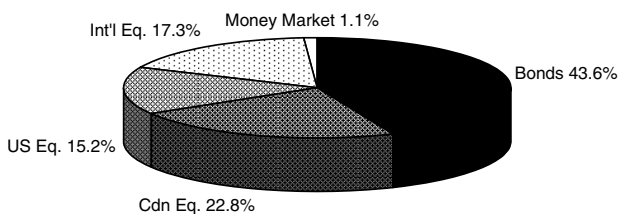
Japanese yen and the Hong Kong dollar and all sectors in the index achieved double-digit returns in the year. SPP's Non-North American equity portfolio returned 28.7 per cent for the year.

Fixed Income

The Canadian bond market, as measured by the Scotia Capital Universe Bond Index, gained 4.1 per cent in 2006. After raising interest rates in their first four sessions of the year, both the Bank of Canada and the U.S. Federal Reserve halted hikes in the last four sessions. The overnight rate in Canada ended the year at 4.25 per cent while the key rate in the U.S. finished at 5.25 per cent. Commodity prices began coming down late in the summer, diminishing investor fears of inflation. The bond market responded very favourably to this development. However, the fixed income market slowed tremendously relative to the equity market. SPP's bond portfolio earned 4.5 per cent.

	SC UBI Weight (%)	Portfolio Weight (%)	SC UBI Return (%)
Federal	42.2	50.6	3.6
Provincial	27.4	20.0	4.4
SC UBI			4.1
Municipal	1.3	1.1	4.2
Corporate	29.1	27.8	4.4
Cash		0.5	
Total	100.0	100.0	

Contribution Fund Portfolio at December 31, 2006



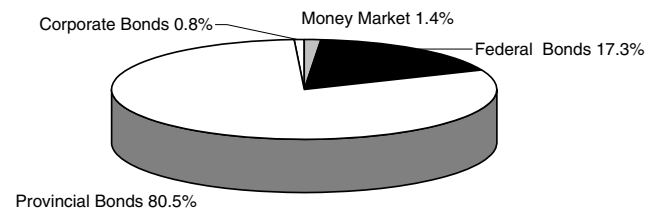
Total assets in the CF were \$190.6 million at year end. Further information on investments can be obtained from the Plan office. A summary of the Plan's Investment Policy can be found on page 16 of this report.

Annuity Fund

Assets of retired members are held in the Annuity Fund. Unlike the CF, this fund does not hold any equities as investments. This fund is used to make pension payments to retired members and the portfolio is structured in such a way that assets and liabilities are matched. Total assets of the fund at December 31, 2006 were \$88.4 million and there was an actuarial surplus of \$5.3 million at that same date.

Bond interest rates remained low throughout the year and therefore annuity rates were also low, ranging between 3.3 per cent and 3.8 per cent for the year. The fund is managed by Greystone Managed Investments Inc. of Regina and the chart below shows the composition of the Annuity Fund assets as at December 31, 2006.

Annuity Fund Portfolio at December 31, 2006



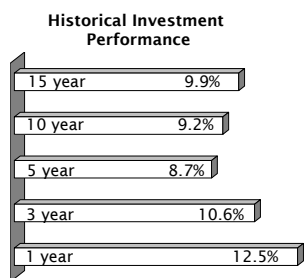
Investment Policy Summary

SPP has established two funds to hold the assets of the Plan: the Contribution Fund and Annuity Fund. The investments must be eligible investments as outlined in *The Pension Benefits Act* and Regulations, the *Income Tax Act* and Regulations, and all subsequent amendments.

The Board of Trustees establishes the Investment Policy and reviews the performance of the funds on a quarterly basis. The Investment Policy is open to review at any time but must be reviewed at least annually by the Board. The Board reviewed the policies on December 8, 2005 and any changes were effective January 1, 2006.

Contribution Fund

The Contribution Fund holds assets of members who have not yet retired. The assets are accumulated under a defined contribution or capital accumulation arrangement. The purpose of the fund is to accumulate the assets of members and invest these assets in a prudent, risk-controlled manner to provide for long term growth. The Plan balances the need for capital growth of younger members with the desire for capital preservation of older members with a mix of equities and fixed income investments.



In order to achieve the long-term investment goals, the fund invests in assets that may have uncertain returns, such as Canadian equities, foreign equities and bonds.

However, the Board of

Trustees attempts to reduce the overall level of risk by:

- diversifying the asset classes, diversifying within each individual asset class and diversifying by manager style;
- establishing quality, quantity and diversification guidelines;

- retaining an investment consultant who monitors the investment performance of the fund and reports to the Board on investment manager related issues that may have an impact on fund performance;
- having management conduct monthly reviews of compliance of each investment manager with the quality and quantity guidelines contained in the policy;
- reviewing quarterly reports from investment managers on compliance with the Investment Policy throughout the reporting period; and
- establishing the following investment benchmarks and asset component ranges at market value:

	Minimum %	Benchmark	Maximum %
Canadian equities	15	22	35
Foreign equities	16	28	40
Total equities	35	50	60
Canadian bonds	35	47	60
Short-term investments and cash	1	3	20

Mortgages, real estate, private placement equities, and certain other types of investments require prior approval of the Board of Trustees.

There were no changes made to the benchmark portfolio and with the removal of the 30 per cent foreign content limit, the maximum allowable in foreign equities was increased to 40 per cent.

Canadian and foreign equities are permitted. Income Trusts and TSX exchange traded limited partnerships were added as permissible investments for 2006.

The primary investment performance objective is to earn a rate of return that exceeds the rate of return earned on a benchmark portfolio as outlined above. The benchmark portfolio uses the following indices to measure performance:

- Canadian equities: S & P/TSX CPMS Cap 10 Index;
- U.S. equities: S & P 500 US Stock Index (Cdn \$);
- Non-North American equities: MSCI EAFE Index (Cdn \$);
- Bonds: SC Universe Bond Index; and
- Short-term investments: 91 day Canadian Treasury Bills.

Investment Policy Summary

Canadian and foreign equities are permitted. Equities are limited to those that are publicly traded on a recognized securities market and units of pooled funds. The combined equity and debt holdings of a single corporation and its associated or affiliated companies shall not represent more than 10 per cent of the total book value of the assets of the fund.

No one equity holding shall represent more than 10 per cent of the market value of the Investment Manager's total equity portfolio, more than 10 per cent of the voting shares of a corporation or more than 10 per cent of the available public float of such equity security. Investments in pooled funds should not exceed 10 per cent of the market value of the fund.

Bonds must meet a minimum quality standard of "BBB" or equivalent at the time of purchase. "BBB" bonds may not be purchased if it would raise "BBB" holdings to more than 15 per cent of the market value of the bond portfolio. Except for federal and provincial bonds, no more than 10 per cent of the market value of an Investment Manager's bond portfolio may be invested in bonds of a single issuer and its related companies and no one bond holding shall represent more than 10 per cent of the market value of the total outstanding for that bond issue. No more than 15 per cent of the market value of the bond portfolio shall be invested in bonds of foreign issuers. Foreign currency exposure is limited to 10 per cent of the market value of the bond portfolio and foreign pay bonds are allowed.

Short-term investments must have a rating of "R-1" or equivalent as rated by a recognized bond rating agency.

Investment income and changes in the market value of investments are allocated annually to members in the Contribution Fund.

Annuity Fund

The Annuity Fund holds assets transferred from the Contribution Fund at retirement. Assets in the fund are used to provide annuity payments for life to retired members. Overall, the risk tolerance of the fund is low as the fund cannot tolerate loss of principal. Risk is addressed through an investment approach using high quality fixed income investments. Interest rate risk is addressed by matching estimated future cash payments with interest and principal payments from the portfolio. As such, the Annuity Fund is immunized against changes in interest rates that may cause temporary differences between the asset and liability values. The duration of the portfolio at cost is matched with the duration of the liabilities at cost on an annual basis. The matching should fall within a band of -.5 to +.5 years of the duration target.

Government of Canada, Provincial Government and Corporate bond issues, strip bonds, mortgages, mortgage backed securities and short-term investments are permissible investments. Equities and derivatives are not permitted.

Bonds must have a credit rating of at least "BBB" or equivalent at the time of purchase. No more than 15 per cent of the market value of the bond portfolio may be invested in bonds with a "BBB" rating. The minimum credit rating for corporate bonds and debentures is an "A" rating or equivalent at the time of purchase. No more than 10 per cent of the market value of the bond portfolio may be invested in corporate bonds. No more than 10 per cent of the market value of the total portfolio may be invested in mortgages. Short-term investments must have an "R-1" or equivalent credit rating at the time of purchase.

Actuaries' Opinion

Aon Consulting Inc. was retained by the Saskatchewan Pension Plan (the Plan) to perform actuarial valuations of the assets and liabilities of the Saskatchewan Pension Plan on a funding basis as at December 31, 2006. The valuation of the Plans' actuarial assets and liabilities were based on:

- Membership and asset data provided by the Saskatchewan Pension Plan as at December 31, 2006; and
- Assumptions about future events (economic and demographic) which were developed by Aon Consulting Inc.

While the actuarial assumptions used to estimate liabilities for the Plan are, in our opinion, reasonable, the Plan's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Plan.

We have tested the data for reasonableness and consistency with prior valuations and in our opinion the data is sufficient and reliable for the purposes of the valuation. We are also of the opinion that the methods employed in the valuation and the assumptions used are, in aggregate, appropriate. Our opinions have been given, and our valuation has been performed in accordance with accepted actuarial practice.

SIGNED

Donald L. Ireland
Fellow,
Canadian Institute of Actuaries

SIGNED

Paul Hebert
Consultant

February 9, 2007

Management and Auditors' Reports

Management's Responsibility for Financial Statements

The accompanying financial statements of the Saskatchewan Pension Plan, and all information in this annual report, have been prepared by Plan management which is responsible for the reliability, integrity and objectivity of the information provided. The statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include some estimates based on management's judgment. Other financial information in this annual report is consistent with that provided in the financial statements.

The Plan's accounting system and related system of internal controls are designed to provide reasonable assurance that transactions are properly authorized and recorded, assets are safeguarded and financial records are properly maintained to provide reliable information for use in the preparation of financial statements.

The Board of Trustees of the Plan is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board reviews and approves the financial statements.

These financial statements have been audited by the Plan's external auditor, Deloitte & Touche LLP, in accordance with Canadian generally accepted auditing standards, on behalf of the Members of the Legislative Assembly of Saskatchewan.

To the Members of the Legislative Assembly of Saskatchewan

We have audited the statement of net assets available for benefits of the Saskatchewan Pension Plan as at December 31, 2006 and the statement of changes in net assets available for benefits for the year then ended. 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 net assets available for benefits of the Plan as at December 31, 2006 and the change in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

SIGNED

G. N. (Arnie) Arnott
Chairperson
February 9, 2007

SIGNED

Katherine Strutt
General Manager

SIGNED

Chartered Accountants
Saskatoon, Canada
February 9, 2007

Statement of Net Assets Available for Benefits

As at December 31

	2006			2005		
	Contribution Fund	Annuity Fund	Total	Contribution Fund	Annuity Fund	Total
ASSETS						
Investments at market value (Note 3 and 4)	\$ 189,406,924	\$ 88,035,597	\$ 277,442,521	\$ 172,065,807	\$ 84,577,699	\$ 256,643,506
Cash	314,721	162,499	477,220	493,386	592,169	1,085,555
Accounts receivable	777,756	917,134	1,694,890	640,259	861,106	1,501,365
Prepaid (deferred) retirement transfers	1,166,828	(1,166,828)	-	858,874	(858,874)	-
Prepaid pension benefits	-	591,109	591,109	-	558,125	558,125
Capital assets (Note 9)	2,610	1,053	3,663	12,983	5,331	18,314
Total assets	191,668,839	88,540,564	280,209,403	174,071,309	85,735,556	259,806,865
LIABILITIES						
Administrative expenses payable	803,985	83,926	887,911	288,724	42,463	331,187
Deaths and other benefits payable	224,037	64,701	288,738	90,419	38,335	128,754
Deferred member contributions	6,180	-	6,180	7,340	-	7,340
Provision for annuity benefits (Note 5)	-	83,069,937	83,069,937	-	81,689,758	81,689,758
Total liabilities	1,034,202	83,218,564	84,252,766	386,483	81,770,556	82,157,039
NET ASSETS AVAILABLE FOR BENEFITS	\$ 190,634,637	\$ 5,322,000	\$ 195,956,637	\$ 173,684,826	\$ 3,965,000	\$ 177,649,826

ON BEHALF OF THE TRUSTEES:

SIGNED

G. N. (Arnie) Arnott, Chairperson

SIGNED

Robert Devrome

(See Accompanying Notes)

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31

	2006			2005		
	Contribution Fund	Annuity Fund	Total	Contribution Fund	Annuity Fund	Total
INCREASE IN ASSETS						
Investment income						
Interest and other income	\$ 3,469,938	\$ 4,449,383	\$ 7,919,321	\$ 3,137,240	\$ 4,261,018	\$ 7,398,258
Dividends	1,214,801	-	1,214,801	1,143,072	-	1,143,072
Pooled funds	2,189,999	-	2,189,999	1,468,560	-	1,468,560
	6,874,738	4,449,383	11,324,121	5,748,872	4,261,018	10,009,890
Change in market value of investments	16,082,995	(1,094,177)	14,988,818	11,780,369	2,724,648	14,505,017
Contributions	6,379,004	-	6,379,004	5,821,647	-	5,821,647
Transfers from Contribution Fund	-	6,909,050	6,909,050	-	5,896,950	5,896,950
	29,336,737	10,264,256	39,600,993	23,350,888	12,882,616	36,233,504
DECREASE IN ASSETS						
Annuities to pensioners	-	6,832,598	6,832,598	-	6,493,553	6,493,553
Change in provision for annuity benefits (Note 5)	-	1,380,179	1,380,179	-	5,082,117	5,082,117
Administrative expenses (Note 8)	1,634,451	398,196	2,032,647	1,366,087	560,965	1,927,052
Transfers to other plans	3,406,803	-	3,406,803	2,446,798	-	2,446,798
Transfers to Annuity Fund	6,909,050	-	6,909,050	5,896,950	-	5,896,950
Deaths and other benefits	436,622	296,283	732,905	276,228	339,981	616,209
	12,386,926	8,907,256	21,294,182	9,986,063	12,476,616	22,462,679
Change in net assets	16,949,811	1,357,000	18,306,811	13,364,825	406,000	13,770,825
NET ASSETS AVAILABLE FOR BENEFITS BEGINNING OF YEAR						
	173,684,826	3,965,000	177,649,826	160,320,001	3,559,000	163,879,001
NET ASSETS AVAILABLE FOR BENEFITS END OF YEAR						
	\$ 190,634,637	\$ 5,322,000	\$ 195,956,637	\$ 173,684,826	\$ 3,965,000	\$ 177,649,826

(See Accompanying Notes)

Notes to the Financial Statements

For the year ended December 31, 2006

1. Description of Plan

(a) General

The Saskatchewan Pension Plan ("SPP" or the "Plan") was established by the Government of Saskatchewan to provide an opportunity for individuals with little or no access to private pensions or other retirement savings arrangements to save for their retirement. Details of the Plan are contained in *The Saskatchewan Pension Plan Act* (the Act) and Regulations.

(b) Funds Established

The following funds were established to administer the Plan:

(i) Contribution Fund (CF)

The CF is a Defined Contribution Fund established to accumulate all contributions and earnings for members who have not yet retired under the Plan. The Fund holds a balanced portfolio including equities, bonds and money market investments to maximize earnings while minimizing risk to members.

(ii) Annuity Fund (AF)

The AF was established to provide retirement annuities to the members of the Plan. The Fund holds investments in high quality long-term bonds. The Fund also holds money market investments for current pension needs and to pay administration costs. Equity investments are not permitted. The investment portfolio is structured to limit the effect on the Fund due to changes in the level of interest rates, to provide sufficient liquidity for payments to retirees when due, and to ensure long-term solvency.

(c) Contributions

Participation in the Contribution Fund is voluntary and members can contribute a maximum of \$600 for each plan year. Contributions are vested immediately in the member's name and are locked into the Plan until retirement.

(d) Retirement

Members may retire under the Plan as early as age 55 or delay retirement as late as age 69. A member's accumulated account balance at retirement consists of member's contributions to the Plan together with the investment income and changes to the market value of the Plan's investments allocable to the member as of that date under the terms of the Plan. Upon retirement, members may purchase an annuity through the AF or they may transfer all or part of their account to a locked-in pension option with another financial institution.

(e) Income Tax

The Plan is a prescribed provincial plan under the Income Tax Act and is not subject to tax.

(f) Death Benefits

Should a member die prior to retirement, the funds in his or her account will be paid to the named beneficiary. If the beneficiary is the member's spouse, the funds may be transferred to the spouse's SPP account or to their own registered retirement savings plan.

Should a member die after retirement, death benefits are payable according to the type of annuity the member selected at retirement.

(g) Withdrawal Provisions

Members whose monthly pensions are less than the prescribed amount can withdraw their total pension in one lump sum instead of receiving monthly benefits. In 2006, the prescribed amount was \$17.54 (2005: \$17.13).

2. Significant Accounting Policies

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following policies are considered to be significant:

(a) Investment Transaction and Income Recognition

Investment transactions are accounted for on the trade date. Realized gains and losses and unrealized appreciation or depreciation of investments are determined by reference to the average cost of investments. The Plan follows the accrual method for the recording of income and expenses. Dividends are recorded on the date of record.

(b) Investments

(i) Contribution Fund

Investments comprising of bonds and equities are stated at market value which is determined by reference to

Notes to the Financial Statements

For the year ended December 31, 2006

closing year-end prices from recognized security dealers or in the absence of recorded sales by referring to closing year-end bid prices. Money market investments, comprising of treasury bills and bankers acceptances, are recorded at cost, which approximates market value. Pooled funds are valued based on quoted market price of the underlying investments, normally the bid price.

(ii) Annuity Fund

Investments in bonds are stated at market value as determined by reference to closing year-end sale prices from recognized security dealers. Funds are transferred from the Contribution Fund the date members purchase an annuity from the Annuity Fund, for the purchase of long-term bonds. The combined duration of the bonds purchased is matched to the duration of the annuities purchased from the Annuity Fund. Under the policy of the Plan such bonds are generally held to maturity. Money market investments, comprising of treasury bills and bankers acceptances, are recorded at cost, which approximates market value.

(c) Foreign Currency Translation

Monetary items denominated in foreign currency are translated at the exchange rate in effect at year-end. Investments, revenues and expenses are translated at the exchange rate in effect at the transaction date. Gains and losses arising on translation are included in the current period change in market value of investments.

(d) Fair Value

Accounts receivable, prepaid (deferred) retirement transfers, prepaid pension benefits, administrative expenses payable, deaths and other benefits payable and deferred member contributions are all short term in nature and as such, their carrying value approximates fair value.

Fair value of investments approximates market value.

(e) Capital Assets

Assets costing more than \$25,000 are capitalized and amortized using the straight-line method at rates intended to amortize them over their estimated useful life. The estimated useful life of computer equipment is three years. Assets costing less than the above threshold are expensed in the year of purchase.

3. Contribution Fund Investments

	2006	2005
Money market	\$ 2,167,191	\$ 5,881,596
Bonds	73,194,031	67,753,341
Equities	71,942,500	64,663,977
Pooled funds	42,103,202	33,766,893
	\$ 189,406,924	\$ 172,065,807

(a) Money Market

	2006			2005		
	Average Term (in days)	Effective Interest Rate (percent)	Market Value	Average Term (in days)	Effective Interest Rate (percent)	Market Value
Money market	104	4.3	\$ 2,167,191	94	3.3	\$ 5,881,596

Money market investments are defined as securities purchased with a maturity of one year or less. Only securities with an "R-1" rating, as rated by a recognized bond rating agency at the time of purchase, are permissible. Other than the Government of Canada, no single issuer represents more than 13.7% (2005: 15.4%) of the money market portfolio.

Notes to the Financial Statements

For the year ended December 31, 2006

(b) Bonds

2006					
Years to maturity	Federal	Provincial	Municipal	Corporate	Total
5 years or less	\$ 23,609,195	\$ 1,805,193	\$ -	\$ 7,286,958	\$ 32,701,346
Greater than 5 years	15,082,583	13,434,748	920,030	11,055,324	40,492,685
	\$ 38,691,778	\$ 15,239,941	\$ 920,030	\$ 18,342,282	\$ 73,194,031

2005					
Years to maturity	Federal	Provincial	Municipal	Corporate	Total
5 years or less	\$ 21,172,949	\$ 2,880,005	\$ -	\$ 4,472,892	\$ 28,525,846
Greater than 5 years	15,339,104	13,241,092	582,433	10,064,866	39,227,495
	\$ 36,512,053	\$ 16,121,097	\$ 582,433	\$ 14,537,758	\$ 67,753,341

Bonds must meet a minimum quality standard of "BBB" or equivalent, as rated by a recognized credit rating service at the time of purchase. No more than 15% of the market value of the bond portfolio may be held in "BBB" issues. Other than the Government of Canada, no single issuer represents more than 6.7% (2005: 9.7%) of the overall bond portfolio. Fixed rate bonds have effective interest rates ranging between 4.0% and 5.9% (2005: 2.0% and 5.8%) and coupon rates ranging between 3.6% and 11.3% (2005: 2.8% and 11.3%).

The bond portfolio contains bonds that the Plan holds directly, including private placement bonds and bonds issued by foreign entities, all denominated and paid in Canadian dollars.

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

(c) Equities

	2006	2005
Canadian shares	\$ 43,109,849	\$ 40,523,364
United States shares	28,832,651	24,140,613
	\$ 71,942,500	\$ 64,663,977

No one holding represents more than 10% of the market value of the equity portfolio or more than 10% of the capital stock of the issuer. Equities include common shares that have no fixed maturity date and are generally not exposed to interest rate risk. The average dividend rate is 1.8% (2005: 1.8%).

(d) Pooled Funds

	2006	2005
Fixed income bond pooled fund	\$ 9,285,593	\$ 8,703,274
Non North American pooled fund	32,817,609	25,063,619
	\$ 42,103,202	\$ 33,766,893

Notes to the Financial Statements

For the year ended December 31, 2006

The Plan limits its investments in a single pooled fund to not more than 10% of the market value of its investment portfolio. These funds have no fixed interest rate and their returns are based on the investment performance attained by the fund manager.

The pooled bond fund contains Canadian federal, provincial and corporate bonds, some private placement bonds and bonds issued by foreign entities, all denominated and paid in Canadian dollars. The pooled bond fund also utilizes bond future exchange contracts to manage interest rate risk.

(e) Interest Rate, Credit, Foreign Currency and Market Risk

Interest Rate Risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Fund's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Fund's assets and liabilities. The value of some of the Fund's assets is affected by changes in nominal interest rates and equity markets.

The Plan manages interest rate risk by establishing a target asset mix that provides for a mix of interest-sensitive investments and investments subject to other risks. Interest-sensitive investments are actively managed to mitigate or take advantage of changes in interest rates.

The Fund holds approximately 44.7% (2005: 47.8%) of its investments in fixed income securities and 55.3% (2005: 52.2%) in equities at December 31, 2006.

Credit Risk

Credit risk arises from the potential for issuers of securities to default on their contractual obligation to the Fund. The Plan limits credit risk by setting investment restrictions within the Investment Policy and by dealing with issuers that are considered to be high quality. At December 31, 2006 the Fund's maximum credit risk exposure relates to bonds, accrued income and short-term investments totaling \$85,177,287 (2005: \$82,847,114).

Foreign Currency Risk

The Plan is exposed to currency risk through holding of foreign equities and foreign pay bonds where investment values may fluctuate due to changes in foreign exchange rates. The Plan manages foreign currency risk by limiting investment in foreign funds and by investing in securities that are strategically distributed over several geographic areas to limit exposure to any one foreign currency. At December 31, 2006, the Fund's foreign currency exposure was \$61,650,260 (2005: \$49,204,232).

The use of derivatives may be used as a strategy to mitigate the risk of foreign currency fluctuations. No derivatives can be used for speculative trading or to create a portfolio with leverage.

Market Risk

The Plan invests in publicly traded equities and bonds available on domestic and foreign exchanges. These securities are affected by market changes and fluctuations.

To manage the above risks, the Board has adopted an Investment Policy whereby investments are strategically distributed among several classes of assets to reduce exposure to investment volatility. The Plan's Investment Policy also defines minimum quality rating for new investments and restricts the size of investment in any one issuer.

(f) Investment Performance

The following is a summary of the Contribution Fund investment performance before administration expenses:

	Annual Return		Rolling Four Year Return	
	2006	2005	2006	2005
Portfolio return	13.5%	11.0%	12.0%	8.2%
Benchmark return	11.5%	10.2%	10.5%	6.3%

The portfolio return is a time-weighted rate of return calculation. The benchmark return aggregates the actual market index returns according to the weightings specified in the Investment Policy.

Notes to the Financial Statements

For the year ended December 31, 2006

4. Annuity Fund Investments

	2006	2005
Money market	\$ 1,204,858	\$ 79,348
Bonds	86,830,739	84,498,351
	\$ 88,035,597	\$ 84,577,699

(a) Money Market

	2006			2005		
	Average Term (in days)	Effective Interest Rate (percent)	Market Value	Average Term (in days)	Effective Interest Rate (percent)	Market Value
Money market	53	4.2	\$ 1,204,858	82	3.3	\$ 79,348

Money market investments are defined as securities purchased with a maturity of one year or less. Only securities with an "R-1" rating are permissible. Other than the Government of Canada, no single issuer represents more than 90.5% (2005: 0.0%) of the money market portfolio.

(b) Bonds

	2006			
Years to maturity	Federal	Provincial	Corporate	Total
5 years or less	\$ 6,488,534	\$ 8,844,476	\$ -	\$ 15,333,010
Greater than 5 years	8,807,622	62,013,665	676,442	71,497,729
	\$ 15,296,156	\$ 70,858,141	\$ 676,442	\$ 86,830,739

	2005			
Years to maturity	Federal	Provincial	Corporate	Total
5 years or less	\$ 3,802,812	\$ 10,501,509	\$ -	\$ 14,304,321
Greater than 5 years	11,088,734	58,410,681	694,615	70,194,030
	\$ 14,891,546	\$ 68,912,190	\$ 694,615	\$ 84,498,351

Government bonds must meet a minimum quality standard of "BBB" or equivalent as rated by a recognized credit rating service at the time of purchase. No more than 15% of the market value of the total bond portfolio may be held in "BBB" issues. Corporate bonds must meet a minimum quality standard of "A" at the time of purchase. Other than the Government of Canada, no single issuer represents more than 15.6% (2005: 16.0%) of the overall bond portfolio. Fixed rate bonds have effective interest rates ranging between 3.9% and 4.7% (2005: 3.6% and 4.8%). Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

(c) Interest Rate and Credit Risk

Interest Rate Risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Fund's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the

Notes to the Financial Statements

For the year ended December 31, 2006

Fund's assets and liabilities. Interest rate risk is managed by investing in fixed income investments that provide cash flows that match payments to annuitants.

The value of some of the Plan's assets is affected by changes in nominal interest rates.

Credit Risk

Credit risk arises from the potential for issuers of securities to default on their contractual obligation to the Fund. The Plan limits the credit risk by dealing with issuers that are considered to be high quality. At December 31, 2006 the Fund's maximum credit risk exposure relates to bonds, accrued income and short-term investments totaling \$88,952,714 (2005: \$85,438,788).

To manage the above risk, the Board has adopted an Investment Policy that sets out the manner in which assets are invested. The Plan's Investment Policy defines the minimum quality rating for new investments and restricts the size of certain investments.

5. Provision for Annuity Benefits

The provision for annuity benefits is the actuarial present value of the future expected annuity benefit obligation to pensioners as annually determined by Aon Consulting Inc., an independent actuary. The actuarial valuation is a complex process requiring professional judgment on the part of the actuary and must ensure consistency with the asset valuation methodology. Measurement of this amount involves uncertainty, as estimates must be made of future interest rates and mortality rates.

The valuation method used to calculate the basic pension liability of retired members was the single premium actuarial cost method. An interest rate of 2.9% (2005: 2.7%) was used to determine the liabilities as of December 31, 2006. The 1994 Group Annuity Mortality Table rates were used for actuarial valuation. The duration of annuity payments is 7.7 years.

Pension annuities are issued based on the prevailing interest rates at the dates of retirement of the annuitants. The duration of the investments purchased are matched with the duration of the liabilities. As such, the risk to the Plan relates to:

- (i) any differences, which may be material, between the estimated and actual life expectancy of the annuitant group which may cause the Plan to have insufficient funds to meet the liability or more funds than required; and
- (ii) reinvestment of assets at maturity at rates greater than or less than rates used in determining the annuities.

To manage this risk, the Plan uses investment managers and actuaries to assist in determining the investment strategy. Further, subsection 7(3.2) of the Act requires any amount by which the liabilities of the Annuity Fund exceeds the assets of the Annuity Fund to be a charge on and payable from the General Revenue Fund of the Province of Saskatchewan. At December 31, 2006 and 2005, the Annuity Fund was in a surplus position.

The annual change in the liability is recorded in the Statement of Changes in Net Assets Available for Benefits. The principal components of the change in the provision for annuity benefits during the year are summarized below:

	2006	2005
Liability, beginning of year	\$ 81,689,758	\$ 76,607,641
Interest on liabilities	2,189,000	2,317,000
Increase in liability due to new annuities	7,466,000	5,879,000
Annuities paid	(6,869,000)	(6,631,000)
Mortality experience	340,179	475,117
Change in interest rate	(1,746,000)	3,042,000
	1,380,179	5,082,117
Liability, end of year	\$ 83,069,937	\$ 81,689,758

6. Earnings Allocation to Members

Investment income plus the current year change in the market value of investments less administration expenses are allocated annually to members in the Contribution Fund.

Notes to the Financial Statements

For the year ended December 31, 2006

7. Related Party Transactions

The Plan conducts a portion of its transactions with Saskatchewan Crown-controlled agencies, departments and corporations. These transactions are at the agreed upon exchange rates and are settled on normal trade terms. During the year, the Plan incurred operating expenses of approximately \$161,504 (2005: \$157,076) and at year end had \$98,095 (2005: \$86,664) in accounts payable with these related parties.

At December 31, 2006, the Plan has \$4,621,591 market value (2005: \$4,718,910) invested in Province of Saskatchewan bonds with varying maturity dates and interest rates. Interest income on these bonds during the year was approximately \$276,576 (2005: \$274,533).

8. Administrative Expenses

Administrative expenses are allocated to the Funds as prescribed by Board policy.

	2006	2005
Salaries and wages	\$ 694,031	\$ 638,355
Professional and technical services	645,578	627,109
Advertising and promotional	304,534	266,804
Computer expense	146,033	132,692
Facility and equipment rental (Note 10)	92,135	96,946
Telephone, freight and postage	53,907	51,621
Board honorariums and expenses	35,300	34,693
Office supplies	18,729	21,812
Other contractual	15,748	12,839
Amortization	14,651	30,344
Travel	12,001	13,837
Total Administrative Expenses	\$ 2,032,647	\$ 1,927,052
Allocated as Follows:		
Contribution fund	\$ 1,634,451	\$ 1,366,087
Annuity fund	398,196	560,965
	\$ 2,032,647	\$ 1,927,052

9. Capital Assets

Capital assets at cost less accumulated amortization:

	2006		2005	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$91,033	\$87,370	\$3,663	\$18,314

10. Lease Commitment

The Plan is committed to an operating lease for office space to September 30, 2011 with minimum annual lease payments of \$83,865 due to a related party.

11. Comparative Figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.