

Financial Statements

**The Fund of the Metropolitan Toronto Police
Benefit Fund**

[Ontario Registration Number 0351585]

December 31, 2006

AUDITORS' REPORT

To the Administrator of
The Metropolitan Toronto Police Benefit Fund

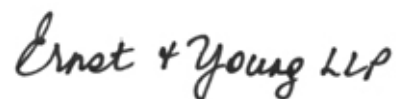
We have audited the statement of net assets available for benefits of **The Fund of the Metropolitan Toronto Police Benefit Fund** as at December 31, 2006 and the statement of changes in net assets available for benefits for the year then ended. These financial statements have been prepared to comply with Regulation 76(2) of the Ontario Pension Benefits Act. These financial statements are the responsibility of the Plan's administrator. 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 the Plan's administrator, 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 Fund as at December 31, 2006 and the changes in its net assets available for benefits for the year then ended in accordance with the basis of accounting disclosed in note 2 to the financial statements.

These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the Administrator of The Metropolitan Toronto Police Benefit Fund and the Financial Services Commission of Ontario for complying with Regulation 76(2) of the Ontario Pension Benefits Act. The financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purposes.

Toronto, Canada,
May 18, 2007.



Chartered Accountants
Licensed Public Accountants

The Fund of the Metropolitan Toronto Police Benefit Fund
[Ontario Registration Number 0351585]

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As at December 31

| | 2006 | 2005 |
|--|----------------|----------------|
| | \$ | [000's] \$ |
| ASSETS | | |
| Cash | 16,762 | 12,928 |
| Investments, at market value <i>[note 3]</i> | 701,321 | 673,305 |
| Accounts receivable | | |
| Long-term <i>[note 5]</i> | — | 7,444 |
| Interest and dividends | 2,797 | 2,875 |
| Other receivable | 185 | 116 |
| Pending securities transaction | 379 | 1,797 |
| | 721,444 | 698,465 |
| LIABILITIES | | |
| Accounts and benefits payable | 1,957 | 2,203 |
| Net assets available for benefits | 719,487 | 696,262 |

See accompanying notes

On behalf of the Board of Trustees:

Member

Member

The Fund of the Metropolitan Toronto Police Benefit Fund

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended December 31

| | 2006 | 2005 |
|---|----------------|----------------|
| | \$ | [000's] \$ |
| INCREASE IN NET ASSETS | | |
| Investment income | | |
| Interest | 17,431 | 15,354 |
| Dividends | 5,442 | 5,002 |
| Realized net gain on sale of investments | 40,876 | 35,517 |
| Securities lending | 88 | 55 |
| Net change in unrealized gain on investments | 12,616 | 21,431 |
| Employer/employee contributions | 12,306 | 12,467 |
| Total increase in net assets | 88,759 | 89,826 |
| DECREASE IN NET ASSETS | | |
| Pension payments | 63,608 | 65,287 |
| Administrative expenses <i>[note 6]</i> | 1,926 | 1,851 |
| Total decrease in net assets | 65,534 | 67,138 |
| Net increase in net assets for the year | 23,225 | 22,688 |
| Net assets available for benefits, beginning of year | 696,262 | 673,574 |
| Net assets available for benefits, end of year | 719,487 | 696,262 |

See accompanying notes

The Fund of the Metropolitan Toronto Police Benefit Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

1. DESCRIPTION OF THE FUND

General

The Metropolitan Toronto Police Benefit Fund [the "Plan"] is registered under the Pension Benefits Act, R.S.O. Registration Number 0351585. The general administration and regulations pertaining to the Plan are governed by a By-law enacted by the former Municipality of Metropolitan Toronto and subsequently by the City of Toronto [the "City"] upon amalgamation.

The Plan is a contributory defined benefit pension plan established in 1956 covering the Chief of Police, constables and other police officers who are members of the City of Toronto Police Force and were hired prior to July 1, 1968. From that date, pensions for new employees must be provided through the Ontario Municipal Employees Retirement System.

Funding policy

The Ontario Pension Benefits Act requires that the Plan sponsor fund the benefits determined under the Plan. The determination of the value of these benefits is made on the basis of an annual actuarial valuation.

Under the provisions of the Plan, contributions are made by the Plan members with matching contributions from the City.

Service pension

The normal retirement age is 60 years for all members. The normal retirement pension is calculated using the member's years of credited service, to a maximum of 35 years, multiplied by 2% of the highest average annual contributory earnings over a period of 60 consecutive months.

Disability pension

A disability pension is available at any age. The amount of the disability pension is the pension earned to the date of retirement.

Survivor pension

A survivor pension is paid to an eligible spouse, as defined in the By-law, a dependent child, or, under certain limited circumstances, a named dependent of a member.

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NOTES TO FINANCIAL STATEMENTS

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Death refund

A death refund is payable to the estate of a pensioner or survivor where pensions have not been paid equivalent to the individual's contributions plus interest. In a similar manner, a death refund is payable to the estate of a contributor where no survivor pension is payable.

Withdrawal refunds

Upon application and subject to "locking-in" provisions under the Ontario Pension Benefits Act, withdrawal refunds, with interest on members' contributions, are payable when a member ceases to be employed.

Income taxes

The Plan is a Registered Pension Trust as defined in the Income Tax Act (Canada) and, as such, is not subject to income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying financial statements present the net assets of the Plan which are available for the payment of pension benefits and the changes in these net assets during the year.

These financial statements have been prepared in accordance with the significant accounting policies set out below to comply with the accounting requirements prescribed by the Financial Services Commission of Ontario for financial statements under Regulation 76(2) of the Ontario Pension Benefits Act. The basis of accounting used in these financial statements materially differs from Canadian generally accepted accounting principles because it excludes the actuarial liabilities of the Plan. Consequently, these financial statements do not purport to show the adequacy of the Plan's assets to meet its pension obligations.

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 changes in net assets available for benefits during the reporting period. Actual results could differ from those estimates.

Investments

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NOTES TO FINANCIAL STATEMENTS

December 31, 2006

Investments are stated at market value and are recorded on a trade date basis. Market value is determined using listed market values.

Foreign currency translation

The market values of foreign currency denominated investments included in the statement of net assets available for benefits are translated into Canadian dollars at year-end rates of exchange. Gains and losses arising from translations are included in the net change in unrealized gain on investments.

Foreign currency denominated transactions, as well as cost amounts included in note 3, are translated into Canadian dollars at the rates of exchange on the dates of the related transactions.

Income recognition

Investment income is recorded on the accrual basis with dividends being recorded on the dividend record date. Gains and losses on disposal of investments are credited or charged to income when realized. The net change in unrealized gain (loss) of investments is calculated as at the year-end date and is shown on the statement of changes in net assets available for benefits.

Contributions

Members' and employer's contributions received subsequent to the year end, but which are applicable to the current year, are recorded as contributions receivable.

3. INVESTMENTS

[a] Investments consist of the following:

| | 2006 | | 2005 | |
|---|-------------------------------|---------------------|-------------------------------|---------------------|
| | Market value \$ [000's] | Book value \$ | Market value \$ [000's] | Book value \$ |
| Bonds and debentures <i>[note 3[b]]</i> | 321,785 | 313,398 | 317,818 | 305,762 |
| Canadian equities | 203,811 | 141,548 | 206,374 | 142,744 |
| Foreign equities | 163,473 | 98,947 | 140,209 | 93,456 |
| Short-term investments | 12,252 | 12,252 | 8,904 | 8,904 |
| | 701,321 | 566,145 | 673,305 | 550,866 |

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NOTES TO FINANCIAL STATEMENTS

December 31, 2006

[b] The market and book values of bonds and debentures at December 31, 2006 and 2005 are summarized below. The average yield of bonds and debentures are the weighted average market rates of these investments during the year.

| | 2006 | | Average yield % |
|-----------------------------------|--------------------------------|------------------------------|--------------------------------|
| | Market value \$ | Book value \$ | |
| | [000's] | [000's] | |
| BONDS AND DEBENTURES | | | |
| Federal and guaranteed | | | |
| 0-5 years | 59,484 | 59,186 | 4.11 |
| 5-10 years | 22,626 | 22,214 | 4.08 |
| >10 years | 42,399 | 41,342 | 4.26 |
| | 124,509 | 122,742 | |
| Provincial and guaranteed | | | |
| 0-5 years | 12,821 | 12,785 | 4.19 |
| 5-10 years | 6,986 | 6,872 | 4.32 |
| >10 years | 81,738 | 76,909 | 4.58 |
| | 101,545 | 96,566 | |
| Municipal and guaranteed | | | |
| >10 years | 492 | 477 | 4.59 |
| | 492 | 477 | |
| Corporate | | | |
| 0-5 years | 21,403 | 21,358 | 4.38 |
| 5-10 years | 30,875 | 30,732 | 4.59 |
| >10 years | 42,961 | 41,523 | 5.08 |
| | 95,239 | 93,613 | |
| Total bonds and debentures | 321,785 | 313,398 | |

The Fund of the Metropolitan Toronto Police Benefit Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

| | Market | 2005 | |
|-----------------------------------|---------------|-------------|----------------|
| | value | Book | Average |
| | \$ | \$ | yield |
| | [000's] | [000's] | % |
| BONDS AND DEBENTURES | | | |
| Federal and guaranteed | | | |
| 0-5 years | 50,130 | 50,132 | 3.66 |
| 5-10 years | 43,318 | 42,988 | 3.98 |
| >10 years | 28,187 | 26,573 | 4.06 |
| | 121,635 | 119,693 | |
| Provincial and guaranteed | | | |
| 0-5 years | 13,901 | 13,943 | 3.21 |
| 5-10 years | 10,627 | 10,193 | 4.27 |
| >10 years | 83,904 | 77,399 | 4.45 |
| | 108,432 | 101,535 | |
| Corporate | | | |
| 0-5 years | 17,402 | 17,099 | 4.28 |
| 5-10 years | 25,990 | 25,693 | 4.43 |
| >10 years | 44,359 | 41,742 | 5.14 |
| | 87,751 | 84,534 | |
| Total bonds and debentures | 317,818 | 305,762 | |

[c] Bonds, debentures and equities

The bond, debenture and equity fund assets are held by a trust company under the terms of a custodial agreement. The funds are managed by investment managers under separate agreements. Net income is retained for reinvestment by the respective fund managers.

[d] Short-term investments

During 2006 and 2005, all short-term investments were held with CIBC Mellon.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2006

[e] Individually significant investments

The market value or book value of the following individual investments exceeds 1% of the market value or book value of total Fund investments at December 31, 2006:

| | 2006 | |
|--|--------------|------------|
| | Market value | Book value |
| | \$ | [000's] \$ |
| Bonds and debentures - Canadian | | |
| Government of Canada | 92,536 | 91,021 |
| Canada Housing | 27,068 | 26,983 |
| Province of Ontario | 49,852 | 47,939 |
| Province of Quebec | 22,399 | 21,283 |
| Hydro Quebec | 12,223 | 11,494 |
| RBC | 6,366 | 6,343 |
| PH&N Overseas | 68,454 | 55,246 |
| U.S. Treasury | 11,818 | 11,697 |

4. INVESTMENT RISKS

The Plan's investment performance is subject to market and other risks. Market risk is the risk that the value of the investments will fluctuate as a result of changes in market prices. A discussion of other risks follows:

[i] Interest rate risk

Interest rate risk relates to the adverse consequences of interest rate changes on the Plan's net assets available for benefits and changes in net assets available for benefits. This risk arises from differences in the timing and amount of cash flows related to the Plan's assets. The value of the Plan's assets is affected by changes in nominal interest rates.

[ii] Credit risk

Credit risk relates to the potential exposure that the other party to a financial instrument will fail to discharge an obligation and cause the Plan to incur a financial loss. Concentration of credit risk exists when a significant proportion of the portfolio is invested in securities with similar characteristics or subject to similar economic, political or other conditions.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2006

The Fund has established guidelines that must be adhered to by the investment managers. These guidelines stipulate the lowest acceptable credit rating for bonds, the maximum that can be invested in these bonds and the maximum that can be invested in Canadian and foreign equities.

In addition, the guidelines stipulate the optimum asset-mix percentages with minimum and maximum limits for each asset class.

The following table shows the market value asset-mix percentages and the actual concentration of investments as at December 31, 2006.

| | Actual | Minimum | Maximum | Optimum |
|------------------------|---------------|----------------|----------------|----------------|
| | % | % | % | % |
| Short-term investments | 1.8 | — | 30.0 | 5.0 |
| Bonds and debentures | 55.6 | 30.0 | 70.0 | 45.0 |
| Canadian equities | 29.1 | 10.0 | 40.0 | 20.0 |
| Foreign equities | 13.5 | 15.0 | 35.0 | 30.0 |
| | 100.0 | | | 100.0 |

[iii] Foreign exchange risk

The Plan is exposed to foreign currency fluctuations to the extent that its foreign investments are denominated in foreign currency. The Plan does not use financial instruments to hedge these risks.

5. ACCOUNTS RECEIVABLE - LONG-TERM

Accounts receivable - long-term consists of the proceeds related to the sale of the real estate and mortgage investments. These amounts are due over an eight-year period commencing in 1999 and are secured by a promissory note and Government of Canada strip coupons held by a trustee under the terms of an agreement. In March 2006 the final instalment was paid.

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NOTES TO FINANCIAL STATEMENTS

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6. ADMINISTRATIVE EXPENSES

Administrative expenses incurred during the year consist of the following:

| | <u>2006</u> | | | <u>2005</u> |
|--------------------------------------|-------------------|------------------|--------------|--------------|
| | <u>Management</u> | <u>Custodial</u> | <u>Total</u> | <u>Total</u> |
| | \$ | \$ | \$ | \$ |
| | [000's] | | | [000's] |
| Bond Managers | | | | |
| Addenda | 270 | 13 | 283 | 187 |
| PH&N | 567 | 21 | 588 | 428 |
| TAL | — | — | — | 114 |
| | <u>837</u> | <u>34</u> | <u>871</u> | <u>729</u> |
| Equity Managers | | | | |
| Aurion | 384 | 22 | 406 | 305 |
| Bissett | 263 | 14 | 277 | 314 |
| State Street | — | 2 | 2 | 13 |
| State Street S&P | 48 | 3 | 51 | 177 |
| | <u>695</u> | <u>41</u> | <u>736</u> | <u>809</u> |
| Other | | | | |
| Custodial service fees | | | 3 | — |
| Other expenditure | | | 33 | 33 |
| Actuarial fees | | | 226 | 222 |
| Investment consultants | | | 57 | 58 |
| Total administrative expenses | | | <u>1,926</u> | <u>1,851</u> |