2000

annual report

Alberta Municipal Financing Corporation

Contents

DIRECTORS

BOARD OF DIRECTORS

Appointed
D.H. Bader
J.M. Drinkwater
P.A. Kruselnicki
A.J. McPherson
R.A. Splane

Elected
H.N. Johnsrude
- Representing Class B shareholders
G.H. Sherwin
- Representing Class C shareholders
R.T. Feddema
- Representing Class D shareholders
D.O. Lussier
- Representing Class E shareholders

OFFICERS

A.J. McPherson
- President & Chairman of the Board
G.H. Sherwin
- Vice-President
T.S. Stroich
- General Manager & Treasurer
M.B. Neuman
- Assistant General Manager
J. Hui
- Secretary & Assistant Treasurer

For more information, visit our website or contact the Alberta Municipal Financing Corporation Office

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E-mail	webamfc@treas.gov.ab.ca

Organization

Mission

To provide local authorities within the Province with funding for capital projects at the lowest possible cost, consistent with the viability of the Alberta Municipal Financing Corporation.

Authority

The Alberta Municipal Financing Corporation is a non-profit Corporation established in 1956 under the authority of the Alberta Municipal Financing Corporation Act, Chapter A-33, Revised Statutes of Alberta 1980, as amended.

Shareholders

The authorized stock of the Corporation consists of the following shares with a par value of $10 each:

- 4,500 Class A, available only to the Crown
- 1,000 Class B, available only to municipalities (defined as including municipal districts, counties, improvement districts and special areas) and to approved hospitals, hospital districts and regional health authorities
- 750 Class C, available only to cities
- 750 Class D, available only to towns and villages
- 500 Class E, available only to school districts and divisions, universities and colleges.

The business of the Corporation is administered by a Board of Directors. The Lieutenant Governor in Council appoints up to five directors to represent the Class A common shareholder. Each of the other four classes of shareholders elects one director to the Board.

Loans

Maximum terms of loans for various projects are prescribed in the Corporation's by-laws relating to the terms and conditions for lending money to shareholders. Funds are advanced to borrowers in exchange for debentures.

Financing

The Corporation issues various debt obligations to obtain the funds necessary to finance loan requirements. These obligations of the Corporation carry the unconditional guarantee of the Province of Alberta.

President's Report

February 16, 2001

It is my privilege to present to our shareholders the Annual Report of the Alberta Municipal Financing Corporation for the year ended December 31, 2000 and to review results for the past year.

Consistent with the Corporation's mission to provide Alberta local authorities with funding for capital projects at the lowest possible cost, borrowers are provided financing at rates, in most cases, slightly below the average of the Alberta AA+ rate during the year. The announcement in early 2001 of the improvement in Alberta's credit rating to AAA will benefit all borrowers in the future as this better credit rating should reduce Alberta's average rates slightly, thereby reducing the Corporation's lending rates by the same magnitude.

Although 2000 saw over $369 million in new loans issued, the most since 1993, the loan portfolio declined from $3,657 million to $3,599 million, a decrease of $58 million. It is also the first year in the past ten years that new loans issued exceeded the forecast for loan requirements provided to the Corporation. It is expected that loan demand will continue to increase for 2001 as local authorities borrow to meet increasing demands from a growing Alberta economy. As mentioned in the last President's Report, consideration was given to introducing more flexibility in loan repayment structures, and in October, shareholders were advised that the Corporation would consider different repayment structures on a case-by-case basis. It was also advised that the current interest rates would be revised to reflect the additional costs on loans with alternative payments structures, and that the rate will not be less than the current rate set for a similar loan term.

After careful consideration of the Corporation's viability and its current level of retained earning, your Board of Directors was pleased to approve a $75 million cash interest rebate. This rebate was based on each shareholder's average year-end balance of loans outstanding for the ten year period ending December 1999 over the Corporation's total average loans outstanding for the same period. The Corporation made the announcement on December 11, 2000 and the funds were transferred to shareholders on December 15, 2000.

The Corporation recorded a loss of $50.7 million for the year ended December 31, 2000. As in the past two years, these losses are attributed to the difference between the interest received on loans outstanding and the interest expense on debt. This loss in 2000 was expected and budgeted for, and further reduced retained earnings to $149.9 million. The Corporation expects further losses in 2001 and 2002 of $11.7 million and $3.5 million respectively. However, the Corporation believes that the impact of these losses will not affect its viability or credit worthiness.

I wish to thank our directors for their time and efforts on your behalf and to express my sincere appreciation to our staff for their efforts and diligence in providing our shareholders with outstanding service and support over the past year. Special thanks to Del Dyke who served as director representing Class B shareholder and welcome to Harold Johnsrude who was elected to your Board at our last Annual Meeting.

It has been an honour and a privilege to serve as Chairman and President in 2000.

[ORIGINAL SIGNED]

A.J. McPherson
President and Chairman of the Board

Management Discussion and Analysis

The following provides management's analysis of the financial position and results of operations of the Alberta Municipal Financing Corporation for the year ended December 31, 2000.

Loans

During 2000, the AMFC loan portfolio decreased from $3,657 million to $3,599 million, a decrease of $58 million. New loans issued during the year totalled $369 million, an increase of $133 million from new loans issued in 1999 and loan repayments totalled $427 million. The Corporation is continuing to forecast a decline in the loan portfolio as many local authorities reduce their overall level of debt and as the Province now provides funding for new school construction. However, the rate of decline should be reduced as increases in the Province's overall growth will require municipalities and other shareholders to expand to meet increasing demands. Included in this review is a Schedule of Loans Outstanding at December 31, 2000, Analysis of New Loans Issued in 2000 by Jurisdiction and Purpose, and the Ten-Year Loan Review 1991 – 2000.

Annually, the Corporation requests the estimated borrowing requirements from each shareholder in order to help manage the Corporation's own financing requirements. The Shareholders' Forecast of Loan Requirements and actual borrowings are included for information.

Schedule of Loans Outstanding
as at December 31, 2000
(thousands of dollars)

	Principal Outstanding 31-Dec-99	02-Jan-00 to 31-Dec-00 New Loans Issued	Principal Repaid	Principal Outstanding 31-Dec-00
By Jurisdiction				
Cities:				
Airdrie	$ 8,951	$ 1,254	$ 1,216	$ 8,989
Calgary	1,096,744	183,896	114,696	1,165,944
Camrose	13,232	2,086	1,800	13,518
Cold Lake	9,725	—	775	8,950
Edmonton	853,344	23,000	122,025	754,319
Fort Saskatchewan	4,224	2,043	798	5,469
Grande Prairie	15,823	4,111	3,799	16,135
Leduc	10,645	1,767	1,748	10,664
Lethbridge	41,917	2,451	5,880	38,488
Lloydminster	3,659	—	1,182	2,477
Medicine Hat	176,529	3,912	15,338	165,103
Red Deer	27,071	—	5,518	21,553
Spruce Grove	5,222	—	529	4,693
St. Albert	28,029	2,300	3,155	27,174
Wetaskiwin	8,978	—	1,364	7,614
Total Cities	2,304,093	226,820	279,823	2,251,090
Specialized Municipalities:				
Regional Municipality of Wood Buffalo	32,053	8,722	2,537	38,238
Strathcona County	40,757	30,019	4,295	66,481
M.D. of Mackenzie No. 23	764	—	85	679
Total Specialized Municipalities	73,574	38,741	6,917	105,398
Towns	195,575	29,097	25,619	199,053
Villages	15,688	629	2,639	13,678
Counties	21,152	1,596	1,550	21,198
Municipal districts	12,384	657	1,170	11,871
Improvement districts	803	—	163	640
Irrigation & Water Services Comm.	55,586	562	3,465	52,683
Hospitals & Regional Health Authorities	11,257	—	1,476	9,781
Universities, Colleges & Technical Institutes	37,806	66,300	1,723	102,383
School districts & divisions	928,962	5,033	102,550	831,445
Total	**$3,656,880**	**$369,435**	**$427,095**	**$3,599,220**
By Purpose				
Municipal - General	$2,052,050	$196,102	$243,365	$2,004,787
- Utility	619,977	102,000	76,164	645,813
Hospitals - Ancillary Operations	17,597	—	3,277	14,320
University/College/Technical Institutes - Ancillary Operations	38,295	66,300	2,212	102,383
School	928,961	5,033	102,077	831,917
Total	**$3,656,880**	**$369,435**	**$427,095**	**$3,599,220**

Analysis of New Loans Issued
By jurisdiction and purpose for the year ended December 31, 2000
(thousands of dollars)

	Cities	Towns	Villages	Other	Total
Electrical utilities	$ 102,000	$ —	$ —	$ —	$ 102,000
Student residences & parkades	—	—	—	66,300	66,300
Parks & recreation	31,399	8,247	—	18,566	58,212
Sewer & water	33,583	6,633	253	8,935	49,404
Roads & sidewalks	23,215	5,966	172	1,459	30,812
Municipal buildings	9,540	5,156	40	6,638	21,374
Equipment & machinery	12,335	1,748	95	2,467	16,645
Transit	12,580	—	—	415	12,995
Schools	—	—	—	5,033	5,033
Senior citizen lodges	—	339	—	2,407	2,746
Land	1,418	1,008	69	157	2,652
Landfill development	750	—	—	512	1,262
Total	**$ 226,820**	**$ 29,097**	**$ 629**	**$ 112,889**	**$ 369,435**

Shareholders' Forecast of Loan Requirements
(thousands of dollars)

	2001 Estimated	2000 Estimated	2000 Actual Loans
By Jurisdiction			
Cities	$ 239,100	$ 198,400	$ 226,820
Specialized municipalities	27,300	50,000	38,741
Towns	26,800	41,200	29,097
Villages	2,200	1,300	629
Counties, municipal and other districts	18,800	5,400	2,815
Hospitals and regional health authorities	—	—	—
Universities and colleges	64,000	42,400	66,300
School divisions and districts	3,800	4,300	5,033
Total	**$ 382,000**	**$ 343,000**	**$ 369,435**
By Purpose			
Municipal - General	$ 275,200	$ 261,200	$ 196,102
- Utility	39,000	35,100	102,000
Hospital - Ancillary Operations	—	—	—
University/College/Technical Institutes - Ancillary Operations	64,000	42,400	66,300
School	3,800	4,300	5,033
Total	**$ 382,000**	**$ 343,000**	**$ 369,435**

Ten-Year Loan Review 1991 - 2000
(thousands of dollars)

	2000	1999	1998
New loans issued during the year:			
By jurisdiction:			
Cities	$ 226,820	$ 157,516	$ 115,738
Specialized municipalities	38,741	20,226	10,233
Towns and villages	29,726	24,044	16,268
Counties, municipal and other districts	2,815	14,431	2,785
Hospitals and regional health authorities	—	—	10,000
Universities and colleges	66,300	17,975	—
School divisions and districts	5,033	2,294	5,080
Total	**$ 369,435**	**$ 236,486**	**$ 160,104**
Shareholders' Forecast of Loan Requirements	$ 343,000	$ 280,000	$ 215,000
By purpose:			
Municipal	$ 298,102	$ 215,967	$ 144,774
Hospital	—	—	10,000
University/College/Technical Institutes	66,300	17,975	—
School	5,033	2,544	5,330
Total	**$ 369,435**	**$ 236,486**	**$ 160,104**
Loans repaid during year	427,095	422,002	562,723
New debt issues sold during year	592,367	—	—
Outstanding long-term debt at December 31	3,472,555	3,882,555	4,176,761
Sinking fund investments at December 31	—	450,153	417,639
Retained earnings at December 31	149,913	275,656	318,602
Lending rate at December 31 *(based on 20-year term)*	6-1/8%	6-1/2%	5-5/8%

	1997	1996	1995	1994	1993	1992	1991
	$ 137,631	$ 104,949	$ 49,156	$ 131,566	$ 248,746	$ 167,513	$ 266,712
	5,906	1,376	1,596	—	—	—	—
	15,025	11,486	12,169	12,844	15,117	14,407	21,077
	3,816	898	4,027	24,071	75,603	56,536	37,599
	—	—	—	258	—	—	4,130
	—	—	—	—	8,300	9,540	2,385
	2,246	1,400	45,192	117,604	161,218	165,931	139,926
	$ 164,624	**$ 120,109**	**$ 112,140**	**$ 286,343**	**$ 508,984**	**$ 413,927**	**$ 471,829**
	$ 185,000	$ 152,000	$ 190,000	$ 475,000	$ 600,000	$ 550,000	$ 565,000
	$ 162,378	$ 118,709	$ 66,948	$ 147,066	$ 300,480	$ 196,942	$ 293,065
	—	—	—	258	2,330	2,926	4,130
	—	—	—	—	500	9,540	1,600
	2,246	1,400	45,192	139,019	205,674	204,519	173,034
	$ 164,624	**$ 120,109**	**$ 112,140**	**$ 286,343**	**$ 508,984**	**$ 413,927**	**$ 471,829**
	495,961	447,310	413,596	413,614	553,782	367,538	287,674
	—	—	—	20,000	113,000	200,000	—
	4,403,406	4,578,863	4,785,548	5,023,242	5,201,560	5,225,993	5,420,592
	385,304	345,764	312,091	277,421	242,328	262,755	800,377
	333,505	312,211	343,125	280,340	510,721	566,805	874,154
	6%	6-7/8%	8%	9-3/4%	8%	9-3/8%	10%

Results of Operations

The Corporation's interest expense on debt exceeded interest income on loans, including amortization and income from investments, by $78.6 million as the yield on the loan portfolio of 9.4% was lower than the cost of 11.1% on the debt. This net interest expense of $78.6 million was reduced by $27.3 million in sinking fund earnings, $1 million in loan prepayment fees and with other expenses of $0.4 million, resulted in a loss of $50.7 million for 2000.

The Corporation's goals are to provide local authorities with funding at the lowest possible cost and to maintain the lowest administrative and new loan costs compared to other municipal borrowing corporations. Included is a comparison of the Corporation's 2000 costs with the latest audited financial data of other provincial municipal borrowing corporations.

Municipal Financing Corporation Statistics - 2000

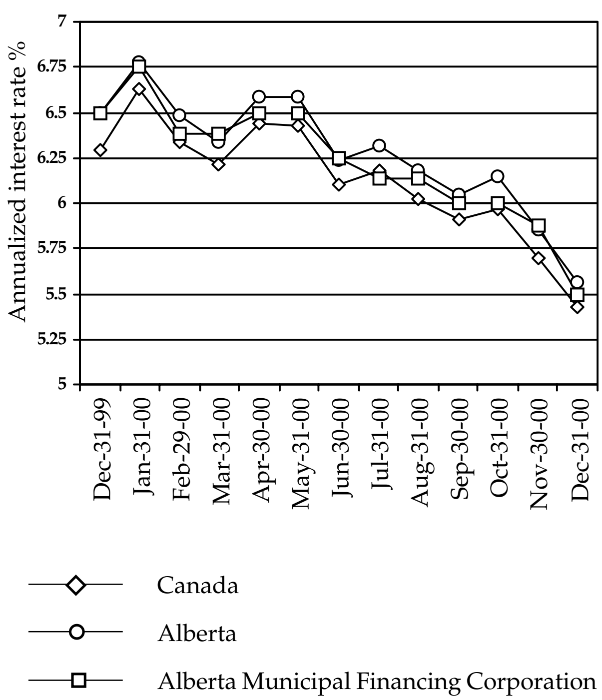
	Alberta	British Columbia	Nova Scotia	Newfoundland
New loans to shareholders				
($ millions)	369.4	921.3	86.9	19.8
Total loans outstanding				
($ millions)	3,599	2,702	773.6	303.8
Administrative expense				
($ thousands)	372	669	208.7	250
($ per $ thousand of new loans)	1.01	.73	2.4	12.6
($ per $ million of loans)	0.10	.24	.26	.82

Interest Rates

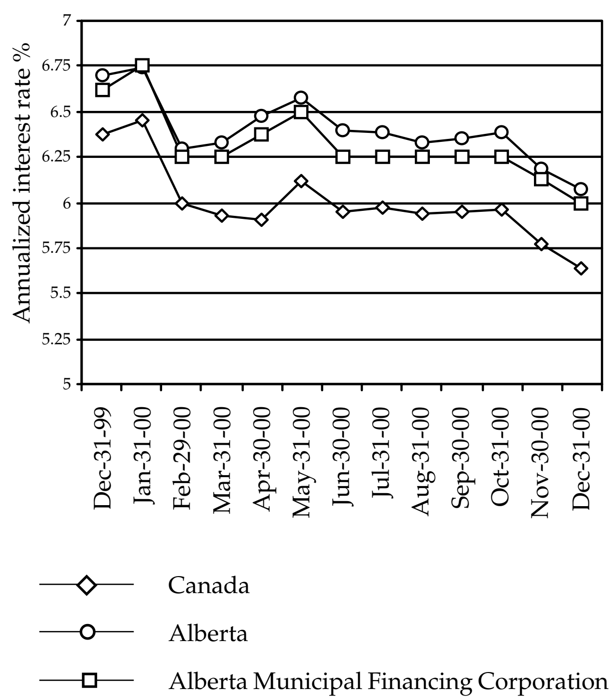
The Corporation's lending and interest rate policies provide shareholders with funds on a semi-monthly basis with interest rates set at the Province of Alberta's annualized average borrowing rate rounded down to the nearest 1/8%. During 2000, interest rates remained fairly stable with three-year rates fluctuating between 6-5/8% and 5-7/8% and 25-year rates between 6-7/8% and 6-1/8%. Except for November and December which saw short-term rates fall below 6%, all rates remained in the 6% range. Spreads were very narrow during the year with short-term and long-term rates being equal on many occasions.

Comparison of Rates

Canada, Alberta and AMFC rates in 2000
5-year term



Canada, Alberta and AMFC rates in 2000
25-year term



Debt

The gross debt of the Corporation decreased by $410 million to $3,473 million. During the year, the Corporation received $427 million in loan repayments while issuing $369 million in new loans. The Corporation refinanced $222 million in the Canada Pension Plan Investment Fund, repaid $110 million under the Promissory Note Program, $600 million to the public, $70 million to the Province of Alberta, and borrowed $370 million during 2000.

Sources of Capital
(thousands of dollars)

	Gross Outstanding December 31, 2000	Outstanding as a Percentage of Total
Canada Pension Plan Investment Fund	$ 3,097,555	89.2%
Public	375,000	10.8%
Total	**$ 3,472,555**	**100.0%**

Risk Management

Effective risk management is central to the ability to provide a financially sound organization and includes identifying, assessing, managing and monitoring all forms of risk. The Corporation is primarily exposed to:

- Liquidity risk
- Market risk
- Operational risk and
- Credit risk

The General Manager of the Corporation is responsible for identifying risks and recommending the appropriate policies and framework. The Board of Directors reviews and approves the risk management policies and implements specific reporting procedures to enable them to monitor the adherence to these policies.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not have sufficient cash to meet its obligations as they become due and also meet the loan requirements of our local authorities.

The Corporation manages its liquidity risk by monitoring its cash flows on a daily basis and providing updated cash flow reports to the Board as required. Surplus funds are invested in short-term investments or the Consolidated Cash Investment Trust Fund. When required, the Corporation raises funds under a five-year Promissory Note Program, by direct borrowing in the Canadian market and by renewing borrowing from the Canada Pension Plan Investment Fund.

Market Risk

Market risk is the impact on the Corporation's income from changes in market factors such as interest rates and foreign exchange. The Corporation does not deal in other than Canadian currency, therefore there is no foreign exchange risk. The primary source of interest rate risk is repricing risk which arises when there is a mismatch between the maturity and repricing of interest bearing assets and liabilities. This repricing risk also results from the Corporation's willingness to allow for some prepayments on existing loans.

The prepayment policy was structured to protect the Corporation from the significant losses that would occur in accepting additional prepayments of high interest rate loans and relending these funds at lower rates. The Corporation, on three separate occasions, has reduced the rates on higher interest rate loans to 12%. The Corporation does not have the ability to prepay or refinance its public debt and can only repay the Canada Pension Plan Investment Fund at current market rates. The Corporation's prepayment policy is an integral part of its long-term financial planning. Changes to allow more prepayments with reduced penalties could reduce equity to a point below a level considered necessary for viability and credit purposes.

The Corporation identifies and monitors interest rate risk through the use of daily and annual cash flow analysis which are reported to and reviewed by the Board of Directors.

Operational Risk

Operational risk is the risk associated with a breakdown in internal controls, systems or procedural failures, human errors or malfeasance. These risks can never be fully eliminated but are minimized by establishing appropriate policies and sound internal controls through an appropriate segregation of duties, accountability and reporting practices.

These controls and policies are established by management and reviewed by the Board in addition to the review done by the Auditor General during the year end audit.

Credit Risk

Credit risk is the risk of loss due to borrowers failing to meet their obligations to AMFC. Historically, the Corporation has not been required to record any provisions or allowances regarding credit losses nor has it suffered any such losses. The Corporation has established policies which provide for the approval and monitoring of all lending activity. These policies include establishing clear lines of authority for decision making and for accountability.

Auditor's Report

To the Shareholders of the Alberta Municipal Financing Corporation

I have audited the balance sheet of the Alberta Municipal Financing Corporation as at December 31, 2000 and the statements of loss and retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2000 and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

[ORIGINAL SIGNED]

FCA
Auditor General

Edmonton, Alberta
January 26, 2001

Financial Reporting Responsibility of Management

Management of AMFC prepared these financial statements and is responsible for their reliability, completeness and integrity. They conform in all material respects to Canadian generally accepted accounting principles and the requirements of the Alberta Municipal Financing Corporation Act.

Management maintains the necessary accounting and internal control systems designed to ensure the timely production of reliable and accurate financial information, the protection of assets (to a reasonable extent) against loss or unauthorized use and the promotion of operational efficiency. The Board of Directors oversees management's responsibilities for financial reporting and internal control systems.

The Auditor General of Alberta is designated as the external auditor in the Alberta Municipal Financing Corporation Act. The Board of Directors reviewed these financial statements with the external auditor in detail before their approval.

[ORIGINAL SIGNED]

FCA
General Manager/Treasurer

Edmonton, Alberta
January 26, 2001

Balance Sheet

as at December 31, 2000
(thousands of dollars)

	2000 Budget	2000 Actual	1999 Actual
Assets:			
Cash (Note 3)	$ 19,117	$ 22,273	$ 76,641
Accrued interest receivable	140,940	138,838	147,140
Loans to local authorities (Note 4)	3,434,562	3,527,801	3,560,762
Sinking fund investments (Note 5)	—	—	450,153
	$ 3,594,619	$ 3,688,912	$ 4,234,696
Liabilities and Shareholders' Equity:			
Liabilities:			
Accrued interest payable	$ 66,887	$ 73,784	$ 78,324
Debt (Note 6 and Schedule 1)	3,300,188	3,465,151	3,880,652
	3,367,075	3,538,935	3,958,976
Shareholders' equity:			
Share capital (Note 7):			
Authorized: 7,500 common shares, par value $10 per share			
Issued and fully paid:			
6,370 shares (1999 - 6,368)	64	64	64
Retained earnings	227,480	149,913	275,656
	227,544	149,977	275,720
	$ 3,594,619	$ 3,688,912	$ 4,234,696

The accompanying notes are part of these financial statements.

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A.J. McPherson
President & Chairman of the Board

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G.H. Sherwin, CA
Vice-President

Statement of Loss and Retained Earnings

For the year ended December 31, 2000
(thousands of dollars)

	2000		1999
	Budget	Actual	Actual
Interest Income:			
Loans	$ 354,343	$ 351,172	$ 377,028
Amortization of loan discounts	24,699	24,699	30,100
Deposits and short-term investments	2,200	2,945	12,507
	381,242	378,816	419,635
Interest Expense:			
Debt	452,393	452,569	489,793
Amortization of debt discounts	1,903	4,836	640
	454,296	457,405	490,433
Net interest expense	(73,054)	(78,589)	(70,798)
Other Income:			
Investment income on sinking fund	24,349	27,254	28,014
Loan prepayment fees	1,000	964	180
	25,349	28,218	28,194
Net interest expense and other income	(47,705)	(50,371)	(42,604)
Non-Interest Expense:			
Administration and office expenses (Note 8)	396	295	284
Debt issue and service expenses	50	53	39
Directors' and officers' fees and expenses (Note 8)	25	24	19
	471	372	342
Net loss	(48,176)	(50,743)	(42,946)
Retained earnings, beginning of year	275,656	275,656	318,602
Distribution to shareholders	—	(75,000)	—
Retained earnings, end of year	$ 227,480	$ 149,913	$ 275,656

Statement of Cash Flow

For the year ended December 31, 2000
(thousands of dollars)

	2000 Budget	2000 Actual	1999 Actual
Operating Activities:			
Interest received on loans	$ 360,543	$ 359,474	$ 388,772
Interest received on investments/sinking fund	2,200	5,514	12,537
Loan prepayment fees	1,000	964	180
Administration and office expenses	(471)	(372)	(342)
Interest paid on debt	(463,830)	(457,109)	(496,686)
Cash flows used in operating activities	(100,558)	(91,529)	(95,539)
Investing Activities:			
Short-term investments	—	—	39,348
Loan repayments	430,899	427,095	422,002
New loans issued	(280,000)	(369,435)	(236,486)
Sinking fund investments	474,502	474,838	(4,530)
Cash flows from investing activities	625,401	532,498	220,334
Financing Activities:			
Debt issues	350,000	582,030	—
Debt redemptions	(932,367)	(1,002,367)	(294,206)
Distribution to shareholders	—	(75,000)	—
Cash flows used in financing activities	(582,367)	(495,337)	(294,206)
Net decrease in cash	(57,524)	(54,368)	(169,411)
Cash, beginning of year	76,641	76,641	246,052
Cash, end of year	$ 19,117	$ 22,273	$ 76,641

Notes to the Financial Statements
December 31, 2000

1. Authority

The Alberta Municipal Financing Corporation operates under the authority of the Alberta Municipal Financing Corporation Act, Chapter A-33, Revised Statutes of Alberta 1980, as amended.

2. Significant Accounting Policies and Reporting Practices

These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles and include the following significant accounting policies:

a) Sinking Fund Investments

Sinking fund investments are recorded at cost. The cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Realized gains and losses on disposals of sinking fund investments are included in the determination of investment income. The cost of disposals is determined on the average cost basis.

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

Investment income on sinking fund investments accrues to the sinking fund.

b) Debt

Debt discounts, including underwriting commission, arising on the issue of debt are deferred and amortized over the term of the debt.

Debt is recorded net of unamortized discounts.

Public debt issue expenses are charged against income as they are incurred.

c) Discounts on Loans to Local Authorities

Discounts are recorded for reductions of interest rates given on loans to local authorities with interest rates above a certain level and are amortized to income over the term of these loans. Annual amortization is the change in the present value of the remaining interest rate reduction.

3. Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. CCITF is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. Interest is earned on the Fund's daily cash balance at the average rate of interest earned by CCITF, which varies depending on prevailing market interest rates.

4. Loans to Local Authorities

	2000	1999
	(thousands of dollars)	
Loans to local authorities	$3,599,220	$3,656,880
Less: Unamortized discounts	71,419	96,118
	$3,527,801	$3,560,762

5. Sinking Fund Investments
Sinking fund investments relate to the $450,000,000 December 15, 2002 public debt redeemed on December 15, 2000.

6. Debt

a) The debt of the Corporation is fully guaranteed by the Province of Alberta.

b) Debt amounting to $3,097,555,000 (1999 - $3,097,555,000) held by the Canada Pension Plan Investment Fund (CPPIF) is redeemable at the option of the Minister of Finance of Canada by giving six months notice in writing and observing the other redemption provisions of the debt agreement.

The Corporation may prepay debt held by the CPPIF by providing 30 days notice prior to the proposed redemption date. The debt can be prepaid at market with the debt issued prior to January 1, 1998 discounted at the Government of Canada rate and debt issued after January 1, 1998 valued at the Province's borrowing rate.

c) Debt redemption requirements during each of the next five years are as follows:

	Debt Redemption (thousands of dollars)
2001	$ 411,739
2002	454,735
2003	441,023
2004	338,491
2005	283,604
	$ 1,929,592

7. Share Capital
Particulars of share capital are summarized hereunder:

		Number of Shares		Total
Class	Restricted to	Authorized	Issued and Fully Paid	Dollar Amount
A	Province of Alberta	4,500	4,500	$45,000
B	Municipalities and hospitals	1,000	849	8,490
C	Cities	750	582	5,820
D	Towns and villages	750	305	3,050
E	Schools, universities and colleges	500	134	1,340
		7,500	6,370	$63,700

During the year, one Class B, five Class C and two Class E shares were issued and six Class D shares were cancelled at $10.00 each.

8. Directors' Fees and Related Party Transactions

Directors' fees paid by the Corporation are as follows:

	2000		1999	
	Number of Individuals	Total	Number of Individuals	Total
Chairman of the Board	1	$ 2,100	1	$ 1,500
Board Members	6	$ 11,000	6	$ 8,700

There are two additional Board members who are employees of the Province of Alberta and do not receive compensation from the Corporation.

The Corporation has no employees. Administration and office expenses of $249,530 (1999 - $243,679) were paid to the controlling shareholder, Province of Alberta, at prices which approximate market.

9. Interest Rate Risk

Interest rate risk refers to the potential impact of changes in interest rates on the Corporation's earnings and the fair value of the financial instruments when maturities of its financial assets are not matched with the maturities of its financial debt. The following table shows the maturities and effective rates of the Corporation's financial assets and liabilities:

As at December 31, 2000
(thousands of dollars)

Maturities	Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	2000 Total	1999 Total
Assets							
Cash	$ 22,273	$ —	$ —	$ —	$ —	$ 22,273	$ 76,641
Accrued Interest Receivable	138,838	—	—	—	—	138,838	147,140
Loans	63,008	90,537	579,526	1,488,104	1,378,045	3,599,220(i)	3,656,880(i)
Effective Rate	10.5%	9.7%	10.1%	10.4%	8.0%	9.4%	9.8%
Sinking Fund	—	—	—	—	—	—	450,153
Effective Rate							6.7%
Total	$ 224,119	$ 90,537	$ 579,526	$ 1,488,104	$ 1,378,045	$ 3,760,331	$ 4,330,814
Liabilities							
Accrued Interest Payable	$ 73,784	$ —	$ —	$ —	$ —	$ 73,784	$ 78,324
Debt	409,117	449,953	1,063,118	1,320,596	222,367	3,465,151	3,880,652
Effective Rate	12.6%	12.2%	12.6%	9.9%	6.3%	11.1%	12.1%
Total	$ 482,901	$ 449,953	$ 1,063,118	$ 1,320,596	$ 222,367	$ 3,538,935	$ 3,958,976
Net Gap	$ (258,782)	$ (359,416)	$ (483,592)	$ 167,508	$ 1,155,678	$ 221,396	$ 371,838

(i) This total is not reduced by unamortized discount of $71,419 (1999 - $96,118).

The Corporation manages on a continuous basis its interest rate risk by matching its debt maturity profile to the forecast cash flows and their effect on the Corporation's surplus position. Based on the maturity of its current outstanding loans and debt, the Corporation is able to repay its debt from cash flows with no long-term borrowing in 2001.

10. Fair Value of Financial Instruments

The amounts set out in the table represent the fair value of the Corporation's financial instruments based on the following assumptions and valuation methods.

Fair value represents the Corporation's estimate of amounts for cash, short-term investments, sinking fund investments and debt that could be exchanged with unrelated parties who are interested in acquiring these instruments. For loans which lack an available trading market, fair value is based on estimates using net present value techniques which reflect the Corporation's lending rates.

The fair value of accrued interest receivable and payable approximate their carrying value.

Interest rate sensitivity is the main cause of changes in the fair value of the Corporation's financial instruments.

	2000		1999	
	Fair Value	Book Value	Fair Value	Book Value
	(thousands of dollars)			
Assets				
Cash	22,273	22,273	76,641	76,641
Sinking fund investments	—	—	452,008	450,153
Loans	4,122,122	3,527,801	4,188,864	3,560,762
Liabilities				
Debt	4,081,161	3,465,151	4,544,060	3,880,652

11. Budget

The 2000 budget was approved by the Board of Directors on February 18, 2000.

Schedule of Debt

As at December 31, 2000 Schedule 1
(thousands of dollars)

Date of Issue	Maturity Date	Interest Rate	Principal Outstanding
Canada Pension Plan Investment Fund (Note 6(b))			
Sep 15, 1981	Aug 01, 2001	14.18	216,739
Jun 01, 1982	Jun 01, 2002	15.75	274,735
Apr 05, 1983	Apr 05, 2003	13.82	209,284
Dec 01, 1983	Dec 01, 2003	11.50	231,739
Dec 03, 1984	Dec 03, 2004	13.25	338,491
Nov 01, 1985	Nov 01, 2005	11.66	283,604
Nov 03, 1986	Nov 03, 2006	9.85	395,396
Nov 02, 1987	Nov 02, 2007	9.66	335,383
Oct 03, 1988	Oct 03, 2008	10.04	259,294
Oct 02, 1989	Oct 02, 2009	9.99	291,414
Nov 01, 1989	Nov 01, 2009	9.62	32,457
Dec 01, 1989	Dec 01, 2009	9.26	6,652
Oct 01, 2000	Oct 01, 2020	6.28	222,367
Total			3,097,555
Public			
Mar 02, 1981	Mar 02, 2001	14.10	30,000
Jun 15, 1981	Jun 15, 2001	16.25	85,000
Oct 16, 2000	Aug 01, 2001	5.86	15,000
Oct 16, 2000	Aug 01, 2001	5.90	5,000
Oct 16, 2000	Aug 01, 2001	5.90	5,000
Oct 16, 2000	Aug 01, 2001	5.87	25,000
Nov 01, 2000	Aug 01, 2001	5.87	20,000
Nov 01, 2000	Aug 01, 2001	5.87	10,000
Nov 01, 2000	Jun 03, 2002	5.92	15,000
Nov 01, 2000	Jun 03, 2002	5.78	5,000
Nov 01, 2000	Jun 03, 2002	5.76	10,000
Dec 01, 2000	Jun 03, 2002	5.84	30,000
Dec 15, 2000	Sep 03, 2002	5.60	60,000
Dec 15, 2000	Sep 03, 2002	5.60	60,000
Total			375,000
			3,472,555
Less: Unamortized debt discount			7,404
Total debt 2000			$ 3,465,151
Total debt 1999			$ 3,880,652