Alberta Finance

2002-03 Annual Report

Alberta
FINANCE

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Ministry of Finance Annual Report 2002-03

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PREFACE

PUBLIC ACCOUNTS 2002-03

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Government Accountability Act*. The Public Accounts consist of the Annual Report of the Government of Alberta and the annual reports of each of the 24 ministries.

The Annual Report of the Government of Alberta, released June 24, 2003, contains the Minister of Finance's accountability statement, the consolidated financial statements of the Province and a comparison of the actual performance results to desired results set out in the Government's Business Plan, including the *Measuring Up* report.

This annual report of the Ministry of Finance contains the Minister's accountability statement, the audited consolidated financial statements of the Ministry and a comparison of actual performance results to desired results set out in the ministry business plan. This Ministry annual report also includes:

- **the financial statements of entities making up the Ministry including the Department of Finance, regulated funds, provincial agencies and Crown-controlled corporations for which the Minister is responsible,**
- **other financial information as required by the *Financial Administration Act* and the *Government Accountability Act*, either as separate reports or as a part of the financial statements, to the extent that the Ministry has anything to report,**
- **financial information relating to trust funds, and**
- **the report of the auditor of the Office of the Auditor General, which is included in the Annual Report of the Auditor General, is incorporated in the Public Accounts by reference.**

MINISTER'S ACCOUNTABILITY STATEMENT

The Ministry's Annual Report for the year ended March 31, 2003, was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as at September 5, 2003 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

[Original Signed]

Patricia L. Nelson
Minister of Finance

September 5, 2003

MESSAGE FROM THE MINISTER

This past fiscal year saw its fair share of challenges, but we also capitalized on opportunities that will continue to make Alberta the envy of other provinces.

We weathered severe drought conditions and forest fires, and provincial exports and business investment suffered due to a slow and uneven economy in the U.S. In spite of these circumstances, the budget was balanced for the ninth straight year and a payment was made to further reduce the province's accumulated debt. With this year's allocation, the debt sits at $4.7 billion.

We also announced a new era of fiscal management. Albertans told us to get off the roller coaster ride of oil and gas revenue. As a result, we established the Financial Management Commission to look at how the government is managing your money and recommend new ways we can build on Alberta's reputation as a financial leader. In response, we established the Alberta Sustainability Fund that is designed to bring predictability, sustainability and continued discipline to our fiscal planning.

Albertans continue to enjoy the lowest overall tax load in the country. In 2002, Albertans saved $75 million as a result of inflation proofing the personal income tax system two years ago. The government affirmed its commitment to reduce corporate income taxes. Corporations saved $81 million in 2002 as a result of those reductions. These savings will further enhance the Alberta Advantage by building a stronger economy and creating more jobs.

Leading credit rating agencies in North America continued to recognize the strength of Alberta's fiscal plans. For the second straight year, Moody's Investor Service, Standard & Poors and DBRS have rated our province's credit rating as triple A. We are the only province in the country with such a rating. Such an endorsement further proves that Alberta is the right place to live, work and raise a family.

Despite last year's challenges, we managed to take advantage of the opportunities. Many of our successes can be attributed to the dedication and hard work of staff within my department. Alberta Finance continues to demonstrate its commitment to be open, accountable and transparent through the coordination, production and presentation of fiscal plans, quarterly updates, annual reports and business plans.

In the coming year, we will look for new and innovative ways to build on our success and address new challenges.

Patricia L. Nelson
Minister of Finance

MANAGEMENT'S RESPONSIBILITY FOR REPORTING

The executives of the individual entities within the Ministry have the primary responsibility and accountability for the respective entities. Collectively, the executives ensure the Ministry complies with all relevant legislation, regulations and policies.

Ministry business plans, annual reports, performance results and the supporting management information are integral to the government's fiscal and business plans, annual report, quarterly reports and other financial and performance reporting.

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the Ministry rests with the Minister of Finance. Under the direction of the Minister, I oversee the preparation of the Ministry's Annual Report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, of necessity, include amounts that are based on estimates and judgments. The consolidated financial statements are prepared in accordance with the government's stated accounting policies.

As Deputy Minister, in addition to program responsibilities, I establish and maintain the Ministry's financial administration and reporting functions. The Ministry maintains systems of financial management and internal control which give consideration to costs, benefits, and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of public money,
- provide information to manage and report on performance,
- safeguard the assets and properties of the Province under Ministry administration,
- provide Executive Council, Treasury Board and the Minister of Finance any information needed to fulfill their responsibilities, and
- facilitate preparation of Ministry business plans and annual reports required under the *Government Accountability Act*.

The Ministry of Finance includes:

- *Department of Finance*
- *Alberta Automobile Insurance Board*
- *Alberta Capital Finance Authority*
- *Alberta Insurance Council*
- *Alberta Pensions Administration Corporation*
- *ATB Financial and its subsidiaries*
- *Credit Union Deposit Guarantee Corporation*
- *Gainers Inc.*
- *N.A. Properties (1994) Ltd.*
- *S C Financial Ltd.*
- *The Alberta Government Telephones Commission*
- *Provinical Judges and Masters in Chambers Reserve Fund*
- *Supplementary Retirement Plan Reserve Fund*

In fulfilling my responsibilities for the Ministry, I have relied, as necessary, on the executives of the individual entities within the Ministry.

[Original Signed]

Peter Kruselnicki, P. Eng.
Deputy Minister of Finance

September 5, 2003

Overview

Alberta Finance
2002-03 Annual Report

OVERVIEW

The Ministry of Finance oversees government performance measurement, financial management and reporting. Alberta Finance is responsible for fiscal planning, intergovernmental fiscal arrangements, tax policy, economic analysis, statistics, public pensions, and regulation of government administration, financial institutions, insurance and private pension plans.

ALBERTA FINANCE'S MISSION (CORE BUSINESSES)

1. Establish the fiscal framework and facilitate sound fiscal planning and decision-making.
2. Foster an effective accountability framework.
3. Manage financial assets and liabilities prudently.
4. Foster access to comprehensive and competitive financial products and services and pension plans.
5. Administer the regulatory framework to reduce the risk of financial loss to pension plan members, depositors and policy holders.

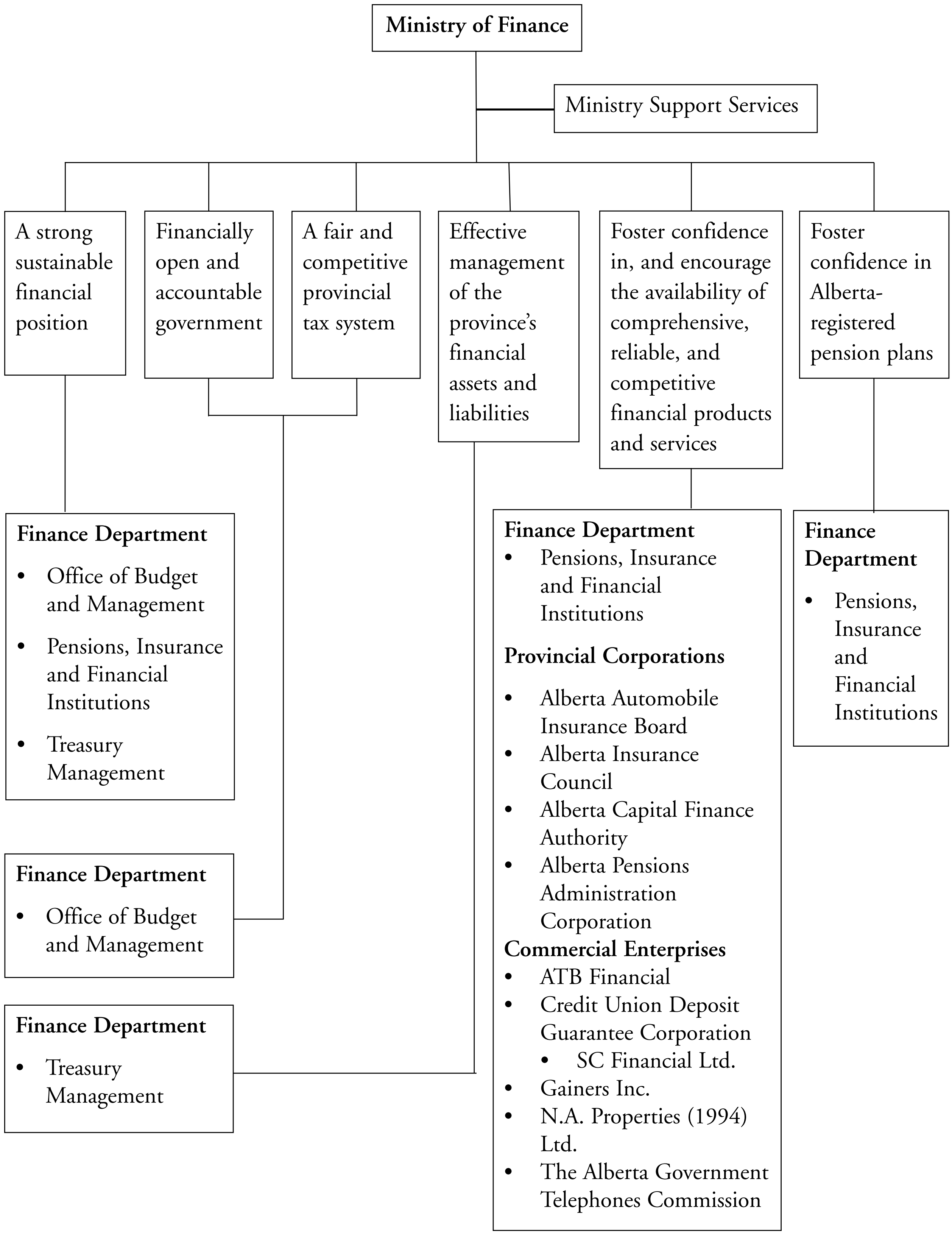
ALBERTA FINANCE'S GOALS FOR 2002-05

1. A strong sustainable financial position.
2. Financially open and accountable government.
3. A fair and competitive provincial tax system.
4. Effective management of the province's financial assets and liabilities.
5. Foster confidence in, and encourage the availability of comprehensive, reliable and competitive financial products and services.
6. Foster confidence in Alberta-registered pension plans.

ALBERTA FINANCE'S VISION

Working together to provide renowned and innovative financial leadership.

RELATIONSHIP OF FINANCE DEPARTMENT AND REPORTING ENTITIES TO GOALS



ALBERTA FINANCE'S OPERATIONAL STRUCTURE

OFFICE OF BUDGET AND MANAGEMENT

The Office of Budget and Management (OBM) manages the provincial budget and business plan review and approval process, prepares economic and fiscal forecasts, and provides research, analysis and recommendations on the Province's fiscal, economic and taxation policies. OBM is responsible for intergovernmental fiscal relations and for providing statistical information about the Province. It also proposes and prepares accounting and financial control policies, budget documents, quarterly budget updates, annual financial statements and performance measurement reports.

TREASURY MANAGEMENT DIVISION

The Treasury Management Division (TMD) has responsibility for the Province's on-going cash management including short-term borrowing and investments, management of banking and cash forecasting, and arranging short and long term financing for the government and provincial corporations. TMD is also responsible for managing investment of the assets of the General Revenue Fund set aside to retire debt, monitoring and managing loans and guarantees and providing financial advice to other government departments.

PENSIONS, INSURANCE AND FINANCIAL INSTITUTIONS

The Pensions, Insurance and Financial Institutions Division (PIFI) is responsible for the regulation of financial institutions, insurance and private sector pension plans. It also provides policy support and analysis to the Minister of Finance for those areas of responsibility, as well as on public sector pension plans and the Canada Pension Plan. The Division is also responsible for five other entities that report to the Minister of Finance:

- The Automobile Insurance Board investigates matters regarding automobile insurance in Alberta and approves rates charged by insurers for compulsory automobile coverage under the *Motor Vehicle Administration Act*. The entity's Annual Report can be obtained by contacting the local Edmonton office.
- The Alberta Insurance Council (AIC) is responsible for examining, licensing, regulating and disciplining insurance agents, brokers and adjusters in Alberta and for investigating consumer complaints against the industry. The Annual Report for AIC is available from their internet site shown at the right.

DEPARTMENT OF FINANCE

9515 - 107 St.
Edmonton, Alberta
T5K 2C3
www.finance.gov.ab.ca

AUTOMOBILE INSURANCE BOARD

#418, 9515 - 107 St.
Edmonton Alberta
T5K 2C3
780-427-5428

ALBERTA INSURANCE COUNCIL

901 TD Tower
10088 - 102 Ave.
Edmonton, Alberta
T5J 2Z1
www.abcouncil.ab.ca

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

18th floor
10130 - 103 St.
Edmonton, Alberta
T5J 3N9
www.cudgc.ab.ca

- The Credit Union Deposit Guarantee Corporation (CUDGC) regulates business practices of Alberta credit unions and guarantees deposits according to legislation. While the Government of Alberta provides the guarantees, CUDGC strives to maintain the Deposit Guarantee Fund at a level that will enable the corporation to independently provide the 100% deposit guarantee. The corporation provides advice to Alberta credit union boards and management to help improve their skills. CUDGC also works with the credit unions to help them avoid unsound business practices or other problems. The Annual Report for CUDGC is available from their internet site shown on the left.

ALBERTA PENSIONS ADMINISTRATION CORPORATION

3rd Floor
10611 - 98 Ave.
Edmonton, Alberta
T5K 2P7
www.apaco.ab.ca

- The Alberta Pensions Administration Corporation (APA) provides pension services to boards, employers, members and pensioners of Alberta public sector pension plans. Those pension services consist of the collection of pension contributions, maintenance of member accounts, payments of pension benefits and provision of information. Services are provided to 472 employers, approximately 173,000 active and deferred members, and 54,000 pensioners. The combined assets of the pension plans were approximately $16 billion at December 31, 2002. APA's Annual Report is available from their internet site shown on the left.

ATB FINANCIAL

9888 Jasper Ave.
Edmonton, Alberta
T5J 1P1
www.atb.com

- ATB Financial is a $13.2-billion, full-service financial institution based in Edmonton, Alberta. As a leading financial services provider to individuals, small business and the agri-industry in Alberta, it serves half a million Albertans in 240 communities through various branches, agencies, and a 180-seat Customer Contact Centre. Having the largest financial institution representation in the province, it is a preferred choice for many rural Albertans in smaller communities, and is an important alternative for a growing number of people in the major cities of Edmonton and Calgary. ATB's Annual Report is available from their internet site shown on the left.

ALBERTA CAPITAL FINANCE AUTHORITY

2450 Canadian
Western Bank Place
10303 Jasper Avenue
Edmonton, Alberta
T5J 3N6
www.finance.gov.ab.ca/
amfc

ALBERTA CAPITAL FINANCE AUTHORITY

Alberta Capital Finance Authority (ACFA), formerly Alberta Municipal Financing Corporation, provides financing for 15 cities, 2 specialized municipalities, 220 towns and villages, 43 counties, 21 municipal and improvement districts, 22 irrigation and water services commissions, 28 health authorities, 68 school districts/divisions, 2 airport authorities, 3 universities and 11 colleges. ACFA's Annual Report is available from their internet site shown on the left.

LEGISLATION ADMINISTERED BY ALBERTA FINANCE
AS AT MARCH 31, 2003

The following Acts are the sole responsibility of the Ministry of Finance:

- Alberta Municipal Financing Corporation Act
- Alberta Taxpayer Protection Act
- Alberta Treasury Branches Act
- Appropriation Act, 2002
    - Appropriation (Supplementary Supply) Act, 2002 (No. 2)
    - Appropriation (Supplementary Supply) Act, 2003
    - Appropriation (Interim Supply) Act, 2002
- Civil Service Garnishee Act
- Credit Union Act
- Employment Pension Plans Act
- Farm Credit Stability Act
- Financial Administration Act (except sections 11 and 76, and Part 5)
- Financial Consumers Act
- Fiscal Responsibility Act
- Government Accountability Act
- Insurance Act
- Loan and Trust Corporations Act
- Members of the Legislative Assembly Pension Plan Act
- Municipal Debentures Act
- Pension Fund Act
- Public Sector Pension Plans Act
- Statistics Bureau Act
- Telecommunications Act - Part 1

The following Acts are the combined responsibility of the Ministers of Finance and Revenue:

- Alberta Corporate Tax Act (except section 26.41)
- Alberta Income Tax Act
- Alberta Personal Income Tax Act
- Financial Administration Act - section 11 and Part 5
- Fuel Tax Act (except sections 12(3), (4), (5), 34(c), 37(2), 42 and 51(l) (j) and (aa))
- Hotel Room Tax Act
- Securities Act
- Tobacco Tax Act

The following Acts are the combined responsibility of the Ministers of Finance and Revenue and other Ministers:

- Alberta Corporate Tax Act - section 26.41 jointly with the Minister of Energy
- Fuel Tax Act - sections 12(3), (4), (5), 34(c), 37(2), 42 and 51(j) (l) and (aa) jointly with the Minister of Agriculture, Food and Rural Development

SUMMARY OF KEY ACTIVITIES

- Challenges continued to confront Albertans and their government in 2002-03. Severe drought conditions continued in much of Alberta. The slow and uneven recovery of the U.S economy negatively affected provincial exports and business investment. Energy prices stabilized, while strong growth was exhibited in the housing sector and consumer spending. Overall Alberta's economic growth for 2002 is estimated at 1.7%.
- Despite these challenges, the budget was balanced for the ninth year in a row and a payment was made to reduce the Province's accumulated debt. As reported in the 2002-03 Government of Alberta Annual Report, the province ended the year with an economic cushion of $1,989 million for the year ended March 31, 2003. This was $1,265 million above the budgeted target of $724 million. As a result, at March 31, 2003, accumulated debt less cash set aside for future debt repayment equalled $4.7 billion, which puts the Province approximately 10 years ahead of its legislated 25-year schedule to eliminate accumulated debt.
- Alberta continues to have the highest credit rating of any Canadian province, ensuring that Alberta's borrowing costs will be the lowest of any Canadian province. During 2002-03, Moody's Investor Services, Standard and Poor's, and Dominion Bond Rating Service all confirmed Alberta's triple A credit rating.
- The government maintained the benefits of the personal income tax changes made in 2001, when the single-rate tax was introduced. Alberta's personal income tax system is fully indexed which prevents inflation from eating away at past tax cuts. Taxpayers saved $75 million in 2002 because of indexing. The total tax load on Albertans continues to be the lowest in Canada, at only 54.1% of the national average.
- The government affirmed its commitment to corporate income tax cuts in 2002-03, though the pace of the cuts was slowed in response to a changing fiscal situation. Effective April 1, 2002, the general rate was reduced to 13%, the small business rate was reduced to 4.5%, and the small business threshold was increased to $350,000. These reductions saved taxpayers $81 million. The tax cuts have continued in 2003. Effective April 1, 2003, the general rate was reduced to 12.5%, the small business rate was reduced to 4%, and the small business threshold was increased to $400,000.

- Alberta has borrowed at the lowest market spreads of any Canadian province in every year since 1994-95, achieving the target set out in Alberta Finance's 2002-05 business plan. Virtually all of the borrowing in recent years has been on behalf of provincial corporations.
- Alberta Finance monitors provincially incorporated insurers, Credit Union Central of Alberta (CUCA) and trust corporations to enforce solvency legislation. All provincially regulated financial institutions met solvency requirements. No financial failures were recorded for insurance, loan or trust companies, CUCA or credit unions in 2002-03.
- ATB Financial's net income for the year was $199 million. This compares to its net income target of $117.1 million.
- In 2002-03, 86% of pension plans registered in Alberta maintained a solvency ratio of 0.9 or better, meeting Alberta Finance's performance targets. Beginning in the 2003-04 fiscal year, the performance measure regarding the solvency ratio will be amended to better monitor whether private sector pension plans are meeting the minimum funding requirements under the *Employment Pension Plans Act*.

Results Analysis

ALBERTA FINANCE
2002-03 Annual Report

RESULTS ANALYSIS

Challenges continued to confront Albertans and their government in 2002-03. Severe drought conditions continued in much of Alberta. The slow and uneven recovery of the U.S economy negatively affected provincial exports and business investment. Energy prices stabilized, while strong growth was exhibited in the housing sector and consumer spending. Overall Alberta's economic growth for 2002 is estimated at 1.7%.

REVENUE HIGHLIGHTS

- Internal government transfers rose by $127 million in 2002-03 over the previous fiscal year. This reflected an increase in lottery funds transferred to Alberta Finance for debt payment.
- Investment income decreased $40 million in the 2002-03 fiscal year. This was primarily due to a decrease in interest earned on funds held for future debt retirement as a result of lower average balances and a lower implied interest rate.
- Net income from commercial operations increased by $59 million. Re-evaluation of the $US tax liability of AGT Commission resulted in an increase in net income of $19 million. ATB reported an increase of $41 million in net income, which included a $45 million recovery of previous year's loan loss provisions.
- Other income and fees increased by $106 million, attributed mainly to the transfer of $100 million of retained earnings from Alberta Capital Finance Authority to the Province.

EXPENSE HIGHLIGHTS

- Overall, debt-servicing costs decreased $308 million as a result of debt retirement, gains on interest rate swaps and an increase in foreign exchange loss provision on unhedged US $ debt.
- Valuation adjustments increased by $124 million.
  - In 2002-03, pension provisions increased by $91 million. Primary reason for the increase was a result of an actuarial valuation at December 31, 2002 of the Public Service Management (Closed Membership) Pension Plan.

FINANCIAL RESULTS

Revenues for the Ministry in 2002-03 were $1,185 million. This was up $252 million or 27% from 2001-02.

Expenses in 2002-03 were $993 million, down $174 million, or 15% from 2001-02.

The net result was that revenues exceeded expenses by $192 million. The net operating results were $114 million more than budgeted.

The valuation used a lower discount rate and a new mortality table. Another contributing factor to the increase in the pension provision was the recording of the government's share of the increased deficiency resulting from investment losses.

- Reflected in the 2001-02 valuation adjustments is the reversal of a previous year's provision of $31 million related to the termination of the 1986 Credit Union deficit financing agreement.
- Provisions for doubtful accounts, employee benefits and other guarantees increased $2 million from the previous year.

- Alberta Pensions Administration Corporation operating expenses increased by approximately $7 million related to information system development, plan costs and other related expenses.
- Operating expenses of Treasury Management, Fiscal Planning and Accountability, Financial Sector Operations and Ministry Support Services increased by $3 million.

MINISTRY EXPENSE BY CORE BUSINESS
(thousands of dollars)

Core Business	2002-03 Comparable Budget	2002-03 Actual	2001-02 Comparable Actual
• Establish the Fiscal Framework and Facilitate Sound Fiscal Planning and Decision Making·	$ 6,025	$ 5,751	$ 5,184
• Foster an Effective Accountability Framework	5,977	5,776	5,238
• Manage Financial Assets and Liabilities Prudently	648,748	540,450	806,113
• Foster Access to Comprehensive and Competitive Financial Products and Services and Pension Plans·	356,937	358,833	359,772
• Administer the Regulatory Framework to Reduce the Risk of Financial Loss to Pension Plan Members, Depositors and Policy Holders.	810	1,171	859
Ministry Expense	**$1,018,497**[1]	**$ 911,981**[1]	**$1,177,166**[1]

[1] excludes pension provisions

GOAL 1

A STRONG SUSTAINABLE FINANCIAL POSITION

FISCAL RESPONSIBILITY - A BALANCED BUDGET AND MORE DEBT RETIRED

The Alberta Government balanced its budget for the ninth consecutive year in 2002-03. As reported in the 2002-03 Government of Alberta Annual Report, the Province ended the year with an economic cushion of $1.989 billion. This was $1.265 million higher than the budgeted target of $724 million.

Actual revenue of $22.7 billion was higher than budgeted primarily due to higher non-renewable resource revenue. Partly offsetting the increase was lower investment income. Program expense excluding pension provisions was $20.5 billion, an increase of $1.5 billion over budget. More than $1 billion of the increase was due to emergency and disaster funding for agriculture, forest fire-fighting costs and flood assistance.

NET RESULTS FOR FISCAL POLICY PURPOSES
ALBERTA'S CONSOLIDATED FINANCIAL STATEMENTS[1]
($millions of dollars)

	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
Budget	154	165	617	1,213	817	724
Actual	2,639	1,026	2,717	6,388	772	1,989

[1] Excluding pension provisions

As the table below shows, at March 31, 2003, accumulated debt less cash set aside for future debt repayment equalled $4.7 billion. 60% of the March 31, 2000 accumulated debt has been repaid, which puts the Province approximately 10 years ahead of its legislated 25-year schedule to eliminate accumulated debt.

ACCUMULATED DEBT

($millions of dollars)

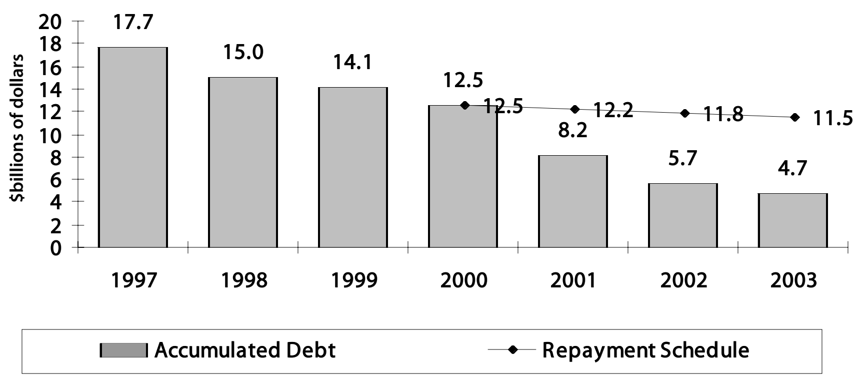
	2001-02	2002-03
Accumulated Debt (start of year)	10,265	8,416
Repayment of debt maturities	1,849	1,670
Accumulated Debt (end of year)	8,416	6,746
Cash set aside for future debt repayment	2,741	2,010[a]
Accumulated debt less cash set aside	**5,675**	**4,736**
Cash committed but not transferred until 2002-03	414	
	5,261	

[a] Includes $414 million in cash committed in 2001-02 but not transferred until 2002-03.

Key Performance Measure

DEBT RETIREMENT
TARGET: MILESTONES AS SET OUT IN THE FISCAL RESPONSIBILITY ACT
RESULT: TEN YEARS AHEAD OF SCHEDULE
Accumulated Debt Less Cash Set-Aside for Future Debt Repayment , at March 31

ACCUMULATED DEBT LESS CASH SET ASIDE FOR FUTURE DEBT REPAYMENT, AT MARCH 31



Excludes pension obligations
2002-03 Less $2.0 billion cash set aside for future debt repayment ($3.1 billion in 2001-02).
Source: Alberta Finance
METHODOLOGY: SEE KEY PERFORMANCE MEASURES METHODOLOGY APPENDIX (PAGES 50 TO 52).

Alberta has moved from a net debt position of $13.4 billion at March 31, 1994 (includes $5.1 billion in pension obligations) to net assets of $6.9 billion at March 31, 2003 (after accounting for $4.9 billion in pension obligations). Alberta remains the only province that owns more financial assets than it owes in financial liabilities. In addition, Alberta has capital assets of $10.3 billion.

Alberta continues to have the highest credit rating of any Canadian province, ensuring that Alberta's borrowing costs will be the lowest of any Canadian province. During 2002-03, Moody's Investor Services, Standard and Poor's, and Dominion Bond Rating Service all confirmed Alberta's triple A credit rating. The rating agencies pointed to the Alberta Government's strong financial position, the commitment to debt repayment, and its record of meeting forecasts and balancing budgets as the key reasons for Alberta's high credit rating.

Supplementary Performance Measure

ALBERTA'S CREDIT RATING
TARGET: BEST AMONG PROVINCES / DOMESTIC DEBT RATED AAA
RESULT: BEST AMONG PROVINCES / DOMESTIC PROVINCIAL DEBT RATED AAA

	Standard & Poor		Moody's		DBRS	
	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term
Alberta	AAA	A-1+	Aaa	P-1	AAA	R-1 high
British Columbia	AA-	A-1+	Aa2	P-1	AA low	R-1 middle
Ontario	AA	A-1+	Aa2	P-1	AA	R-1 middle

BUSINESS PLANNING, ECONOMIC AND FISCAL POLICIES, AND FORECASTING

During 2002-03, Alberta Finance worked with Executive Council to lead the government business planning process and co-ordinate the development of the 2003-06 Government Business Plan *Today's Advantage, Tomorrow's Promise: Alberta's Vision for the Future*.

Alberta Finance provides advice and support to the Minister of Finance and Treasury Board and co-ordinates the government's overall budget and business planning and reporting process through:

- developing common economic and financial assumptions for business planning across government,
- developing, with each ministry, program spending options and identifying reallocation opportunities to help ensure that fiscal targets are met,
- reviewing ministries' annual business plan submissions and annual reports,
- co-ordinating the development of key government-wide performance measures,
- assisting ministries to improve their business plan performance measurement systems,
- providing accounting advice and co-ordinating the development of accounting and financial policies for use across government,
- ongoing monitoring of the government's achievement of business plan and financial goals
- co-ordinating the development of standards for ministry and departmental financial statements and annual reports, and assisting ministries in preparing their financial statements, and
- continuing to explore possible refinements to the business planning process.

FINANCIAL MANAGEMENT COMMISSION

The Financial Management Commission was formed in March 2002, to evaluate Alberta's fiscal framework and recommend improvements. The Commission submitted its report, containing 25 recommendations, to the Minister of Finance on July 8, 2002. The recommendations included:

- Using the Heritage Fund as a vehicle to:
  - absorb resource revenue volatility and protect spending plans by ensuring that a set amount of resource revenue is available for budget purposes,
  - pay off remaining accumulated debt,
  - fund announced but deferred capital projects, and
  - transition from a resource-based economy.
- Improving capital planning by:
  - publishing a three or five-year capital plan,
  - establishing a minimum benchmark for capital spending,
  - moving forward with deferred capital projects within five years,
  - developing a standard method of evaluating facility deferred maintenance and utilization,
  - changing the method of budgeting and accounting for capital investment, and
  - considering alternative financing for capital projects;
- Developing and communicating a strategic plan for achieving a longer-term economic vision for Alberta, on which major policy decisions would be based;
- Strengthening:
  - business planning and risk management,
  - the openness of the budget process,
  - the co-ordination of public sector compensation negotiations, and
  - incentives within the public sector rewarding better fiscal management;

A formal government response was published in September 2002, accepting most of the recommendations, several with modifications. The recommendations formed the basis of the new fiscal framework introduced in Budget 2003.

NEW FISCAL FRAMEWORK

The *Financial Statutes Amendment Act, 2003*, passed in March 2003, amended the *Fiscal Responsibility Act*, the *Financial Administration Act* and the *Government Accountability Act*, to implement the new fiscal framework.

The legislative changes and main components of the new framework are:

- Establishing the Alberta Sustainability Fund as an account within the General Revenue Fund. The rules regarding transfers to and from the Sustainability Fund are also defined. The Fund will absorb the volatility in resource revenue to protect spending plans.
- Establishing the Capital Account as an account within the General Revenue Fund. The rules regarding transfers to and from the Capital Account are also defined. The Capital Account will permit pre-funding of future capital spending from prior years' surpluses.
- Amending the "no deficit" requirement to adjust for transfers to/from the Sustainability Fund and Capital Account, spending on emergencies and disasters, and for payments under the *Natural Gas Price Protection Act*.
- Revising the calculation of the required budgetary economic cushion, which will now include a contingency allowance of 1% of revenue for fiscal policy purposes, and net cash requirements for capital and the change in accumulated surpluses of funds and agencies.
- Adding a definition of "natural resource revenue for fiscal policy purposes," that is the lesser of $3.5 billion and the average resource revenue for the previous three years.
- Amending the allowable changes from budgeted spending, to include only the budgeted 1% contingency allowance, and exclude costs of emergencies and disasters, transfers from the Capital Account, payments under the *Natural Gas Price Protection Act*, and changes for net budgeting provisions (dedicated revenue and expense variations).

- Implementing accounting changes to move to an "expense" basis (booking government-owned capital assets on the balance sheet and expensing them over time via amortization, instead of using the "pay-as-go" basis of fully expensing annual capital spending), and to permit the carry-over of unspent capital investment funds to the subsequent fiscal year, instead of lapsing the funds.
- Amending the reporting requirements, including adding a requirement to publish a three-year capital plan annually.

FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS

Alberta Finance strives to ensure that the federal government treats Albertans equitably. The Department works with other provinces and develops and presents Alberta's position on federal-provincial fiscal arrangements to the federal government.

For several years, provincial/territorial Premiers and Finance Ministers have called upon the federal government to restore the Canada Health and Social Transfer (CHST) to its 1994-95 level of $18.7 billion and implement an appropriate escalator. In response, the federal government restored the CHST to $19.1 billion in 2002-03. While the federal government has not implemented a formal escalator for the CHST, it has legislated a schedule to increase the CHST to $25 billion by 2005-06. This, in part, reflects the provisions for increased health care funding contained in the recently announced February 2003 First Ministers' Health Accord. In addition, all new CHST funding is on an equal per capita basis for all provinces and territories.

As part of this accord, the federal government also announced plans to permanently remove the equalization ceiling, effective 2002-03.

The 2003 First Ministers' Health Accord includes a number of new funding areas. A five-year, $16 billion Health Reform Fund ($1 billion in 2003-04) will target primary health care reform, home care and catastrophic drug coverage. The federal government will create a new CHST supplement with funding of $2.5 billion to be drawn down by the provinces through 2005-06. There will be a $1.5 billion Diagnostic/Medical Equipment Fund to provide support for specialized staff training and equipment. All funding will be allocated among provinces on an equal per capita basis and will be booked over several years, starting in 2003-04. The total increase in CHST transfers will be $20 billion over five years.

The enrichment of the CHST transfer and other policy changes has moved Alberta closer to a per capita cash transfer that is equal to all other provinces. In 1998-99, Alberta's per capita cash transfer was 75% of the national average. This increased to 82% in 2002-03 and is expected to continue to increase in coming years.

These are significant moves toward achieving Alberta Finance's targets for federal-provincial fiscal relations.

Supplementary Performance Measure

AMOUNT OF THE CANADA HEALTH AND SOCIAL TRANSFER PAYMENTS

TARGET: RESTORATION OF FEDERAL FUNDING THROUGH THE CHST TO AT LEAST 18% OF PROVINCIAL EXPENDITURES ON HEALTH AND SOCIAL PROGRAMS AND INTRODUCTION OF AN APPROPRIATE ESCALATOR
RESULT: CHST RESTORED TO ITS 1994-95 LEVEL OF $18.7 BILLION BUT, AT 14% OF PROVINCIAL SPENDING ON HEALTH AND SOCIAL PROGRAMS, IT REMAINS WELL BELOW THE 18% TARGET. FUTURE INCREASES IN THE CHST ARE SCHEDULED THAT ARE EQUIVALENT TO A POPULATION PLUS INFLATION ESCALATOR.

TARGET: ALL NEW CHST FUNDING TO BE EQUAL TO THOSE OF ALL OTHER PROVINCES ON A PER CAPITA BASIS
RESULT: ALL NEW CHST FUNDING ON AN EQUAL PER CAPITA BASIS

TARGET: THE EXISTING CHST CASH TRANSFER MADE EQUAL TO THOSE OF ALL OTHER PROVINCES ON A PER CAPITA BASIS
RESULT: ALBERTA'S PER CAPITA CASH TRANSFER 82% OF THE NATIONAL AVERAGE, UP FROM 75% IN 1998-99

PUBLIC SECTOR PENSIONS

It has been a challenging period for Alberta public sector pension plans, given the multi-year decline in world capital markets and associated returns for invested pension fund assets.

Contribution rate increases have been put in place under the Local Authorities Pension Plan, the Special Forces Pension Plan and the Management Employees Pension Plan to enable the plans to maintain a sound financial position and appropriate funding levels. Further increases may be needed in the future if there is not a significant recovery in the financial markets. A contribution rate increase will likely be needed for the Public Service Pension Plan once an actuarial valuation of the plan is completed by December 2003. With appropriate contribution increases in place, the plans can be brought back into fully funded status.

In response to the recommendations of the pension boards, Alberta Finance examined the issue of solvency funding. As the likelihood of a public sector plan terminating is viewed as remote, public sector pension plans will no longer be required to fund on a solvency (or "plan termination") basis. This initiative should assist in keeping contribution rates as stable as possible. The plans will still be required to meet going-concern funding requirements.

Alberta Finance continues to work toward the retirement of the pre-1992 unfunded liabilities of the Special Forces and Universities Academic Pension Plans in accordance with the legislative framework currently in place.

Ensuring the sound governance, management and administration of the public sector pension plans has become an even greater focus. Alberta Finance continues to work with stakeholders of the Local Authorities Pension Plan to determine if, subject to meeting established principles and guidelines, the plan should become independent of government. Alberta Finance has also committed to work with pension boards and plan stakeholders to facilitate improved pension governance frameworks within the current statutory governance structure. The Alberta Government's principles for facilitating improved governance arrangements continue to include ensuring there are mechanisms for transparent accountability and that parties exposed to financial risk are directly involved.

Supplementary Performance Measure

IMPROVED PENSION GOVERNANCE FRAMEWORKS
TARGET: (1) SEPARATION OF SPONSOR/TRUSTEE FUNCTIONS (2) MECHANISM FOR TRANSPARENT ACCOUNTABILITY (3) PARTIES EXPOSED TO RISK ARE DIRECTLY INVOLVED
RESULT: IN PROGRESS

Alberta Finance has developed a work plan for a broad review of public sector pension plan governance arrangements, to be initiated in 2002-03 and continuing over the next 18 months, and has had initial discussions with some pension boards. Alberta Finance has continued to work on establishing appropriate terms and conditions for independence of the Local Authorities Pension Plan.

CANADA PENSION PLAN

Albertans need to feel confident that their Canada Pension Plan benefits will be there for them at retirement. Alberta Finance continues to work with the federal government and the other provinces to ensure the sustainability of the Canada Pension Plan, taking a leadership role in pressing for reforms when necessary. The 2002-03 triennial review of the CPP concluded that the CPP continues to be financially sound and that joint federal-provincial actions taken to ensure the long-term viability of the CPP are working.

Supplementary Performance Measure

LEGISLATIVE AMENDMENTS TO THE CANADA PENSION PLAN
TARGET: AGREEMENT BY FINANCE MINISTERS ON LEGISLATIVE AMENDMENTS AT THE END OF THE NEXT RENEWAL PERIOD (DECEMBER 2002)
RESULT: THIS OBJECTIVE WAS MET

No legislative amendments are required at this time as the 2002-03 review concluded that no changes to CPP benefits or contribution rates are needed.

GOAL 2

FINANCIALLY OPEN AND ACCOUNTABLE GOVERNMENT

Alberta continues to be the leader among Canadian governments in financial reporting. Alberta Finance provides Albertans with regular reports on performance measures and financial results.

The *Government Accountability Act* requires the government to publish annual three-year budget and business plans that identify goals, objectives and financial plans of the government and individual ministries. The Act also requires that the government provide quarterly financial and activity updates, which give Albertans details on where the money goes. Each quarter there is a list of some of the most important and interesting achievements that are published, initiated or completed by the government during the quarter. The Act also requires an annual report on both financial and performance results. Alberta Finance co-ordinates the preparation of these publications.

Other laws require balanced budgets, elimination of Alberta's accumulated debt, prudent economic cushions, controls on in-year spending increases, improved accountability for results, taxpayer protection and an end to special government loans and loan guarantees to businesses.

CONSOLIDATED BUDGETS AND BUSINESS PLANS

Alberta publishes consolidated budgets and business plans for all government entities. Budget 2002 included the 2002-05 Fiscal Plan and Business Plan, an Economic Outlook, and descriptions of both the Alberta Advantage and Alberta Tax Advantage. It established goals and measures for each of the government's core businesses: People, Prosperity and Preservation. A comprehensive set of strategies and actions to achieve these goals was outlined in the business plans of individual ministries.

The Government of Alberta Business Planning Working Group developed guidelines that were used in the 2003-06 business planning process. The group continues working towards implementing business planning standards that will promote the consistency and quality of the Government of Alberta ministry business plans.

As required by the *Government Accountability Act,* the 2002-03 Annual Report of the Government of Alberta, *The Right Decisions for Challenging Times*, which was published June 2003, provided an accounting of government-wide financial results and performance measures in comparison to the plans set out in Budget 2002. Ministry measures are provided in the annual report of each ministry, which also must include ministry consolidated financial statements and financial statements of each of the funds and provincial agencies comprising the ministry.

MEASURING AND REPORTING THE GOVERNMENT'S PERFORMANCE

The 2002-03 Annual Report of the Alberta government also included *Measuring Up*, the ninth annual report of the performance of the Government of Alberta. The report provides the public and the Legislative Assembly with an accountability document that compares results achieved to targets set out in the Government Business Plan, tabled with the Budget in the previous spring. The Measuring Up document also details the strategies the government is pursuing to achieve its goals.

Measuring Up contains core measures that relate to 19 specific government goals in areas such as health, education, the economy and the environment. The report also contains an update on progress being made on four particular cross-ministry initiatives, which the government singles out each year as requiring a corporate focus to be addressed effectively.

Tracking and reporting results makes it possible for policy makers to improve the quality of programs and services for Albertans and assists in making choices about whether to revise, retain or abandon existing programs.

ALBERTA FINANCE'S INTERACTION WITH MINISTRIES

Alberta Finance provides leadership in accountability for financial management. Ministries have the responsibility for internal controls and for reporting financial results and business outcomes at the ministry level. Alberta Finance monitors and advises on the maintenance of financial controls. Alberta Finance also prepares the Province's consolidated financial statements, based upon the ministries financial statements.

Alberta Finance has overall responsibility for developing government accounting policies and standards in consultation with ministries. Ministries are responsible for managing their financial affairs in accordance with these policies.

MEASURING ALBERTA FINANCE'S PERFORMANCE

Challenges continued to confront Albertans and their government in 2002-03. Severe drought conditions continued in much of Alberta. The slow and uneven recovery of the U.S economy negatively affected provincial exports and business investment. Energy prices stabilized. Overall Alberta's economic growth for 2002 is estimated at 1.7%.

Throughout the fiscal year, Alberta Finance kept the public informed of the Province's financial picture.

The awareness survey that was taken in January and early February 2003 shows that the public's understanding of our actual financial performance has increased from 53% in 2001-02 to 63% in 2002-03, a substantial improvement over the previous year. Finance is committed to reaching the target of 80%.

Key Performance Measure

ALBERTANS AWARE OF THE GOVERNMENT'S FINANCIAL PERFORMANCE
TARGET: 80% AWARE
RESULT: 63% AWARE
SOURCE: ENVIRONICS WEST
METHODOLOGY: SEE KEY PERFORMANCE MEASURES METHODOLOGY APPENDIX (PAGES 50 TO 52).

This performance measure is being changed in Finance's 2003-06 business plan. In the future, Albertans will be surveyed to see how satisfied they are with the information they receive on the government's financial performance, either directly from the government or through other sources. In 2002-03, 67% of Albertans were satisfied.

Alberta Finance also undertakes client satisfaction surveys annually. One survey measures the satisfaction of deputy ministers with the government's accountability system. 95% of the responding deputies were very satisfied or satisfied, 5% below Alberta Finance's target of 100%.

Supplementary Performance Measure

SATISFACTION OF DEPUTY HEADS WITH THE GOVERNMENT'S ACCOUNTABILITY SYSTEM
TARGET: 100% SATISFIED OR VERY SATISFIED
RESULT: 95% SATISFIED OR VERY SATISFIED

CONSULTING WITH ALBERTANS

The Alberta Future Summit 2002 was a province-wide public consultation that gave Albertans a voice in planning the province's future. More than 4,000 Albertans took part in the public consultations that began in September and concluded with the Future Summit in Red Deer, held on February 4-5, 2002. A report to Government was presented in May 2002.

Many of the ideas Albertans proposed have been incorporated into government's plans and priorities. Several government priorities address many of the key strategies Albertans identified, including:

- Establishing a sustainability fund to manage volatile revenues and protect core programs.
- Making major infrastructure investments in hospitals, schools and roads.
- Promoting healthy living choices and encouraging personal responsibility for health care to sustain the health system and improve quality of life.
- Ensuring children are safe, healthy and ready to learn through the Alberta Children and Youth Initiative and through "Alberta's Promise".
- Working to improve socio-economic opportunities for Aboriginal peoples and communities.
- Enhancing the province's economic development strategy and ensuring Alberta's fiscal framework remains strong.

All ministries will continue to use the Summit findings as they make decisions and adjust priorities in the future.

GOAL 3

A FAIR AND COMPETITIVE PROVINCIAL TAX SYSTEM

A tax system must be competitive to enable a strong economy, yet it must also raise revenue to fund the services that Albertans desire. In 2002-03, Albertans continued to pay the lowest taxes in Canada, while still receiving the benefits of excellent public services.

LOW TAXES ON FAMILIES

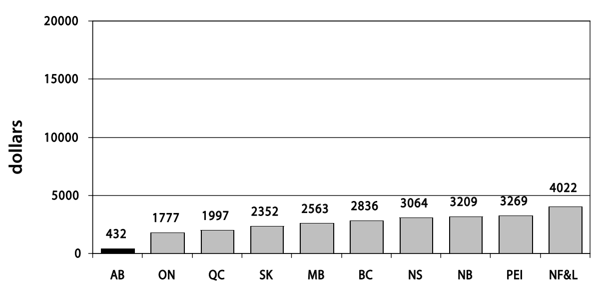
The government maintained the benefits of the changes made in 2001, when the single-rate tax was introduced. Albertan's fully indexed tax system prevents inflation from eating away at past tax cuts. Taxpayers saved $75 million in 2002 because of indexing.

Albertans paid the lowest personal taxes in Canada, through a system that is fair and promotes economic growth. Alberta also remained the only province without a provincial sales tax.

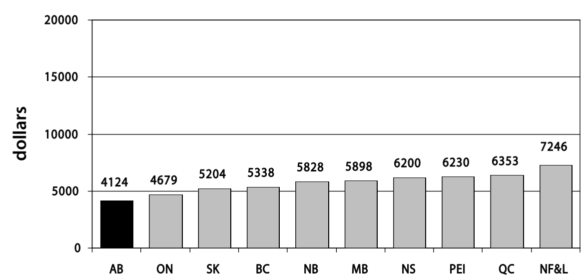
Key Performance Measure

PROVINCIAL TAX LOAD FOR A FAMILY OF FOUR
TARGET: LOWEST IN CANADA
RESULT: LOWEST IN CANADA
SOURCE: ALBERTA FINANCE
METHODOLOGY: SEE KEY PERFORMANCE MEASURES METHODOLOGY APPENDIX (PAGES 50 TO 52).

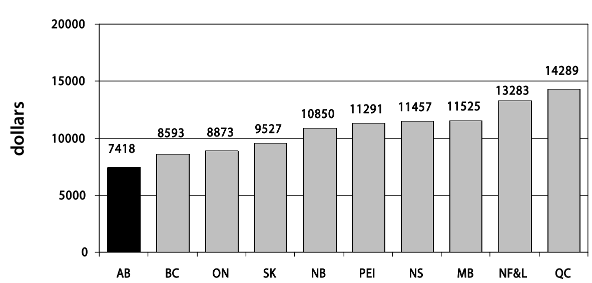
ONE INCOME FAMILY EARNING $30,000



TWO INCOME FAMILY EARNING $60,000



TWO INCOME FAMILY EARNING $100,000



Source: Alberta Finance

The personal tax load on Albertans was 54.1% of the national average. At 36.4 percentage points below second place British Columbia, this was the lowest in Canada. This competitive tax regime fueled a strong economy, creating jobs and attracting people from across Canada.

In 2002, the Alberta economy created 41,700 new jobs, for a total of 1.67 million jobs. Job gains were greatest in health care and social assistance, retail trade, and manufacturing of non-durables. Alberta had the highest employment participation rate in Canada, at 73.0% for 2002. In addition, 26,740 inter-provincial migrants moved to Alberta in 2002, mainly from British Columbia, Ontario and Saskatchewan.

Supplementary Performance Measure

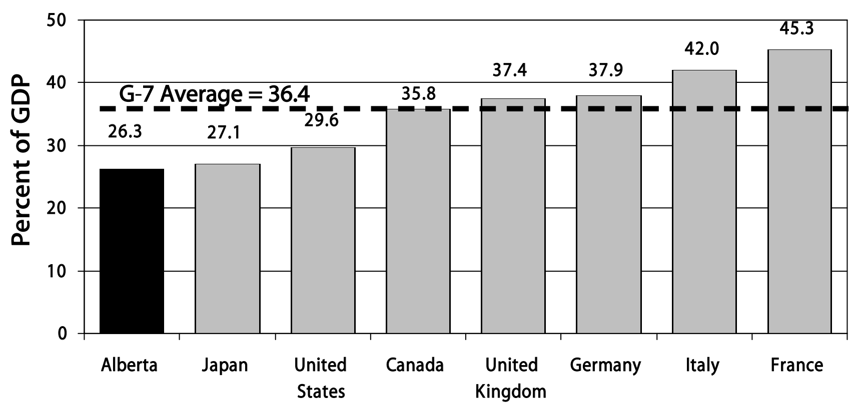
EMPLOYMENT PARTICIPATION RATE
TARGET: HIGHEST IN CANADA
RESULT: HIGHEST IN CANADA

The following graph compares Alberta's total tax load as a percentage of GDP to the tax loads of the G-7 countries. The tax load in each jurisdiction includes all applicable municipal, provincial/state, federal and supranational taxes, and social security levies. At 26.3% of GDP, Alberta's tax load was below that of all G-7 nations, 10.1 percentage points lower than the G-7 average. Canada's tax load improved to third lowest among G-7 nations, from fifth lowest.

Supplementary Performance Measure

TOTAL TAX LOAD IN ALBERTA AS A PERCENTAGE OF GDP COMPARED WITH G-7 COUNTRIES
TARGET: 29.0% OF ALBERTA GDP
RESULT: 26.3% OF ALBERTA GDP IN 2000

G7 TOTAL TAX LOAD
(2000)



SOURCE: THE ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT REVENUE STATISTICS; STATISTICS CANADA; ALBERTA FINANCE

LOW TAXES ON BUSINESS

In 2002-03, Alberta's provincial tax load on business was the third lowest in Canada, the same ranking as 2001-02 (revised based on latest available information). Alberta did not meet its target of having the lowest business tax load in Canada as it lagged behind Prince Edward Island and British Columbia. British Columbia improved its ranking from ninth overall in 2001-02 to second in 2002-03 because it cut its general corporate income tax rate to 13.5% from 16.5% and eliminated its general capital tax as of September 1, 2002.

Alberta's general corporate tax rate and small business rate, at 13.0% and 4.5% respectively, are the second lowest among all the provinces. Alberta does not have any capital taxes. Low overall taxes in Alberta encourage entrepreneurs to start new businesses in Alberta, or move them here from other provinces.

Key Performance Measure

PROVINCIAL TAX LOAD ON BUSINESS*
TARGET: LOWEST TAX LOAD IN CANADA
RESULT: THIRD LOWEST IN CANADA

	2002-03	2001-02 (revised)
Prince Edward Island	60.5	72.0
British Columbia	83.6	135.1
Alberta	85.0	76.6
Manitoba	91.6	116.1
Nova Scotia	93.7	72.0
Ontario	96.1	94.9
New Brunswick	96.8	104.8
Quebec	114.8	106.7
Newfoundland and Labrador	120.0	122.2
Saskatchewan	212.4	150.7

* Includes business income taxes, capital taxes, and insurance corporation taxes
Tax load relative to provincial average=100

Source: Federal Department of Finance, July 2003 Interim Estimate for 2002-03, February 2003 Fifth Estimate for 2001-02; Alberta Finance

METHODOLOGY: SEE KEY PERFORMANCE MEASURES METHODOLOGY APPENDIX (PAGES 50 TO 52).

The government affirmed its commitment to corporate income tax cuts in 2002-03, though the pace of the cuts was slowed in response to a changing fiscal situation. Effective April 1, 2002, the general rate was reduced to 13%, the small business rate was reduced to 4.5%, and the small business threshold was increased to $350,000. These reductions saved taxpayers $81 million.

The tax cuts continued in 2003. Effective April 1, 2003, the general rate was reduced to 12.5%, the small business rate was reduced to 4%, and the small business threshold was increased to $400,000.

IMPLEMENTATION SCHEDULE FOR THE BUSINESS TAX PLAN
(Effective April 1st each year)

	2000-01	2001-02	2002-03	2003-04	2004-05
General rate[a] (%)	15.5	13.5	13.0	12.5	11.5
Small business rate (%)	6.0	5.0	4.5	4.0	3.0
Small business threshold ($)	200,000	300,000	350,000	400,000	400,000
Railway fuel tax (c/litre)	3.0	1.5[b]	1.5	1.5	1.5
Capital tax (%)	0.7/1.0	Eliminated	–	–	–

[a] Manufacturing and processing (M&P) income was taxed as 14.5% in 2000, but in 2001 the M&P rate was reduced to the same level as the general rate. The tax system no longer distinguishes between M&P and other income.
[b] Effective May 1, 2001

Alberta's competitive tax system helps to stimulate the growing economy. After showing virtually no change in 2001-02, business registrations were up 4.5% in 2002-03. This exceeded the target of a 3.0% increase, and suggests renewed confidence in the strength of the global economy.

Supplementary Performance Measure

PERCENTAGE ANNUAL GROWTH IN BUSINESS REGISTRATIONS
TARGET: 3.0% GROWTH
RESULT: 4.5% GROWTH

OTHER TAX INITIATIVES

The Alberta government raised tobacco taxes in its 2002 Budget, in recognition of the significant health costs caused by tobacco use. The tax rate on a carton of cigarettes increased from $14 per carton to $32 per carton. Tax rates for other tobacco products were also increased to ensure that a cheaper form of tobacco was not available. Higher tax rates on tobacco products have encouraged Albertans, particularly young Albertans, to quit smoking, or discouraged them from starting to smoke at all.

To assist the continued viability of NHL hockey in the province, the Alberta government imposed a tax of 12.5% on NHL players who play hockey games in Alberta. This tax came into effect for the 2002-03 season and will be in place until December 31, 2005. All revenue raised, minus administration costs, goes to the two teams.

School property tax mill rates were cut 1%, marking the ninth straight year that the government has either cut or frozen provincial uniform school property tax rates.

Alberta Finance continues to work with the federal Department of Finance and other provinces to address inter-provincial tax issues. One major priority over the past year has been resource taxation. Alberta Finance has consistently advocated that the non-renewable resource sector share in the federal corporate tax cuts announced in 2000. Alberta Finance was pleased to see that, as stated in its most recent budget, the federal government will equalize the sector's tax rate with that of other sectors. We will work with the federal government to ensure this plan proceeds as quickly as possible.

The tax collection agreements authorize the federal government to collect personal income taxes on behalf of the provinces. Alberta Finance continues to work on re-negotiating the personal income tax collection agreements with the federal government to better reflect the move to the tax on income system and to provide increased policy flexibility. Unfortunately, progress has been slower than anticipated.

Supplementary Performance Measure

A NEW TAX COLLECTION AGREEMENT (TCA) WITH THE GOVERNMENT OF CANADA
TARGET: MARCH 2003
RESULT: TARGET NOT MET

GOAL 4

EFFECTIVE MANAGEMENT OF THE PROVINCE'S FINANCIAL ASSETS AND LIABILITIES

TREASURY MANAGEMENT DIVISION

Treasury Management Division (TMD) has responsibility for the province's ongoing cash management including short-term borrowing and investing, management of banking arrangements and cash forecasting, and arranging short and long term financing for the government and provincial corporations. TMD is also responsible for managing funds set aside to retire debt, monitoring and managing loans and guarantees and providing financial advice to other government departments.

MANAGEMENT OF ENTERPRISE RISK

Alberta Finance has assumed a leadership role in researching and ultimately developing an enterprise-wide risk management framework so that Alberta can effectively manage the financial challenges it deals with day to day. Within this framework, individual ministries will be responsible for quantifying and assessing their own risk. Based on the assessments, action plans will be developed to manage risk. The first steps in developing the framework are underway. Further development is planned for in 2003-04 with a goal of preparing final recommendations for government consideration by the end of the year. If accepted, the recommendations would be implemented in the 2004-05 fiscal year.

An element of enterprise risk management is the development of a business resumption plan. Organizations must be prepared if they are to resume critical services quickly after a catastrophic event. All ministries are required to prepare a business resumption plan for their respective ministries and must report on the progress made in each fiscal year. Alberta Finance implemented a business resumption plan for the Department during the fiscal year.

Supplementary Performance Measure

RISK MANAGEMENT FRAMEWORK DEVELOPED
TARGET: MARCH 2003
RESULTS: TARGET NOT MET. RESEARCH PHASE COMPLETE.

COST OF BORROWING

During the fiscal year, the Ministry borrowed $740 million for provincial corporations through public bond issues and private placements. By utilizing private placements, the Ministry was able to lower commission costs and, in some cases, to construct specialized financing for the provincial corporations that would have been difficult to arrange through the public debt market. The use of these vehicles saved the Province and its corporations an estimated $596,500 compared to selling the same bonds in the public markets.

Supplementary Performance Measures

ALL-IN COST OF DEBT ISSUE
TARGET: COST LOWER THAN AN ISSUE OF COMPARABLE TERM IN THE CANADIAN PUBLIC DEBT MARKET
RESULTS: COST LOWER BY $596,500

MARKET SPREADS (ALBERTA'S COST OF BORROWING COMPARED TO THE FEDERAL GOVERNMENT'S COST)
TARGET: LOWEST SPREAD OF ANY PROVINCE
RESULTS: ALBERTA CONTINUES TO HAVE THE LOWEST SPREAD OF ANY PROVINCE

Alberta's cost of borrowing is determined relative to the federal government's interest rate for the same term. For example, an Alberta five-year bond is priced in the market relative to a Government of Canada five-year bond. The federal government enjoys a lower borrowing cost than any province, including Alberta, owing to its greater taxing power and its sovereign status.

The difference in the interest rate Alberta would pay on a particular term debt compared to what the federal government would pay is known as the market spread. The relative market spreads presented in the following table are a reflection of the Province's sound fiscal and debt management.

Alberta has borrowed at the lowest market spreads of any Canadian province in every year since 1994-1995, achieving the target set out in Alberta Finance's 2002-05 business plan.

	5-year Bonds				10-year Bonds			
	Canada	Alberta	B.C.	Ontario	Canada	Alberta	B.C.	Ontario
	(%)	(basis point spread)*			(%)	(basis point spread)*		
March 31, 1999	5.03	+13	+24	+19	5.09	+19	+33	+27
March 31, 2000	6.08	+15	+21	+19	5.91	+32	+43	+39
March 30, 2001	5.08	+14	+22	+21	5.39	+23	+43	+41
March 29, 2002	5.35	+17	+23	+20	5.78	+17	+35	+28
March 31, 2003	4.44	+23	+27.5	+26.5	5.11	+25	+35.5	+34.5

* A basis point is one one-hundredth of a percentage point.

Sources: CIBC World Markets
RBC Capital Markets
Scotia Capital

CASH MANAGEMENT

TMD manages annual cash flows in excess of $300 billion. On a daily basis the division must forecast revenues and expenditures and invest or borrow to meet cash position targets. Operations in fiscal 2002-03 were successful in meeting the daily consolidated cash position targets approximately 86% of the time.

Supplementary Performance Measure

DAILY CONSOLIDATED CASH POSITION
TARGET: DAILY CASH POSITION IS WITHIN 2% OF AVERAGE DAILY FLOW (UNDER REVIEW)
RESULTS: ON AN ANNUAL BASIS THE DAILY CASH, POSITION MET THE TARGET APPROXIMATELY 86% OF THE TIME

TMD is also responsible for the banking arrangements required to support such a large volume of transactions and meeting the banking needs of all the government departments and agencies. Results of a survey of all banking clients circulated throughout the government show that in excess of 98% of clients are satisfied or very satisfied with the service provided by the division.

Supplementary Performance Measures

SATISFACTION SURVEY OF ALL CLIENTS
TARGET: 90% SATISFIED OR VERY SATISFIED
RESULTS: 98% SATISFIED

DEPARTMENTS AND AGENCIES REQUESTING ASSISTANCE DURING THE YEAR ARE SATISFIED WITH SERVICES
TARGET: 80% SATISFIED OR VERY SATISFIED
RESULTS: 77% SATISFIED
SOURCE: ALBERTA FINANCE CLIENT SURVEY, JUNE 2002

The time weighted rate of return on the Consolidated Cash Investment Trust Fund (CCITF) was 2.77% and the return on its benchmark (the Scotia McLeod 91 day T-Bill Index plus ten basis points) was 2.81% for the fiscal year ended March 31, 2003. The difference between the two was 4 basis points. The CCITF is a relatively liquid cash management fund as the money in the Fund must be easily accessible to the various depositors. For 2003-04, the target return remains the Scotia MacLeod 91 T-Bill index plus ten basis points.

Supplementary Performance Measure

RATE OF RETURN ON THE CONSOLIDATED CASH INVESTMENT TRUST FUND
TARGET: SCOTIA MCLEOD 91 DAY T-BILL INDEX PLUS TEN BASIS POINTS
RESULT: UNDERPERFORMED BY FOUR BASIS POINTS

NON-CORE FINANCIAL ASSETS AND LOAN GUARANTEES

The Ministry of Finance is responsible for the divestiture of non-core financial assets and the elimination of contingent liabilities under administration. The Ministry is also overseeing the windup of certain provincial corporations under administration. These include the Alberta Government Telephones Commission, Gainers Inc., and N.A.

Properties (1994) Ltd. These entities do not carry on any active business. Total non-core financial assets dropped to $3 million from $6 million the previous year, primarily due to the repayment of loans.

The Ministry continues to work on outstanding contingent liabilities. Liabilities arising from outstanding guarantees administered by the Ministry fell from $77 million to $60 million as guarantees matured.

BUSINESS CONTINUITY PLAN

After a thorough review of the businesses in the Finance and Revenue departments a Business Continuity Plan was developed and implemented. Critical operations, systems and employees were identified and plans put in place to ensure that any disruption in normal activity would be minimal. All critical computer systems have been duplicated at an offsite location and have been thoroughly tested.

The Finance / Revenue Business Continuity Plan has been a major accomplishment for the two departments. The team that worked on the Business Continuity Plan has been invited to give presentations to other government departments. They were also awarded an Employee Excellence Award by their peers in Finance / Revenue.

Supplementary Performance Measure

CRITICAL AREAS ARE IDENTIFIED AND A BUSINESS CONTINUITY PLAN IS IN PLACE FOR THOSE AREAS
TARGET: MARCH 2003
RESULTS: COMPLETE

CREDIT RATING AGENCIES

Alberta's goal is to ensure that credit rating agencies understand the Province's financial and economic position. To fulfill this goal, Alberta Finance maintains a continual dialogue with three rating agencies and provides them with:

- detailed briefings and updates on the Province's financial and economic status
- budget highlights, annual financial reports, quarterly updates and other information to keep them current on financial issues.

In response to an annual survey, the three agencies reported that they are either satisfied or very satisfied with the information provided to them.

Supplementary Performance Measure

SATISFACTION OF CREDIT RATING AGENCY PERSONNEL
TARGET: 80% SATISFIED OR VERY SATISFIED
RESULTS: ALL THREE CREDIT AGENCIES SATISFIED

FUNDS INVESTED TO MEET FUTURE DEBT MATURITIES

The Province has set aside funds from prior year's surpluses to meet its obligations on future debt maturities. The decision was made to invest these funds and repay debt only as it matures. The objective is to purchase investments that return a higher rate of return than the market return on Province of Alberta debt on the day the investment is purchased. If the investment return exceeds the market return on Province of Alberta debt, then the Province is able to save that differential. In 2002-03 the funds invested to meet debt repayments exceeded the market return on the matching debt by 5.6 basis points.

Supplementary Performance Measure

RETURN ON DEBT RETIREMENT INVESTMENTS
TARGET: RETURN ON THE INVESTMENT IS GREATER THAN THE COST OF THE DEBT ON THE DAY THE INVESTMENT IS MADE
RESULTS: 5.6 BASIS POINTS HIGHER THAN MARKET RETURN ON MATCHING DEBT

GOAL 5

FOSTER CONFIDENCE IN, AND ENCOURAGE THE AVAILABILITY OF COMPREHENSIVE, RELIABLE AND COMPETITIVE FINANCIAL PRODUCTS AND SERVICES

FINANCIAL INSTITUTIONS AND INSURANCE ACTIVITIES

Alberta Finance regulates the credit union, insurance, and loan and trust industries in Alberta, balancing the interests of stakeholders including depositors, insurance policyholders, investors, insurance intermediaries, and the companies themselves.

Alberta Finance also monitors provincially-incorporated insurers, trust corporations, the Credit Union Central of Alberta (CUCA) and, through the Credit Union Deposit Guarantee Corporation (CUDGC), monitors credit unions, and enforces applicable legislation. Alberta Finance's role with respect to deposit insurance is restricted to ensuring that CUDGC is capable of fulfilling its guarantee of credit union deposits.

All provincially-incorporated credit unions, trust and insurance companies, and CUCA met solvency requirements. No financial failures were recorded for insurance, loan or trust companies, CUCA or credit unions in 2002-03.

Notable legislative initiatives undertaken by Alberta Finance during the past fiscal year include:

- The introduction of Bill 12, the *Financial Sector Statutes Amendment Act*, in March 2003. Bill 12, which includes a set of amendments to various financial sector statutes administered by the department, fosters greater consistency with respect to the business powers of Alberta financial institutions and allows the government to better promote a level playing field with the institutions' federally-regulated competitors on a timely basis.
- The introduction of Bill 33, the *Insurance Amendment Act*, also in March 2003. Bill 33 - tabled after discussions were held with interested stakeholders - has been introduced in an effort to stabilize automobile insurance premiums. One of the department's five strategic priorities in 2003-04 is to review issues facing the automobile insurance industry, including compensation for auto injury claims and related premium increases.

Supplementary Performance Measures

FINANCIAL INSTITUTIONS MEETING LEGISLATED CAPITAL ADEQUACY REQUIREMENTS
TARGET: 100%
RESULT: 100%

PROPERTY AND CASUALTY INSURERS MEETING LEGISLATED MINIMUM CAPITAL REQUIREMENTS
TARGET: 100%
RESULT: 100%

ATB FINANCIAL

Work continues on growth strategies for ATB Financial, focused on personal and business banking, investor services and energy and commercial banking.

In Personal and Business Banking, ATB's focus is providing personal service to its customers. ATB continues to invest heavily in its branch network. During the year, new branches were opened and existing branches renovated or relocated, including: Brooks, Calgary Fifth Avenue, Calgary Douglas Glen, Calgary Forest Lawn, Calgary Monenco Place, Edmonton Killarney, Whitemud at Calgary Trail in Edmonton, Peace River, and Rocky Mountain House.

On the product and services side, an enhanced insurance package was added to the AgriBusinessCard MasterCard and the Alberta Business MasterCard. The Extreme Discount Mortgage and a 10-year Guaranteed Rate Mortgage was introduced, providing customers an opportunity to lock-in their mortgages at a low rate. Through the ATB Financial-sponsored "Real Cash Real Profit" seminars, over 500 Alberta entrepreneurs learned more about the business of being in business and the difference between being profitable and being able to meet their day-to-day financial commitments.

Under the banner of ATB Investor Services, clients now have access to enhanced investment solutions at competitive prices. ATB Investor Services has partnered with some of the best financial solution providers in the world, in the construction of the Compass Portfolio series. These professionally managed portfolios, constructed with in-depth asset allocation strategies, are among the first of their kind in Canada. In addition, ATB has access to the universe of mutual funds and the ATB Investor Services team of licensed professionals is now in a position to offer full-service financial advice and solutions to all levels of client needs in Alberta. Through a partnership with Qtrade Investor, access to an on-line brokerage service is provided for clients who prefer to directly manage some of their own investments.

In Energy and Commercial Banking, ATB has moved from a regional focus to industry specialization. Customers require money to grow their businesses in Alberta and through local decision-making and industry specialization, ATB can provide that foundation for growth.

The Co-operation and Referral Agreement signed with Rabobank last year has progressed satisfactorily and the agreement was extended to 2005. Partnerships were established with Moneris Solutions, for ATB Financial merchant services. This alliance will improve payment processing for merchant customers, providing a streamlined single statement for all types of card payments.

Financial Results

ATB's forecast of net income for the year was $117.1 million. Actual net income was $198.9 million (see table below).

ATB FINANCIAL - SUMMARY OF FINANCIAL RESULTS
(millions of dollars)

	Actual 2002-03	Target 2002-03	Actual 2001-02
Net interest income	$ 364.2	$ 365.9	$ 365.6
Other income	107.4	101.2	101.2
Non-interest expenses, including deposit guarantee fee	(315.9)	(314.8)	(287.8)
Loan loss provision/(recovery)	(43.2)	35.2	21.1
Net income	$ 198.9	$ 117.1	$ 157.9

Operating revenue totalled $471.6 million for 2002-03, up from last year's $466.8 million. This growth represented a 1% increase over last year and compared favourably to 2003 planned growth of 0.06%.

Net interest income was $364.2 million for 2002-03, a decrease of $1.4 million or 0.4% over last year's $365.6 million. The modest decrease was due to growth in average earning assets (loans to customers, deposits with banks and securities) being more than offset by continued low interest rate margins. Net interest margin of 2.85% is the ratio of net interest income to average total assets. This compares favourably to the Canadian banking industry average of 2.00%. The main reason for this strong performance is that ATB Financial maintains a strong retail deposit base and has a smaller share of the corporate market, which tends to yield lower returns.

ATB FINANCIAL - STATISTICS
As at March 31 (per cent)

	Target 2004	Actual 2002-03	Target 2002-03	Actual 2001-02	Actual 2000-01	Industry Average*
Net interest spread on average earnings assets	**3.00**	**2.92**	**2.96**	3.09	3.35	2.35
Other income to operating revenue	**20.94**	**22.78**	**21.67**	21.68	19.75	47.22
Non-interest expenses to operating revenue	**65.34**	**66.99**	**67.40**	61.65	59.55	68.68
Credit losses to average loans	**0.25**	**(0.39)**	**0.33**	0.21	0.22	1.08
Loan growth	**14.33**	**12.41**	**7.65**	8,86	6.95	2.33
Retail deposit growth	**8.60**	**5.49**	**5.96**	9.85	13.33	n/a

* Average of eight major Canadian banks as at October 31, 2002

ATB Financial's net interest spread for 2002-03 was 2.92% compared to the 2003 target of 2.96% and a 2001-02 level of 3.09%. The target for net interest spread was not achieved, as interest rates remained at or near 40 year lows throughout 2002-03, which continued to place pressure on the spread.

Other income was $107.4 million for 2002-03, an increase of 6.16% compared to last year's $101.2 million. This increase is primarily attributable to growth in service charges. Service charges increased due to mid-year rate increases and higher transaction volumes. Card fees also continued to grow as a result of an increased number of card products in circulation.

The productivity ratio is the per cent of total revenue that is consumed by non-interest expenses, excluding provision for loan loss. ATB Financial's productivity ratio was 66.99% for 2002-03, compared with a planned ratio of 67.40% and last year's ratio of 61.65%. This increase in the ratio was due to ATB Financial's reorganization and retooling to support their three major growth initiatives. ATB Financial's productivity ratio compares favourably with the industry.

Non-interest expenses consist of all ATB Financial expenses except interest expense and provision for credit losses. Non-interest expenses were $315.9 million for 2002-03, an increase of 9.8% compared to last year's $287.8 million. The majority of the increase in non-interest expenses relates to increased human resource costs to provide competitive performance-based compensation, a full range of employment benefits and comprehensive training and development opportunities. Marketing expenses are higher and ATB Financial increased its commitment to community event sponsorship and corporate donations.

ATB Financial recorded a recovery of loan losses of $43.2 million for 2002-03, compared to a provision of $21.1 million for 2001-02. Included in the 2002-03 recovery is $45.0 million related to the West Edmonton Mall settlement. The ratio of the annual charge for credit losses to average total loans was a negative 0.39% comparing favourably to the target ratio of 0.33% and last year's ratio of 0.21%. ATB Financial's lower than expected provision for credit losses was directly attributable to a combination of lower newly established provisions and recoveries of both specific and general provisions.

Gross impaired loans (before deducting the allowance for credit losses) increased by $4.0 million to $91.4 million from $87.3 million as at March 31, 2002. Net impaired loans decreased $3.0 million or 3.51% to a negative $83.4 million as at March 31, 2003 compared to a negative $86.4 million as at March 31, 2002.

ANNUAL PROVISION FOR CREDIT LOSSES
Years ended March 31 (thousands of dollars)

	2003	2002	2001	2000	1999
Loans:					
Specific provision for credit losses	$ (50,667)	$ 5,889	$ 8,959	$ (13,300)	$ (40,671)
General provision for credit losses	7,456	15,206	12,010	(28,521)	(542)
Off-balance sheet items:					
Specific provision for guarantees	-	-	-	-	45,000
Annual provision for credit losses	(43,211)	21,095	20,969	(41,821)	3,787
Annual provision for credit losses as a percentage of average loans	-0.39%	0.21%	0.22%	-0.49%	0.05%

Supplementary Performance Measure

PROFITABILITY, EFFICIENCY AND LOAN LOSS RATIOS
TARGET: COMPARABLE TO THE MAJOR BANKS
RESULT: OUTPERFORMED THE INDUSTRY AVERAGE

In Fall 2002, ATB repeated its customer satisfaction research. An index score relating to customers' overall satisfaction with the products and services of ATB, likelihood to continue their relationship with ATB, likelihood to recommend ATB to others and the perception of the advantages of banking with ATB was used as an ongoing measure of the ATB's performance. The score of 83 among primary customers has remained stable since Spring 2002 (Index score 84). With this score, ATB performs better than some of the five major chartered banks and is on par with others.

ALBERTA PENSIONS ADMINISTRATION CORPORATION

Alberta Pensions Administration Corporation (APA) collects pension contributions, maintains member accounts, pays pension benefits, and provides information to pension boards, employers, members, and pensioners of seven different pension plans and two supplementary retirement plans.

APA reached a significant milestone in December 2002 when it successfully implemented a new pension administration system for the Public Service Pension Plan, the Management Employees Pension Plan and the Supplementary Retirement Plan for Public Service Managers. Other client plans will go on the new system in 2003.

During the year surveys were sent out to employers. The response rate was 45%. A member survey (employees) was sent out in December 2002 along with pension estimates, optional service costings and retirement packages. From 1,000 questionnaires sent out, 177 were completed and returned, for an 18% response rate.

Responses were tabulated and results reported by a professional research firm. The surveys asked respondents to rate the importance of service areas and also to state their level of satisfaction or dissatisfaction with each area of service. 97% of employers and 89% of employees rated the services of APA to be satisfactory or better.

Supplementary Performance Measure

SATISFACTION OF CLIENT EMPLOYEES AND EMPLOYERS WITH PRODUCTS AND SERVICES
TARGET: 80% SATISFIED OR VERY SATISFIED
RESULT: 97% OF EMPLOYERS AND 89% OF EMPLOYEES SATISFIED OR VERY SATISFIED

In addition to employer and employee surveys, APA surveyed other stakeholders, including a random selection of 930 pensioners (280 responded) and 35 board members (17 responded) from the pension boards served by APA. The satisfaction levels were 98% for pensioners and 93% for board members.

ALBERTA CAPITAL FINANCE AUTHORITY

On June 27, 2003, the Alberta Municipal Financing Corporation was re-named the Alberta Capital Finance Authority (ACFA). The new name is more reflective of the ACFA's shareholders, which include Alberta municipalities, post-secondary institutions, schools, regional health authorities, airport authorities, and irrigation districts. The Alberta Capital Finance Authority offers a range of borrowing terms to its shareholders at rates comparable to the Province's borrowing costs.

ACFA'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. ACFA continues to have the lowest new issue and lowest ongoing administration costs per million dollars of loans compared to similar organizations in Canada.

Supplementary Performance Measure

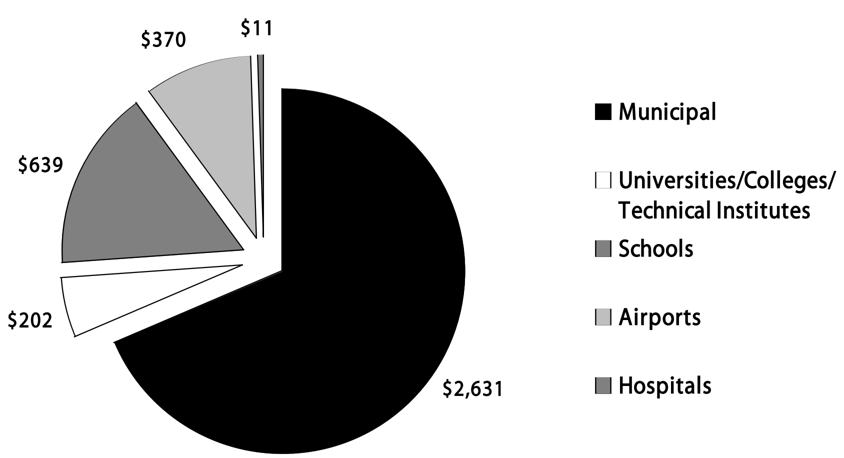
ALBERTA LOCAL AUTHORITIES COST OF BORROWING FROM ACFA
TARGET: LOWEST IN CANADA
RESULT: PARTIALLY MET
SOURCE: ACFA ANNUAL REPORT

Prior to September 2002, this rate was not measured on a set basis, but since then, it has been measured on a semi-monthly basis. The target was consistently met at short and long-term maturities, but mid-term rates (i.e. 5 and 10-years) have been slightly higher than the lowest rate in Canada.

Supplementary Performance Measure

SATISFACTION OF LOCAL AUTHORITIES WITH LENDING POLICIES AND EFFICIENCY OF ACFA
TARGET: 80% SATISFIED OR VERY SATISFIED
RESULT: 83% SATISFIED OR VERY SATISFIED ON LENDING POLICY; 86.7% SATISFIED OR VERY SATISFIED ON EFFICIENCY
SOURCE: ALBERTA FINANCE, STATISTICS, SURVEY

ALBERTA CAPITAL FINANCING AUTHORITY ASSETS BY BORROWER



GOAL 6

FOSTER CONFIDENCE IN ALBERTA-REGISTERED PENSION PLANS

PRIVATE SECTOR PENSIONS

Employment Pensions administers the *Employment Pension Plans Act* (EPPA). The purpose of the Act is to safeguard the benefits promised to members of registered pension plans by setting minimum standards for funding, investment and qualifications for benefits.

The focus of this program is shifting from routine compliance monitoring to risk management. During the next fiscal year, a new data collection and analysis capability will enable Employment Pensions to use data filed for compliance purposes to help identify plans "at risk" of being off-side of legislation and regulations. At-risk plans will be subject to more detailed scrutiny, including on-site examinations of the plan's administration. A report will be issued as a result of the on-site review and any identified deficiencies will need to be corrected within a specified time. A consultation with key stakeholders this past year resulted in some modifications to the risk analysis system, which will be implemented in 2003-04.

A commonly used performance measure to determine if a plan is adequately funded is the solvency ratio. If the solvency ratio is 1, it indicates that the plan will have sufficient assets to pay out all promised benefits, if the plan were terminated immediately. This means that the market value of assets, at the valuation date, is at least 100% of the value of the plan's liabilities (promised pension benefits) as of that date. Over the last few years, investments, including those in registered pension private sector pension plans, have experienced a significant drop in returns that have reduced the market value of assets and therefore the solvency ratio of the plans.

The EPPA requires that the sponsors of the plans eliminate any solvency deficiency by making special payments, in addition to normal contributions, over a five-year period. Employment Pensions performance benchmark is that at least 85% of pension plans registered in Alberta will maintain a solvency ratio of 0.9 or better. Beginning in the 2003-04 fiscal year, the performance measure regarding the solvency ratio will be amended to better monitor whether private sector pension plans are meeting the minimum funding requirements under the EPPA.

Supplementary Performance Measures

REGISTERED PRIVATE SECTOR DEFINED BENEFIT PENSION PLANS SOLVENCY RATIOS
TARGET: 85% EXCEED 0.9
RESULT: 86% EXCEED 0.9

COMPLIANCE PROBLEMS IN "AT RISK" PENSION PLANS RESOLVED WITHIN ACCEPTABLE PERIODS OF TIME
TARGET: 100% PROVIDE AN ACTION PLAN ACCEPTABLE TO SUPERINTENDENT OF PENSIONS WITHIN THREE MONTHS OF IDENTIFICATION OF NON-COMPLIANCE ISSUES
RESULT: 100% PROVIDED AN ACTION PLAN ACCEPTABLE TO SUPERINTENDENT OF PENSIONS WITHIN THREE MONTHS OF IDENTIFICATION OF NON-COMPLIANCE ISSUES

SUPPLEMENTARY PERFORMANCE MEASURES IN THE 2002-05 BUSINESS PLAN NOT REPORTED IN THE 2002-03 ANNUAL REPORT

GOAL	SUPPLEMENTARY PERFORMANCE MEASURE	REASON FOR NOT REPORTING
5	· Satisfaction of financial institutions with the efficiency and fairness of the regulatory environment. Target: 4 out of 5 satisfied or very satisfied.	· No survey was carried out in 2002-03 as a result of the major legislative initiatives undertaken during the year. A survey of the financial sector will be carried out in 2003-04.
	· Meet and exceed customer expectations in ATB Financial's three target markets (independent business, personal and agri-industries lending.	· Only ATB's retail customers were surveyed regarding their personal lending experience.
	· Reform proposals accepted by government are implemented from business plan.	· Policy review not completed as of March 31, 2003.
6	· Satisfaction of pension plan administrators with the efficiency and fairness of the regulatory environment. Target: 80%	· Survey conducted biannually - next survey due in fall 2003.

APPENDIX: METHODOLOGY USED TO CALCULATE ALBERTA FINANCE'S KEY PERFORMANCE MEASURES

DEBT RETIREMENT

The following table illustrates the calculation of accumulated debt.

ACCUMULATED DEBT
($millions of dollars)

	2002-03	2001-02
Accumulated Debt (start of year)	8,416	10,265
Repayment of debt maturities	1,670	1,849
Accumulated Debt (end of year)	6,746	8,416
Cash set aside for future debt repayment	2,010	2,741
Accumulated debt less cash set aside	**4,736**	**5,675**
Cash to be transferred in 2002-03		414
		5,261

ACCUMULATED DEBT

Accumulated debt includes the outstanding consolidated debt of the General Revenue Fund, the debt of the Alberta Social Housing Corporation (net of borrowings from the General Revenue Fund) and the government's liability for school construction debt.

The calculation begins with the accumulated debt at the start of the year. This is equal to the audited accumulated debt outstanding at the end of the previous fiscal year. From that figure is deducted the debt that matured during the current fiscal year and was repaid. This results in the accumulated debt that is outstanding at the end of the fiscal year. Also deducted is the cash in the Government Investment Account, which the government has dedicated to paying off debt as it comes due over the next several years. This yields accumulated debt less cash set-aside, which must be paid off by 2024-25, according to the *Fiscal Responsibility Act*. Accumulated debt less cash set aside is estimated at $4.7 billion on March 31, 2003.

ALBERTANS AWARE OF THE GOVERNMENT'S FINANCIAL PERFORMANCE

Environics West, on behalf of the Province, conducted a telephone survey of 1000 Albertans from January 28 to February 4, 2003. The survey accuracy is +- 3.1%, ninety five times out of a hundred.

Survey respondents were asked "to the best of your knowledge, is Alberta's budget for this year operating at a deficit, that is spending more than it gathers in revenue, or at a surplus, that is spending less than it gathers in revenue?" Albertans responded: 63% surplus (the correct response), 12% deficit, 1% balanced budget, and 24% did not know.

A new question was added to the survey and is included in the 2003-06 Business Plan. Albertans were asked "how satisfied are you with the information you receive on the government's financial performance, either directly from the government or through other sources?" Albertans responded: 67% satisfied, 29% dissatisfied, 5% did not know.

PROVINCIAL TAX LOAD FOR A FAMILY OF FOUR

Calculations are based on applying each province's tax regime to the individual family financial situations known as of budget day for Alberta and March 19, 2003 for the other provinces. The comparison includes provincial personal income taxes, provincial sales taxes, health care premiums, payroll taxes, fuel taxes and tobacco taxes. The families considered are:

1. One income family with two children aged 6 and 12, earning $30,000.
2. Two income family with two children aged 6 and 12, earning $60,000.
3. Two income family with two children aged 6 and 12, earning $100,000.

Other assumptions used in the calculations include:

- For two income families, income and RRSP/RPP contributions are split 60/40 between the two spouses.
- RRSP/RPP contributions are assumed to be $1,000 for the family with $30,000 in income, $7,800 for the $60,000 income family, and $13,500 for the $100,000 income family.
- Business is assumed to bear between 25% and 60% of the provincial sales tax, depending upon the provincial tax regime.
- In provinces that impose payroll taxes, 75% is assumed to be borne by employees and 25% by employers. The same 75/25 split is assumed for health care insurance premiums.
- Fuel tax is based on an estimated consumption of 3,000 litres per year for one income families and 4,500 litres for two income families.
- Tobacco tax is based on an estimated consumption of 100 packs per adult per year.

PROVINCIAL TAX LOAD ON BUSINESS

Provincial tax load, or tax effort, compares actual tax revenues generated within a province to the revenue that the province would generate if it taxed at national-average tax rates. Business taxes examined include business income taxes, capital taxes and insurance corporation taxes.

Each year, the provinces report their tax revenues by these categories to the federal government as part of the reporting requirements for the equalization program.

The steps to calculate provincial tax loads are:

1. National-average tax rates are calculated by dividing total national tax revenues by the national tax base. The tax base for business income taxes, for example, is corporate profits.
2. The revenue that the province would generate if it taxed at national rates is equal to the national-average tax rate multiplied by the provincial tax base for each of the tax categories.
3. Provincial tax load is equal to the ratio of actual provincial revenues divided by the results of the previous calculation multiplied by 100.

The latest available data are used in these calculations:

- July 2003 Interim Estimates for 2002-03, except for Alberta corporate income tax, which has been adjusted from budget to actual
- February 2003 Fifth Estimate for 2001-02

As a result, the 2001-02 business tax loads are restated from what was reported in the Alberta Finance Annual Report for 2001-02.

Finance Financial Statements

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Ministry of Finance
Consolidated Financial Statements
Year ended March 31, 2003

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Members of the Legislative Assembly

I have audited the consolidated statement of financial position of the Ministry of Finance as at March 31, 2003 and the consolidated statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the management of the Ministry. 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.

Alberta Finance establishes the corporate government accounting policies and reporting practices including the following policy that is an exception from Canadian generally accepted accounting principles. Capital assets costing less than $15,000 have been expensed in the year acquired and have not been recognized as an asset in the accompanying consolidated statement of financial position. The effect of this is that capital assets are understated by approximately $1,894,000 as at March 31, 2003 and expenses are overstated by approximately $104,000 for the year ended March 31, 2003.

In my opinion, except for the effects of the matter discussed in the preceding paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the Ministry as at March 31, 2003 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 23, 2003

Consolidated Statement of Operations

YEAR ENDED MARCH 31, 2003

	In thousands		
	2003		**2002**
	Budget	**Actual**	**Actual**
	(Schedule 2)		
Revenues (Schedule 1)			
Internal government transfers	$ 319,830	$ 280,243	$ 153,376
Taxes	400	1,702	1,014
Transfers from Government of Canada	4,030	4,055	4,434
Investment income	498,339	528,710	569,177
Net income from commercial operations	121,722	224,899	165,510
Fees, permits and licences	21,753	19,406	18,401
Other	123,038	126,144	20,955
	1,089,112	1,185,159	932,867
Expenses (Schedule 3)			
Treasury management	71,009	72,132	71,060
Public sector pension policy and administration	21,532	23,343	16,631
Fiscal planning and accountability	8,276	7,735	7,160
Ministry support services	4,912	5,272	4,336
Financial sector operations	4,425	4,483	3,822
Valuation adjustments (Schedule 4)	(6,650)	81,004	(42,581)
Debt servicing costs			
General government	506,000	397,429	687,081
Local authorities	331,287	331,257	339,634
School boards	70,706	70,675	80,463
	1,011,497	993,330	1,167,606
Net operating results	$ 77,615	$ 191,829	$ (234,739)

The accompanying notes and schedules are part of these financial statements.

Consolidated Statement of Financial Position

MARCH 31, 2003

	In thousands	
	2003	**2002**
Assets		
Cash and temporary investments (Schedule 5)	$ 774,387	$ 1,461,187
Accrued interest and accounts receivable (Schedule 6)	336,797	319,451
Portfolio investments (Schedule 7)	2,780,340	2,777,051
Equity in commercial enterprises (Schedule 8)	964,095	723,211
Loans and advances to government entities (Schedule 9)	1,346,036	1,249,518
Other loans and advances (Schedule 10)	3,876,528	3,769,647
Capital assets (Schedule 11)	8,726	5,494
	$ 10,086,909	$ 10,305,559
Liabilities		
Bank overdraft	$ 777,775	$ 1,016,212
Accrued interest and accounts payable (Schedule 12)	369,158	572,382
Unmatured debt (Schedule 13)	6,811,591	8,382,503
Debt of Alberta Municipal Financing Corporation (Schedule 14)	3,671,081	3,430,816
Pension obligations (Schedule 15)	962,247	880,898
Other accrued liabilities (Schedule 16)	614,677	782,168
Equity of Alberta Municipal Financing Corporation (Schedule 14)	27,641	127,958
	13,234,170	15,192,937
Net Liabilities		
Net liabilities at beginning of year	(4,887,378)	(8,670,041)
Net operating results	191,829	(234,739)
Net transfer from general revenues	1,548,288	4,017,402
Net liabilities at end of year	(3,147,261)	(4,887,378)
	$ 10,086,909	$ 10,305,559

The accompanying notes and schedules are part of these financial statements.

Consolidated Statement of Changes in Financial Position

YEAR ENDED MARCH 31, 2003

	In thousands	
	2003	**2002**
Operating activities		
Net operating results	$ 191,829	$ (234,739)
Non-cash items included in net operating results	(162,430)	(97,684)
	29,399	(332,423)
Decrease in equity of Alberta Municipal Financing Corporation	(100,317)	(10,783)
Other	(241,729)	54,095
Cash used for operating activities	(312,647)	(289,111)
Investing activities		
Proceeds from disposals, repayments and redemptions of portfolio investments	5,561,857	4,364,365
Portfolio investments purchased	(5,573,527)	(5,095,962)
Repayment of loans and advances	454,443	491,264
Loans and advances made	(638,668)	(744,506)
Other	(4,422)	(4,042)
Cash used for investing activities	(200,317)	(988,881)
Financing activities		
Debt issues	11,777,394	7,316,677
Debt retirement	(13,093,943)	(9,006,546)
Grants for school construction debenture principal repayment	(167,138)	(95,382)
Net transfer from general revenues	1,548,288	4,017,402
Cash provided by financing activities	64,601	2,232,151
Net cash (used) provided	(448,363)	954,159
Cash and temporary investments, net of bank overdraft, at beginning of year	444,975	(509,184)
Bank overdraft, net of cash and temporary investments, at end of year	$ (3,388)	$ 444,975

The accompanying notes and schedules are part of these financial statements.

Notes to the 2002-03 Ministry of Finance Consolidated Financial Statements

NOTE 1 AUTHORITY

The Minister of Finance has been designated as responsible for various Acts by the Government Organization Act, Chapter G-10, Revised Statutes of Alberta 2000, and its regulations. To fulfil these responsibilities, the Minister of Finance administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the Ministry of Finance (the Ministry).

Department of Finance (the Department)	Government Organization Act, Chapter G-10, Revised Statutes of Alberta 2000
Provincial Judges and Masters in Chambers Reserve Fund	Treasury Board Directive pursuant to the Financial Administration Act, Chapter F-12, Revised Statutes of Alberta 2000
Supplementary Retirement Plan Reserve Fund	Treasury Board Directive pursuant to the Financial Administration Act, Chapter F-12, Revised Statutes of Alberta 2000
Alberta Insurance Council	Insurance Act, Chapter I-3, Revised Statutes of Alberta 2000
Alberta Municipal Financing Corporation	Alberta Municipal Financing Corporation Act, Chapter A-27, Revised Statutes of Alberta 2000
Alberta Pensions Administration Corporation	Incorporated under the Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000
The Alberta Government Telephones Commission and its subsidiaries	Telecommunications Act, Chapter T-3.5, Statutes of Alberta 1988
Alberta Treasury Branches and its subsidiaries	Alberta Treasury Branches Act, Chapter A-37, Revised Statutes of Alberta 2000
Credit Union Deposit Guarantee Corporation	Credit Union Act, Chapter C-32, Revised Statutes of Alberta 2000
N.A. Properties (1994) Ltd.	Amalgamated corporation under the Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000
S C Financial Ltd.	Incorporated under the Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000, as a wholly owned company of the Credit Union Deposit Guarantee Corporation. The company ceased operations on October 31, 2002 and was dissolved in March 2003.
Gainers Inc.	Incorporated under the Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000

NOTE 2 PURPOSE

The Ministry's core businesses are to:

a) Establish the fiscal framework and facilitate sound fiscal planning and decision-making,
b) Foster an effective accountability framework,
c) Manage financial assets and liabilities prudently,
d) Foster access to comprehensive and competitive financial products and services and pension plans, and
e) Administer the regulatory framework to reduce the risk of financial loss to pension plan members, depositors and policyholders.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate.

These financial statements are prepared in accordance with the following accounting policies.

A) METHOD OF CONSOLIDATION

The accounts of the Department, Provincial Judges and Masters in Chambers Reserve Fund, Supplementary Retirement Plan Reserve Fund, Alberta Insurance Council, Alberta Municipal Financing Corporation, and Alberta Pensions Administration Corporation are consolidated after adjusting them to a basis consistent with the accounting policies described below in (b). Intra-ministry transactions (revenues, expenses, investing and financing transactions, and related asset and liability accounts) have been eliminated.

The accounts of Provincial agencies and other entities designated as commercial enterprises (The Alberta Government Telephones Commission and its subsidiaries, Alberta Treasury Branches and its subsidiaries, Credit Union Deposit Guarantee Corporation, N.A. Properties (1994) Ltd., and S C Financial Ltd.), and the commercial Crown-controlled corporation (Gainers Inc.) are reported on the modified equity basis, the equity being computed in accordance with generally accepted accounting principles.

The reporting period of some of the Provincial agencies is other than March 31. Transactions of these agencies that have occurred during the period to March 31, 2003 and that significantly affect the consolidation have been recorded.

B) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported on the accrual method of accounting.

NOTE 3 (continued)

Expenses

Expenses represent the cost of resources consumed during the year on Ministry operations. Expenses include amortization of capital assets.

Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year and additional government and employer contributions for service relating to prior years.

Certain expenses, primarily for office space and legal advice, incurred on behalf of the Ministry by other ministries are not reflected in the consolidated statement of operations. Schedule 18 discloses information on these related party transactions.

Valuation Adjustments

Valuation adjustments include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to guarantees, indemnities, pension obligations, loans repayable from future appropriations, and accrued employee vacation entitlements.

Valuation adjustments for pension obligations include interest on the Ministry's share of the unfunded liability and amortization of deferred adjustments over the expected average remaining service life of employees.

Assets

Financial assets are limited to financial claims on outside organizations and individuals and inventories held for resale at the year end.

Portfolio investments are carried at cost. Realized gains and losses on disposals of these investments are included in the determination of net operating results for the year. 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.

Loans are recorded at cost less any discounts and allowance for credit loss. Discounts recorded as the result of interest rate reductions given on loans to local authorities are amortized to investment income over the term of the loans. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Assets acquired by right are not included. Capital assets of the Ministry are recorded at historical cost and amortized on a straight line basis over the estimated useful lives of the assets.

Liabilities

Liabilities include all financial claims payable by the Ministry at the year end.

Debentures included in unmatured debt are recorded at the face amount of the issue less unamortized discount, which includes issue expenses and hedging costs.

NOTE 3 (continued)

Income or expense on interest rate swaps and forward interest rate agreements used to manage interest rate exposure is recorded as an adjustment to debt servicing costs. The exchange gain or loss on the foreign exchange contracts used to manage currency exposure is deferred and amortized over the life of the contract.

Foreign Currency

Assets and liabilities denominated in foreign currency are translated at the year end rate of exchange.

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts.

Exchange gains and losses that arise on translation of fixed term foreign currency denominated monetary items are deferred. Amortization of deferred exchange gains and losses and other exchange differences on unhedged transactions are included in the determination of net operating results for the year.

Measurement Uncertainty

Estimates are used in accruing revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty that is material to these financial statements exists in the accrual of provisions for pensions and loans and advances. The nature of the uncertainty in these items arises from several factors such as the effect on accrued pension obligations of actual experience compared to assumptions, and the effect on loans and advances of actual collectibility and changes in economic conditions. While best estimates have been used for reporting items subject to measurement uncertainty, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

NOTE 4 VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of cash and temporary investments, accrued interest, receivables, bank overdraft, payables and accrued liabilities are estimated to approximate their book values.

NOTE 4 (continued)

Public fixed-income securities are valued at the year-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Fair values of loans and advances are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair values with sufficient reliability.

The fair value of unmatured debt and debt held by Alberta Municipal Financing Corporation is an approximation of its fair value to the holder.

At the year end, the fair values of investments and any other assets and liabilities denominated in a foreign currency are translated at the year end exchange rate.

NOTE 5 RISK MANAGEMENT

A) LIABILITY MANAGEMENT

The objective of the Ministry's liability management program is to achieve the lowest cost on debt within an acceptable degree of variability of debt servicing costs. In order to achieve this objective, the Ministry manages four risks - interest rate risk, currency exchange risk, credit risk, and refinancing risk. The Ministry manages these four risks within approved policy guidelines. The management of these risks and the policy guidelines apply to the Ministry's unmatured debt, excluding debt raised to fund requirements of provincial corporations and regulated funds. Debt of provincial corporations and regulated funds is managed separately in relation to their assets.

The Ministry decided in February 2001, in light of the current debt reduction environment, that the most effective liability risk management strategy would be to allow existing debt instruments to mature in accordance with their terms.

B) ASSET MANAGEMENT

All of the Ministry's portfolio investments are held by the Department. Portfolio investments of the Department are used to repay debt as it matures and to provide funding for the capital plan.

NOTE 6 COMMITMENTS
(*in thousands*)

Commitments to outside organizations in respect of contracts entered into before March 31, 2003 amounted to $126,064 (2002 $126,766). These amounts include obligations under operating leases which expire on various dates. The aggregate amounts payable for the unexpired terms of these leases are as follows:

2003-04	$ 23,377
2004-05	18,288
2005-06	17,584
2006-07	16,486
2007-08	15,156
Thereafter	35,173
	$ 126,064

NOTE 7 CONTINGENCIES
(*in thousands)*

Set out below are details of contingencies resulting from guarantees, indemnities and litigation, other than those reported as liabilities and shown in Schedule 16.

Any losses arising from the settlement of contingencies are treated as current year expenses.

A) INDEMNITIES AND GUARANTEES

The Province's indemnity to fund interest to the extent necessary on $335,000 of debentures issued by S C Financial Ltd. to credit unions in exchange for stabilization preferred shares of the credit unions expired on October 31, 2002.

Guarantees at March 31, 2003 amounting to $43,150 (2002 $73,518) are analyzed in Schedule 17. This schedule is included with the financial statements because payments under guarantees are a statutory charge on the Ministry.

B) CONTINGENCIES OF COMMERCIAL ENTERPRISES

The Credit Union Deposit Guarantee Corporation has a potential liability under guarantees relating to deposits of credit unions. At December 31, 2002, credit unions in Alberta held deposits totalling $7,583,130 (2001 $6,941,026), and had assets in excess of deposits.

At March 31, 2003, Alberta Treasury Branches had a potential liability under guarantees and letters of credit amounting to $101,211 (2002 $443,770).

N.A. Properties (1994) Ltd. has provided guarantees of principal and interest on mortgages sold to Canadian Western Bank. The principal and interest on these mortgages totalled $3,053 at March 31, 2003 (2002 $7,348).

C) LEGAL ACTIONS

At March 31, 2003, the Ministry is a defendant in various legal actions. The total claimed in specific legal actions amounts to approximately $55,807 (2002 $279,396). The resulting loss, if any, from these claims cannot be determined.

NOTE 8 TRUST FUNDS UNDER ADMINISTRATION
(*in thousands)*

The Ministry administers trust funds that are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the Ministry has no equity in the funds and administers them for the purposes of various trusts, they are not included in the Ministry's consolidated financial statements.

NOTE 8 (continued)

As at March 31, 2003, trust funds under administration were as follows:

	2003	2002
Local Authorities Pension Plan Fund	$ 8,049,940	$ 9,058,058
Public Service Pension Plan Fund	3,400,249	3,864,447
Universities Academic Pension Plan Fund	1,446,909	1,697,905
Management Employees Pension Plan Fund	1,329,315	1,490,696
Special Forces Pension Plan Fund	894,183	1,020,063
Regional Health Authorities and various health institutions construction accounts	419,765	511,871
Other	113,797	93,632
	$15,654,158	$ 17,736,672

NOTE 9 DEFINED BENEFIT PLANS
(in thousands)

The Ministry participates in the multiemployer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Ministry also participates in the multiemployer Supplementary Retirement Plan for Public Service Managers. The expense for these plans is equivalent to the annual contributions of $1,520 for the year ended March 31, 2003 (2002 $1,331).

At December 31, 2002, the Management Employees Pension Plan reported a deficiency of $301,968 (2001 surplus of $5,338) and the Public Service Pension Plan reported an actuarial deficiency of $175,528 (2001 actuarial surplus of $320,487). At December 31, 2002, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of $6,472 (2001 actuarial deficiency of $399).

The Ministry also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2003, the Bargaining Unit Plan reported an actuarial deficiency of $14,434 (2002 $8,646) and the Management, Opted Out and Excluded Plan an actuarial deficiency of $3,053 (2002 $2,656). The expense for these two plans is limited to employer's annual contributions for the year.

NOTE 10 COMPARATIVE FIGURES

Certain 2002 figures have been reclassified to conform to 2003 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Corporate Secretary and the Deputy Minister of Finance.

Schedules to the 2002-03 Ministry of Finance Consolidated Financial Statements

REVENUES **Schedule 1**

	In thousands		
	2003		2002
	Budget	Actual	Actual
Internal government transfers			
Lottery Fund	$ 319,830	$ 280,243	$ 153,376
Taxes			
Special broker tax	400	1,702	1,014
Transfers from Government of Canada			
Unconditional subsidy	4,030	4,055	4,434
Investment income			
Farm credit stability program	6,800	6,139	11,251
Other	491,539	522,571	557,926
	498,339	528,710	569,177
Net income from commercial operations			
Alberta Treasury Branches	117,000	198,904	157,926
The Alberta Government Telephones Commission	-	19,549	186
Other	4,722	6,446	7,398
	121,722	224,899	165,510
Fees, permits and licences			
Deposit guarantee fee	18,206	15,988	15,234
Insurance companies, agents and brokers	2,205	2,093	1,891
Other	1,342	1,325	1,276
	21,753	19,406	18,401
Other			
Transfer from Alberta Municipal Financing Corporation	100,000	100,000	-
Sale of assets	-	3	6
Refunds of expenditure	550	275	2,070
Miscellaneous	22,488	25,866	18,879
	123,038	126,144	20,955
	$ 1,089,112	$ 1,185,159	$ 932,867

BUDGET **Schedule 2**

	In thousands		
	2002-03 Estimates	**Adjustments (a)**	**2002-03 Budget**
Revenues			
Internal government transfers	$ 319,830	$ -	$ 319,830
Other taxes	400	-	400
Transfers from Government of Canada	4,030	-	4,030
Investment income	498,339	-	498,339
Net income from commercial operations	121,722	-	121,722
Fees, permits and licences	21,753	-	21,753
Other	123,038	-	123,038
	1,089,112	-	1,089,112
Expenses			
Treasury management	71,009	-	71,009
Public sector pension policy and administration	21,532	-	21,532
Fiscal planning and accountability	8,276	-	8,276
Ministry support services	4,912	-	4,912
Financial sector operations	4,425	-	4,425
Valuation adjustments	350	(7,000)	(6,650)
Debt servicing costs			
General government	506,000	-	506,000
Local authorities	331,287	-	331,287
School boards	70,706	-	70,706
	1,018,497	(7,000)	1,011,497
Net operating results	$ 70,615	$ 7,000	$ 77,615

a) Adjustments consist of $7,000 for pension provisions excluded from the Estimates.

EXPENSES BY OBJECT **Schedule 3**

	2003 Budget	2003 Actual	2002 Actual
	In thousands		
Salaries, wages and employee benefits	$ 23,497	$ 24,904	$ 20,317
Supplies and services	19,471	19,946	15,559
Grants	70,706	70,675	80,463
Interest and amortization of unrealized exchange gains and losses	837,287	727,899	1,026,028
Pension liability funding	66,840	68,255	67,216
Other financial transactions	2,093	1,922	2,343
Amortization of capital assets	844	1,190	697
Valuation adjustments	(6,650)	81,004	(42,581)
	1,014,088	995,795	1,170,042
Less recovery from support service arrangements with related parties (a)	2,591	2,465	2,436
	$ 1,011,497	$ 993,330	$ 1,167,606

a) The Ministry provides financial, administrative and human resource services to various ministries and Offices of the Legislative Assembly. Costs incurred by the Ministry are recovered from the recipients of the services.

VALUATION ADJUSTMENTS **Schedule 4**

	2003 Budget	2003 Actual	2002 Actual
	In thousands		
Pension provisions	$ (7,000)	$ 81,349	$ (9,560)
Provision for employee benefits other than pensions	-	288	97
Provision for doubtful accounts and loans	-	(27)	(36)
Provision for guarantees and indemnities	350	(606)	(33,082)
	$ (6,650)	$ 81,004	$ (42,581)

CASH AND TEMPORARY INVESTMENTS **Schedule 5**

	In thousands	
	2003	**2002**
Fixed-income securities		
Corporate (a)	$ 574,360	$ 1,263,876
Deposit in the Consolidated Cash Investment Trust Fund	172,615	184,225
Cash in bank and in transit	27,412	13,086
	$ 774,387	$ 1,461,187

a) At March 31, 2003, fixed-income securities held have an average effective market yield of 3.0% (2002 2.8%) per annum. All of the securities have terms to maturity of less than three years (2002 less than two years).

ACCRUED INTEREST AND ACCOUNTS RECEIVABLE **Schedule 6**

	In thousands	
	2003	**2002**
Accrued interest receivable	$ 212,792	$ 230,191
Lottery Fund	72,243	28,376
Present value of future contributions from credit union system	47,043	53,831
Other	5,531	7,841
	337,609	320,239
Less allowance for doubtful accounts	812	788
	$ 336,797	$ 319,451

PORTFOLIO INVESTMENTS **Schedule 7**

	In thousands			
	2003		2002	
	Book Value	Fair Value	Book Value	Fair Value
Fixed-income securities (a)				
Government of Canada, direct and guaranteed	$ 367,530	$ 367,797	$ 524,388	$ 526,842
Provincial, direct and guaranteed	962,663	966,652	841,534	851,907
Municipal	81,971	82,367	140,092	141,804
Corporate	1,368,176	1,366,784	1,271,037	1,277,853
	$ 2,780,340	$ 2,783,600	$ 2,777,051	$ 2,798,406

a) All of the Ministry's fixed-income securities are held to repay debt as it matures and to provide funding for the capital plan. At March 31, 2003, the securities held have an average effective market yield of 3.4% (2002 3.3%) per annum. All (2002 98%) of the securities held had terms to maturity of less than two years.

EQUITY IN COMMERCIAL ENTERPRISES **Schedule 8**

	In thousands	
	2003	**2002**
Accumulated surpluses		
Accumulated surpluses at beginning of year	$ 672,772	$ 507,448
Total revenue	849,513	867,726
Total expenditure	624,614	702,216
Net revenue	224,899	165,510
Net transfers to departments	(19,549)	(186)
Accumulated surpluses at end of year	$ 878,122	$ 672,772
Represented by		
Assets		
Loans	$ 11,691,483	$ 10,398,571
Investments	660,700	790,232
Other assets	997,125	1,448,603
Total assets	13,349,308	12,637,406
Liabilities		
Accounts payable	328,859	509,242
Deposits	12,096,911	11,425,210
Unmatured debt	45,416	30,182
Total liabilities	12,471,186	11,964,634
	$ 878,122	$ 672,772
Accumulated surpluses at end of year		
Alberta Treasury Branches	$ 790,937	$ 592,033
Credit Union Deposit Guarantee Corporation	85,199	79,104
N.A. Properties (1994) Ltd.	1,986	1,635
	878,122	672,772
Elimination of inter fund/agency balances	85,973	50,439
Equity in commercial enterprises at end of year	$ 964,095	$ 723,211

LOANS AND ADVANCES TO GOVERNMENT ENTITIES **Schedule 9**

	In thousands 2003	2002
Agriculture Financial Services Corporation	$ 999,734	$ 888,191
Alberta Social Housing Corporation	346,078	361,103
Public Trustee	224	224
	$ 1,346,036	$ 1,249,518

OTHER LOANS AND ADVANCES **Schedule 10**

	In thousands 2003	2002
Alberta Municipal Financing Corporation Act (a)	$ 3,829,869	$ 3,690,575
Farm Credit Stability Act	41,889	73,263
Board of Governors of the University of Alberta	2,018	2,342
Pratt & Whitney Canada Ltd.	1,963	2,519
University of Lethbridge Students' Union	786	948
Implemented guarantees and indemnities	224	236
Judgement debts	51	91
Accountable advances	4	-
	3,876,804	3,769,974
Less allowance for doubtful loans, advances, implemented guarantees and indemnities	276	327
	$ 3,876,528	$ 3,769,647

a) Municipal loans on average yield 8.3% per annum (2002 9.0%) and have the following term structure as at March 31, 2003.

	2003	2002
	%	
Under 1 year	2	1
1 to 5 years	23	19
6 to 10 years	32	39
Over 10 years	43	41
	100	100

CAPITAL ASSETS **Schedule 11**

		In thousands			
		2003			2002
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment	10 years	$ 1,146	$ 612	$ 534	$ 369
Computer hardware and software	5 years	11,014	2,845	8,169	5,093
Other	10 years	67	44	23	32
		$ 12,227	$ 3,501	$ 8,726	$ 5,494

ACCRUED INTEREST AND ACCOUNTS PAYABLE **Schedule 12**

	In thousands	
	2003	2002
Accrued interest on unmatured debt and debt of Alberta Municipal Financing Corporation	$ 296,883	$ 373,204
Unearned revenue	8,613	4,961
Investment purchases	-	146,407
Other	63,662	47,810
	$ 369,158	$ 572,382

UNMATURED DEBT **Schedule 13**

			In thousands			
			2003		2002	
	Effective Rate (a)(b)(c)	Modified Duration (d)	Book Value (a)	Fair Value (a)	Book Value (a)	Fair Value (a)
	%	years				
Canadian dollar debt and fully hedged foreign currency debt						
Floating rate and short-term fixed rate (e)	4.89	0.28	$ 1,456,592	$ 1,493,278	$ 1,065,431	$ 1,090,976
Fixed rate long-term (f)	6.89	4.43	3,794,895	4,244,327	4,504,171	4,908,642
	6.33	3.35	5,251,487	5,737,605	5,569,602	5,999,618
Unhedged U.S. dollar debt (g)						
Floating rate and short-term fixed rate (e)	1.61	0.10	1,055,900	1,050,468	2,302,804	2,448,501
Fixed rate long-term	6.68	1.19	504,204	553,938	510,097	593,097
	3.25	0.48	1,560,104	1,604,406	2,812,901	3,041,598
Total unmatured debt	5.63	2.72	$ 6,811,591	$ 7,342,011	$ 8,382,503	$ 9,041,216

a) Book value represents the amount the Ministry owes. Fair value is an approximation of market value to the holder. The book value, fair value and weighted average effective rate include the effect of interest rate and currency rate swaps. For non-marketable issues, the effective rate and fair value are determined by reference to yield curves for comparable quoted issues.

b) Weighted average effective rates on unhedged U.S. dollar debt are based upon debt stated in U.S. dollars.

c) Weighted average effective rate on total unmatured debt is on debt inclusive of deferred exchange losses on unhedged U.S. dollar debt (see note (g)).

d) Modified duration is the weighted average term to maturity of the security's cash flows (i.e., interest and principal) and is a measure of price volatility; the greater the modified duration of a bond, the greater its percentage price volatility.

e) Floating rate debt includes short-term debt, term debt with less than one year remaining to maturity, and term debt with interest rate reset within a year.

f) Canadian dollar fixed rate debt includes $678,696 (2002 $678,696) held by the Canada Pension Plan Investment Fund.

g) Unhedged U.S. dollar debt is translated into Canadian dollars at the March 31 noon exchange rate of $1.47 per U.S. dollar (2002 $1.59 per U.S. dollar). Deferred exchange gains on unhedged U.S. dollar debt amounted to $23,457 at March 31, 2003 (2002 deferred exchange losses of $82,616). Amortization of deferred exchange gains amounted to $50,105 for the year ended March 31, 2003 (2002 amortization of deferred exchange losses $106,627).

Schedule 13 (continued)

Debt principal repayment requirements at par in each of the next five years, including short-term debt maturing in 2003-04, and thereafter are as follows:

	In millions	
	Total in Canadian Dollars	**Unhedged in US Dollars**
2003-04	$1,779	$ 500
2004-05	1,591	439
2005-06	1,300	108
2006-07	114	-
2007-08	268	-
Thereafter to 2016-17	1,754	-
	$6,806	$1,047

None of the debt has call provisions (2002 $110,000).

Derivative financial instruments

The Ministry uses interest rate swaps and currency rate swaps and contracts to manage the interest rate risk and currency exposure associated with unmatured debt. In addition, forward interest rate agreements are used to manage interest rate exposure in the short term. Associated with these instruments are credit risks that could expose the Ministry to potential losses. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Credit exposure to counterparties is a fraction of the notional principal amount, as shown in the table below. The Ministry minimizes its credit risk associated with these contracts by dealing with only the most credit worthy counterparties.

Interest rate swaps involve the exchange of a series of interest payments, either at a fixed or floating rate, based upon a contractual or notional principal amount. An interest rate swap agreement based upon a notional amount involves no exchange of underlying principal. The notional amount serves as the basis for determining the exchange of interest payments. At March 31, 2003, interest rate swap agreements were being used primarily to convert fixed interest rate payments to floating rates.

Cross currency interest rate swaps involve both the swapping of interest rates and currencies.

Schedule 13 (continued)

The following table summarizes the Ministry's derivative portfolio and related credit exposure. Notional amount represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. Replacement cost represents the cost of replacing, at current market rates, all contracts which have a positive market value.

	In thousands			
	2003		2002	
	Notional Amount	Replacement Cost	Notional Amount	Replacement Cost
Interest rate swaps	$ 1,908,000	$ 24,491	$ 2,493,000	$ 28,818
Cross currency interest rate swaps	536,000	-	1,070,000	-
	$ 2,444,000	$ 24,491	$ 3,563,000	$ 28,818

DEBT AND EQUITY OF ALBERTA MUNICIPAL FINANCING CORPORATION **Schedule 14**

	In thousands	
	2003	2002
Alberta Municipal Financing Corporation		
Canadian dollar fixed rate debt (a)	$ 3,671,081	$ 3,430,816
Equity (b)	$ 27,641	$ 127,958

a) Canadian dollar fixed rate debt includes $2,706,081 (2002 $2,880,816) held by the Canada Pension Plan Investment Fund and has the following characteristics as at March 31, 2003 (see Schedule 13 note (a)).

	2003	2002
Fair value	$4,245,000	$4,038,000
Effective rate per annum	8.9 %	10.2%

Debt principal repayment requirements in each of the next five years, including short-term debt maturing in 2003-04 and thereafter are as follows:

	In thousands
2003-04	$ 566,023
2004-05	338,491
2005-06	423,604
2006-07	395,396
2007-08	335,383
Thereafter	1,612,184
	$ 3,671,081

b) Alberta Municipal Financing Corporation equity has been included in liabilities of the Ministry because it represents profits which the Corporation has the power to pay to municipal and other shareholders that have borrowed from the Corporation.

PENSION OBLIGATIONS

Schedule 15

Because the pension plans referred to in Note 9 are multi-employer, the Ministry has no obligations in respect of pension plans for its employees.

However, in respect of other public sector pension plans, the Ministry has pension obligations as described below.

	In thousands	
	2003	**2002**
Obligations to pension plans for current and former employees and Members of the Legislative Assembly		
Public Service Management (Closed Membership) Pension Plan (a)	$ 695,785	$ 630,281
Members of the Legislative Assembly Pension Plan (b)	49,323	47,437
	745,108	677,718
Obligations to pension plans for employees of organizations outside the government reporting entity		
Universities Academic Pension Plan (c)	157,134	151,203
Special Forces Pension Plan (c)	60,005	51,977
	217,139	203,180
	$ 962,247	$ 880,898

a) The Public Service Management (Closed Membership) pension plan provides benefits to former members of the Public Service Management pension plan who were retired, were entitled to receive a deferred pension or had attained 35 years of service before August 1, 1992. The costs of all benefits under the plan are paid by the Ministry.

b) The Ministry has a liability for payment of pension benefits under a defined benefit pension plan for Members of the Legislative Assembly. Active participation in this plan was terminated as of June 1993, and no benefits can be earned for service after this date.

c) Under the Public Sector Pension Plans Act, the Ministry has obligations for payment of additional contributions under defined benefit pension plans for certain employees of post-secondary educational institutions and municipalities. The plans are the Universities Academic and Special Forces plans.

For Universities Academic, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions of 1.25 per cent of pensionable salaries by the Ministry, and such percentages by employers and employees as will fund equally the remaining amount, as determined by the plan valuation, over the period ending on or before December 31, 2043. Current service costs are funded by employers and employees.

Schedule 15 (continued)

For Special Forces, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions in the ratio of 45.45 per cent by the Ministry and 27.27 per cent each by employers and employees, over the period ending on or before December 31, 2036. Current service costs are funded by employers and employees. The Act provides that payment of all benefits arising from pensionable service prior to 1994, excluding post-1991 cost of living adjustment benefits, is guaranteed by the Province.

Pension obligations are based upon actuarial valuations performed at least triennially using the projected benefit method prorated on services. The assumptions used in the valuations were adopted after consultation among the pension plan boards, the government and the actuaries, depending on the plan, and represent best estimates of future events. Each plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses are amortized over the expected average remaining service lives of the related employee groups.

Information about the economic assumptions used in the most recent actuarial valuations is provided below for each plan. Demographic assumptions used in the valuations reflect the experience of the plans.

Plan	Latest Valuation	Real Rate of Return %	Inflation Rate %	Investment Rate of Return %
Public Service Management (Closed Membership) Pension Plan	December 31, 2002	3.0	3.0	6.0
Members of the Legislative Assembly Pension Plan	March 31, 2003	3.0	3.0	6.0
Universities Academic Pension Plan	December 31, 2000	4.0	3.5	7.5
Special Forces Pension Plan	December 31, 2001	3.75	3.25	7.0

These actuarial valuations indicated a deficiency of net assets over actuarial present value of accrued benefits. Including deferred adjustments, unfunded liabilities were extrapolated to March 31, 2003.

A separate pension plan fund is maintained for each pension plan except for the Members of the Legislative Assembly plan. Pension plan fund assets are invested in both marketable investments of organizations external to the government and in Province of Alberta bonds and promissory notes.

OTHER ACCRUED LIABILITIES **Schedule 16**

	In thousands 2003	2002
Future funding to school boards to enable them to repay debentures issued to the Alberta Municipal Financing Corporation	$ 608,135	$ 697,763
Guarantees and indemnities (Schedule 17)	3,601	3,721
Vacation entitlements	2,522	2,234
Future funding to settle obligations under the credit union deficit financing agreement	-	78,000
Other	419	450
	$ 614,677	$ 782,168

GUARANTEES (a) **Schedule 17**

	In thousands 2003	2002	Expiry Date
Farm Credit Stability Act (b)	$ 43,061	$ 72,602	2011
Centre for Engineering Research Inc.	1,553	1,950	2005
University of Calgary	1,134	1,194	2016
Rural utilities loans	973	1,450	2015
Small Business Term Assistance Act	30	43	(c)
	46,751	77,239	
Less estimated liability (Schedule 16)	3,601	3,721	
	$ 43,150	$ 73,518	

a) Authorized loan guarantee limits decline as guaranteed loans are repaid.

The lender takes appropriate security prior to issuing a loan to the borrower which is guaranteed by the Province. The security taken depends on the nature of the loan. Interest rates are negotiated with the lender by the borrower and typically range from prime to prime plus two per cent.

No new program guarantees are being issued under the following Acts: Farm Credit Stability Act, Rural Utilities Act and the Small Business Term Assistance Act.

b) The expiry date shown is the latest expiry date for guaranteed loans under the program.

c) Loans have expired or are in the process of realization of security.

RELATED PARTY TRANSACTIONS — Schedule 18

Related parties are those entities consolidated in the Province of Alberta's financial statements. Related parties also include management of the Ministry.

The Ministry is responsible for managing cash transactions of all departments and their funds. As a result, the Ministry engages in transactions with all other ministries in the normal course of operations.

The Ministry and its employees paid or collected certain taxes and fees set by regulation for permits, licences and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The Ministry had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties.

	In thousands	
	2003	**2002**
Revenues		
Transfers	$ 280,243	$ 153,376
Interest	69,642	67,462
Charges for services	175	256
	$ 350,060	$ 221,094
Expenses		
Interest	$ -	$ 1,800
Cost of services	3,157	3,125
	$ 3,157	$ 4,925
Assets		
Accounts receivable	$ 72,247	$ 28,376
Accrued interest receivable	14,351	13,757
Loans and advances	1,345,812	1,249,294
	$ 1,432,410	$ 1,291,427
Liabilities		
Accounts and accrued interest payable	$ 175	$ -

The above transactions do not include support service arrangement transactions disclosed in Schedule 3.

The Ministry also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements.

	In thousands	
	2003	**2002**
Expenses - incurred by others		
Accommodation	$ 1,173	$ 921
Legal services	408	1,005
	$ 1,581	$ 1,926

Department of Finance Financial Statements

Year ended March 31, 2003

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance

I have audited the statement of financial position of the Department of Finance as at March 31, 2003 and the statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the management of the Department. 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.

Alberta Finance establishes the corporate government accounting policies and reporting practices including the following policy that is an exception from Canadian generally accepted accounting principles. Capital assets costing less than $15,000 have been expensed in the year acquired and have not been recognized as an asset in the accompanying statement of financial position. The effect of this is that capital assets are understated by approximately $1,894,000 as at March 31, 2003 and expenses are overstated by approximately $104,000 for the year ended March 31, 2003.

In my opinion, except for the effects of the matter discussed in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Department as at March 31, 2003 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 23, 2003

Statement of Operations

YEAR ENDED MARCH 31, 2003

	In thousands		
	2003		2002
	Budget (Schedule 4)	Actual	Actual
Revenues (Schedules 1 and 2)			
Internal government transfers	$ 319,830	$ 280,243	$ 153,376
Taxes	400	1,702	1,014
Transfers from Government of Canada	4,030	4,055	4,434
Investment income	166,987	202,109	239,332
Fees, permits and licences	19,548	17,313	16,511
Transfers from government enterprises	-	19,549	186
Other	102,285	103,382	4,866
	613,080	628,353	419,719
Expenses - directly incurred (Note 2b and Schedule 21)			
Voted (Schedules 2, 3 and 5)			
Ministry support services	4,912	5,284	4,348
Fiscal planning and accountability	8,298	7,760	7,186
Pensions, insurance and financial institutions	2,920	3,079	2,542
Treasury management	3,224	3,076	2,288
Debt servicing costs - school construction	70,706	70,675	80,463
	90,060	89,874	96,827
Statutory (Schedules 3 and 5)			
Farm credit stability program	910	821	1,506
Pension liability funding	66,900	68,334	67,286
Debt servicing costs	506,000	403,583	694,000
Valuation adjustments (Schedule 6)	(6,650)	80,799	(42,638)
	567,160	553,537	720,154
Write-down of capital assets	-	-	16
	657,220	643,411	816,997
Net operating results	$ (44,140)	$ (15,058)	$ (397,278)

The accompanying notes and schedules are part of these financial statements.

Statement of Financial Position

MARCH 31, 2003

	In thousands	
	2003	**2002**
Assets		
Cash and temporary investments (Schedule 8)	$ 724,998	$ 1,428,901
Accounts and accrued interest receivable (Schedule 9)	267,571	210,390
Portfolio investments (Schedule 10)	3,042,266	3,068,737
Loans and advances to government entities (Schedule 11)	1,346,036	1,249,518
Other loans, advances and investments (Schedule 12)	48,690	80,752
Capital assets (Schedule 13)	518	698
	$ 5,430,079	$ 6,038,996
Liabilities		
Bank overdraft	$ 777,775	$ 1,016,212
Accounts and accrued interest payable (Schedule 14)	187,499	405,987
Unmatured debt (Schedule 15)	6,913,168	8,512,043
Pension obligations (Schedule 16)	962,247	880,898
Other accrued liabilities (Schedule 17)	613,912	781,608
	9,454,601	11,596,748
Net Liabilities		
Net liabilities at beginning of year	(5,557,752)	(9,177,876)
Net operating results	(15,058)	(397,278)
Net transfer from general revenues	1,548,288	4,017,402
Net liabilities at end of year	(4,024,522)	(5,557,752)
	$ 5,430,079	$ 6,038,996

The accompanying notes and schedules are part of these financial statements.

Statement of Changes in Financial Position

YEAR ENDED MARCH 31, 2003

	In thousands 2003	2002
Operating transactions		
Net operating results	$ (15,058)	$ (397,278)
Non-cash items included in net operating results		
Amortization on investments and debt, net		
Purchase and issue discounts	23,428	11,921
Foreign exchange losses (gains)	(50,509)	107,932
Net income on investments valued at equity	(351)	(310)
Amortization and write-down of capital assets	211	168
Valuation adjustments	80,799	(42,638)
	38,520	(320,205)
Increase in receivables	(57,205)	(97,843)
Increase (decrease) in payables, including pension obligations	(204,295)	128,561
Cash used for operating transactions	(222,980)	(289,487)
Investing transactions		
Disposals of portfolio investments	5,591,617	4,410,615
Portfolio investments purchased	(5,573,527)	(5,363,972)
Repayments of loans and advances		
Government entities	1,983,246	2,402,501
Other	34,127	55,922
Loans and advances		
Government entities	(2,076,734)	(2,532,777)
Other	(439)	(1,434)
Purchase of capital assets (Schedule 5)	(31)	(353)
Disposals of capital assets	-	4
Cash used for investing transactions	(41,741)	(1,029,494)
Financing transactions		
Debt issues	9,750,275	6,552,576
Debt retirement	(11,332,170)	(8,166,057)
Voted non-budgetary disbursements to settle obligations (Schedule 5)	(167,138)	(95,382)
Net transfer from general revenues	1,548,288	4,017,402
Cash (used for) provided by financing transactions	(200,745)	2,308,539
Net cash (used) provided	(465,466)	989,558
Cash and temporary investments, net of bank overdraft, at beginning of year	412,689	(576,869)
Bank overdraft, net of cash and temporary investments, at end of year	$ (52,777)	$ 412,689

The accompanying notes and schedules are part of these financial statements.

Notes to the 2002-03 Department of Finance Financial Statements

NOTE 1 AUTHORITY AND PURPOSE

The Department of Finance (the Department) operates under the authority of the Government Organization Act, Chapter G-10, Revised Statutes of Alberta 2000.

The Department's core businesses are to establish the fiscal framework and facilitate sound fiscal planning and decision-making, foster an effective accountability framework, manage financial assets and liabilities prudently, foster access to comprehensive and competitive financial products and services and pension plans, and to administer the regulatory framework to reduce the risk of financial loss to pension plan members, depositors and policyholders.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate.

These financial statements are prepared in accordance with the following accounting policies that have been established by government for all departments.

A) REPORTING ENTITY

The reporting entity is the Department, which is part of the Ministry of Finance and for which the Minister of Finance is accountable. Other entities reporting to the Minister of Finance include Provincial Judges and Masters in Chambers Reserve Fund, Supplementary Retirement Plan Reserve Fund, Alberta Insurance Council, Alberta Municipal Financing Corporation, Alberta Pensions Administration Corporation, The Alberta Government Telephones Commission and its subsidiaries, Alberta Treasury Branches and its subsidiaries, Credit Union Deposit Guarantee Corporation and its subsidiary S C Financial Ltd., N.A. Properties (1994) Ltd. and Gainers Inc. The activities of these organizations are not included in these financial statements.

The Ministry Annual Report provides a more comprehensive accounting of the financial position and results of operations for which the Minister of Finance is accountable.

All departments of the Government of Alberta operate within the General Revenue Fund (the Fund). The Fund is administered by the Minister of Finance. All cash receipts of departments are deposited into the Fund and all cash disbursements made by departments are paid from the Fund. Net transfer from general revenues is the difference between all cash deposits by other departments and all cash disbursements made on their behalf by the Department of Finance.

B) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported on the accrual method of accounting.

NOTE 2 (continued)

Internal Government Transfers

Internal government transfers are transfers between entities within the government reporting entity where the entity making the transfer does not receive any goods or services directly in return.

Dedicated Revenue

Dedicated revenue initiatives provide a basis for authorizing spending. Dedicated revenues must be shown as credits or recoveries in the details of the Government Estimates for a supply vote. If actual dedicated revenues are less than budget and total voted expenses are not reduced by an amount sufficient to cover the deficiency in dedicated revenues, the following year's expenses are encumbered. If actual dedicated revenues exceed budget, the Department may, with the approval of the Treasury Board, use the excess revenue to fund additional expenses on the program. Schedule 2 discloses information on the Department's dedicated revenue initiatives.

Expenses

Directly Incurred

Directly incurred expenses are those costs the Department has primary responsibility and accountability for, as reflected in the government's budget documents.

Directly incurred expenses include:

- amortization of capital assets.
- pension costs which comprise the cost of employer contributions for current service of employees during the year and additional government contributions for service relating to prior years.
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to guarantees, indemnities, pension obligations, loans repayable from future appropriations, and accrued employee vacation entitlements.

Incurred by Others

Services contributed by other entities in support of the Department's operations are disclosed in Schedule 21.

Assets

Financial assets of the Department are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Portfolio investments are carried at cost. Realized gains and losses on disposals of these investments are included in the determination of net operating results for the year. 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.

NOTE 2 (continued)

Loans are reported at their face value except for loans made on significantly concessionary terms which are discounted by the amount of concessions. The amount of the discount is amortized to revenue over the term of the loan, except when the collectibility of either the principal or interest related to the loan transaction is not reasonably assured. The stated value of loans is estimated to approximate fair value.

Investments are recorded at cost, except for investments in wholly owned provincial corporations operating as commercial enterprises which are valued on an equity 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.

Assets acquired by right are not included. Capital assets of the Department are recorded at historical cost and amortized on a straight line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is $100,000 and the threshold for all other capital assets is $15,000.

Liabilities

Liabilities include all financial claims payable by the Department at fiscal year end.

Debentures included in unmatured debt are recorded at the face amount of the issue less unamortized discount, which includes issue expenses and hedging costs.

Income or expense on interest rate swaps and forward interest rate agreements used to manage interest rate exposure is recorded as an adjustment to debt servicing costs. The exchange gain or loss on the foreign exchange contracts used to manage currency exposure is deferred and amortized over the life of the contract.

Foreign Currency

Assets and liabilities denominated in foreign currency are translated at the year end rate of exchange.

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts.

Exchange gains and losses that arise on translation of fixed term foreign currency denominated monetary items are deferred. Amortization of deferred exchange gains and losses and other exchange differences on unhedged transactions are included in the determination of net operating results for the year.

Net Liabilities

Net liabilities represents the difference between the value of assets held by the Department and its liabilities.

Measurement Uncertainty

Estimates are used in accruing revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

NOTE 2 (continued)

Measurement uncertainty that is material to these financial statements exists in provisions for pensions and loans and advances. The nature of the uncertainty in these items arises from several factors such as the effect on accrued pension obligations of actual experience compared to assumptions, and the effect on loans and advances of actual collectibility and changes in economic conditions. While best estimates have been used for reporting items subject to measurement uncertainty, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

NOTE 3 VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of cash and temporary investments, accrued interest, receivables, bank overdraft, payables and other accrued liabilities are estimated to approximate their book values.

Public fixed-income securities included in portfolio investments are valued at the year end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Fair values of loans and advances are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair values with sufficient reliability.

The fair value of unmatured debt is an approximation of its fair value to the holder.

At the year end, the fair values of assets and liabilities denominated in a foreign currency are translated at the year end exchange rate.

NOTE 4 RISK MANAGEMENT

A) LIABILITY MANAGEMENT

The objective of the Department's liability management program is to achieve the lowest cost on debt within an acceptable degree of variability of debt servicing costs. In order to achieve this objective, the Department manages four risks - interest rate risk, currency exchange risk, credit risk, and refinancing risk. The Department manages these four risks within approved policy guidelines. The management of these risks and the policy guidelines apply to the Department's unmatured debt, excluding debt raised to fund requirements of provincial corporations and regulated funds. Debt of provincial corporations and regulated funds is managed separately in relation to their assets.

The Department decided in February 2001, in light of the current debt reduction environment, that the most effective liability risk management strategy would be to allow existing debt instruments to mature in accordance with their terms.

B) ASSET MANAGEMENT

Portfolio investments are used to repay debt as it matures and to provide funding for the capital plan.

NOTE 5 COMMITMENTS

(in thousands)

A) CREDIT UNION ACT

The Credit Union Deposit Guarantee Corporation, operating under the authority of the Credit Union Act, guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The Credit Union Act provides that the Province, through the Department, will ensure that this obligation of the Corporation is carried out. As at December 31, 2002, credit unions in Alberta held deposits totalling $7,583,130 (2001 $6,941,026). Substantial assets are available to safeguard the Department from risk of loss arising from its potential obligation under the Act.

B) OTHER COMMITMENTS

Commitments to outside organizations in respect of contracts entered into before March 31, 2003 amounted to $491 (2002 $102). These commitments will become expenses of the Department when terms of the contracts are met. Payments in respect of these contracts and agreements are subject to the voting of supply by the Legislature.

NOTE 6 CONTINGENCIES

(in thousands)

Set out below are details of contingencies resulting from guarantees, indemnities and litigation, other than those reported as liabilities and shown in Schedule 17.

Any losses arising from the settlement of contingencies are treated as current year expenses.

A) INDEMNITIES AND DEBENTURE, DEPOSIT AND LOAN GUARANTEES

The Province's indemnity to fund interest to the extent necessary on $335,000 of debentures issued by SC Financial Ltd. to credit unions in exchange for stabilization preferred shares of the credit unions expired on October 31, 2002.

Guaranteed liabilities at March 31, 2003 of government entities amounting to $16,455,757 (2002 $15,564,275), and other guarantees amounting to $43,150 (2002 $73,518) are analyzed in Schedules 18 and 19 respectively. These schedules are included with the financial statements because payments under debenture and loan guarantees are a statutory charge on the Department.

Payments under the guarantee of Alberta Treasury Branches deposits would also be made by the Department, under authority of a supply vote.

B) LEGAL ACTIONS

At March 31, 2003, the Department is a defendant in nine legal claims (2002 ten legal claims). The claims have specified amounts totalling approximately $55,807 (2002 $273,879). Two claims amounting to $227 (2002 none) are covered by the Alberta Risk Management Fund.

The resulting loss, if any, from these claims cannot be determined.

NOTE 7 TRUST FUNDS UNDER ADMINISTRATION
(in thousands)

The Department administers trust funds that are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the Province has no equity in the funds and administers them for the purpose of various trusts, they are not included in the Department's financial statements.

As at March 31, 2003, trust funds under administration were as follows:

	2003	2002
Local Authorities Pension Plan Fund	$ 8,049,940	$ 9,058,058
Public Service Pension Plan Fund	3,400,249	3,864,447
Universities Academic Pension Plan Fund	1,446,909	1,697,905
Management Employees Pension Plan Fund	1,329,315	1,490,696
Special Forces Pension Plan Fund	894,183	1,020,063
Regional Health Authorities and various health institutions construction accounts	419,765	511,871
Other	113,797	93,632
	$ 15,654,158	$ 17,736,672

NOTE 8 DEFINED BENEFIT PLANS
(in thousands)

The Department participates in the multiemployer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Department also participates in the multiemployer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $1,090 for the year ended March 31, 2003 (2002 $983).

At December 31, 2002, the Management Employees Pension Plan reported a deficiency of $301,968 (2001 surplus of $5,338) and the Public Service Pension Plan reported an actuarial deficiency of $175,528 (2001 actuarial surplus of $320,487). At December 31, 2002, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of $6,472 (2001 actuarial deficiency of $399).

The Department also participates in two multiemployer Long Term Disability Income Continuance Plans. At March 31, 2003, the Bargaining Unit Plan reported an actuarial deficiency of $14,434 (2002 $8,646) and the Management, Opted Out and Excluded Plan an actuarial deficiency of $3,053 (2002 $2,656). The expense for these two plans is limited to employer's annual contributions for the year.

NOTE 9 COMPARATIVE FIGURES

Certain 2002 figures have been reclassified to conform to 2003 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Corporate Secretary and the Deputy Minister of Finance.

Schedules to the 2002-03 Department of Finance Financial Statements

REVENUES **Schedule 1**

	2003 Budget	2003 Actual	2002 Actual
	In thousands		
Internal government transfers			
Lottery Fund	$ 319,830	$ 280,243	$ 153,376
Taxes			
Special broker tax	400	1,702	1,014
Transfers from Government of Canada			
Unconditional subsidy	4,030	4,055	4,434
Investment income			
Farm credit stability program	6,800	6,139	11,251
Other	160,187	195,970	228,081
	166,987	202,109	239,332
Fees, permits and licences			
Deposit guarantee fee	18,206	15,988	15,234
Insurance companies, agents and brokers	250	224	226
Other	1,092	1,101	1,051
	19,548	17,313	16,511
Transfers from government enterprises			
The Alberta Government Telephones Commission	-	19,549	186
Other			
Alberta Municipal Financing Corporation	100,000	100,000	-
Sale of assets	-	3	6
Refunds of expenditure	550	275	2,070
Miscellaneous	1,735	3,104	2,790
	102,285	103,382	4,866
	$ 613,080	$ 628,353	$ 419,719

DEDICATED REVENUE INITIATIVES **Schedule 2**

	In thousands		
	2003		
	Authorized Dedicated Revenues	Actual Dedicated Revenues	(Shortfall) (a)/ Excess
Fiscal planning and accountability	$ 424	$ 249	$ (175)
Treasury management	105	94	(11)
	$ 529	$ 343	$ (186)

Following is a brief description of each dedicated revenue initiative:

- Fiscal planning and accountability: Provides accounting services to various public sector investment funds. Fees are based on cost recovery.
- Treasury management: Provides banking services to various public sector entities. Fees are based on cost recovery.

The revenue of these initiatives is included in the Statement of Operations in other revenues.

a) The shortfall is deducted from the current year's authorized budget, as disclosed in Schedules 4 and 5.

EXPENSES DETAILED BY OBJECT **Schedule 3**

	In thousands		
	2003		2002
	Budget	Actual	Actual
Voted			
Salaries, wages and employee benefits	$ 12,993	$ 13,253	$ 11,842
Supplies and services	7,624	7,168	5,969
Grants	70,706	70,675	80,463
Financial transactions and other	1,100	1,032	837
Amortization of capital assets	228	211	152
Total voted expenses before recoveries	92,651	92,339	99,263
Less recovery from support service arrangements with related parties (a)	2,591	2,465	2,436
	$ 90,060	$ 89,874	$ 96,827
Statutory			
Farm credit stability program	$ 910	$ 821	$ 1,506
Pension liability funding	66,900	68,334	67,286
Debt servicing costs	506,000	403,583	694,000
Valuation adjustments (Schedule 6)	(6,650)	80,799	(42,638)
	$ 567,160	$ 553,537	$ 720,154

a) The Department provides financial, administrative and human resource services to various departments and Offices of the Legislative Assembly. Costs incurred by the Department are recovered from the recipients of the services.

BUDGET **Schedule 4**

	In thousands				
	2002-03 Estimates	Adjustments (a)	2002-03 Budget	Dedicated Revenue Shortfall	2002-03 Authorized Budget
Revenues					
Internal government transfers	$ 319,830	$ -	$ 319,830	$ -	$ 319,830
Other taxes	400	-	400	-	400
Transfers from Government of Canada	4,030	-	4,030	-	4,030
Investment income	166,987	-	166,987	-	166,987
Fees, permits and licences	19,548	-	19,548	-	19,548
Other	102,285	-	102,285	-	102,285
	613,080	-	613,080	-	613,080
Expenses					
Voted					
Ministry support services	4,912	-	4,912	-	4,912
Fiscal planning and accountability	8,298	-	8,298	(175)	8,123
Pensions, insurance and financial institutions	2,920	-	2,920	-	2,920
Treasury management	3,224	-	3,224	(11)	3,213
Debt servicing costs	70,706	-	70,706	-	70,706
	90,060	-	90,060	(186)	89,874
Statutory					
Farm credit stability program	910	-	910	-	910
Pension liability funding	66,900	-	66,900	-	66,900
Debt servicing costs	506,000	-	506,000	-	506,000
Valuation adjustments	350	(7,000)	(6,650)	-	(6,650)
	574,160	(7,000)	567,160	-	567,160
	664,220	(7,000)	657,220	(186)	657,034
Net operating results	$ (51,140)	$ 7,000	$ (44,140)	$ 186	$ (43,954)
Capital investment	$ 80	$ -	$ 80	$ -	$ 80

a) Adjustments consist of $7,000 for pension provisions excluded from the Estimates.

COMPARISON OF EXPENSES, CAPITAL INVESTMENT AND DISBURSEMENTS BY ELEMENT TO AUTHORIZED BUDGET

Schedule 5

In thousands

	2002-03 Budget	Dedicated Revenue Shortfall	2002-03 Authorized Budget	2002-03 Actual Expense (a)	Unexpended (Over Expended)
Voted Expenses and Capital Investment					
Program 1 - Ministry Support Services					
1.0.1 Minister's Office	$ 283	$ -	$ 283	$ 323	$ (40)
1.0.2 Deputy Minister's Office	354	-	354	457	(103)
1.0.3 Corporate Services					
- Operating Expense	3,893	-	3,893	4,168	(275)
- Capital Investment	50	-	50	31	19
1.0.4 Communications	287	-	287	250	37
1.0.5 Standing Policy Committee on Economic Development and Finance	95	-	95	86	9
	4,962	-	4,962	5,315	(353)
Program 2 - Fiscal Planning and Accountability					
2.0.1 Office of Budget and Management	8,298	(175)	8,123	7,760	363
Program 3 - Pensions, Insurance and Financial Institutions					
3.0.1 Assistant Deputy Minister's Office	283	-	283	539	(256)
3.0.2 Financial Institutions Regulation	1,290	-	1,290	1,340	(50)
3.0.3 Financial Sector Policy	532	-	532	549	(17)
3.0.4 Pension Policy	531	-	531	391	140
3.0.5 Corporate Management Services to Alberta Municipal Financing Corporation	284	-	284	260	24
	2,920	-	2,920	3,079	(159)
Program 4 - Treasury Management					
4.0.1 Liability Management					
- Operating Expense	1,850	-	1,850	1,748	102
- Capital Investment	30	-	30	-	30
4.0.2 Banking and Cash Forecasting	1,374	(11)	1,363	1,328	35
	3,254	(11)	3,243	3,076	167
Debt Servicing					
Grants for School Construction Debenture Interest Payments	70,706	-	70,706	70,675	31
	$ 90,140	$ (186)	$ 89,954	$ 89,905	$ 49
Program Operating Expense	$ 90,060	$ (186)	$ 89,874	$ 89,874	$ -
Program Capital Investment	80	-	80	31	49
	$ 90,140	$ (186)	$ 89,954	$ 89,905	$ 49

a) Includes achievement bonus of $643.

Schedule 5 (continued)

	2002-03 Budget (In thousands)	2002-03 Actual	Unexpended (Over Expended)
Statutory Expenses			
Farm credit stability program	$ 910	$ 821	$ 89
Pension liability funding	66,900	68,334	(1,434)
Debt servicing costs	506,000	403,583	102,417
Valuation adjustments	(6,650)	80,799	(87,449)
	$ 567,160	$ 553,537	$ 13,623
Voted Non-Budgetary Disbursements			
Grants for school construction debenture principal repayment	$ 89,754	$ 89,628	$ 126
Settlement of obligations under the credit union deficit financing agreement	78,000	77,510	490
	$ 167,754	$ 167,138	$ 616

VALUATION ADJUSTMENTS **Schedule 6**

	2003 Budget (In thousands)	2003 Actual	2002 Actual
Pension provisions	$ (7,000)	$ 81,349	$ (9,560)
Provision for employee benefits other than pensions	-	83	40
Provision for doubtful accounts and loans	-	(27)	(36)
Provision for guarantees and indemnities	350	(606)	(33,082)
	$ (6,650)	$ 80,799	$ (42,638)

SALARY AND BENEFITS DISCLOSURE **Schedule 7**

	2003			2002
	Salary [1]	Benefits and Allowances [2]	Total	Total
Deputy Minister [3][4]	$ 190,681	$ 55,426	$ 246,107	$ 227,414
Controller [4][5]	137,778	36,225	174,003	116,088
Executives				
Acting Controller [5]	-	-	-	32,723
Assistant Deputy Minister - Pensions, Insurance and Financial Institutions [3][6]	142,244	35,335	177,579	170,644
Executive Director, Treasury Management	130,418	31,103	161,521	136,601
Corporate Secretary [7]	111,775	25,425	137,200	127,489

1) Salary includes regular base pay, bonuses, overtime and lump sum payments.

2) Benefits and allowances include the government's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, short and long term disability plans, WCB premiums, professional memberships and tuition fees.

3) Benefits and allowances include the following vacation payments: Deputy Minister $Nil (2002 $5,874), Assistant Deputy Minister - Pensions, Insurance and Financial Institutions $Nil (2002 $16,662).

4) Automobile provided, no dollar amount included in benefits and allowances figures.

5) The incumbent was appointed to the position of Controller on July 1, 2001. The position was not occupied for the first three months of 2001-02. The incumbent previously occupied the position of Acting Controller for the first three months of 2001-02.

6) The position was occupied by two individuals in 2002.

7) The incumbent's services are shared with the Department of Revenue and Executive Council which contribute their own share of the cost of salary and benefits. Full salary and benefits are disclosed in this Schedule.

CASH AND TEMPORARY INVESTMENTS **Schedule 8**

	In thousands	
	2003	**2002**
Fixed-income securities (a)		
Corporate	$ 574,360	$ 1,263,876
Deposit in Consolidated Cash Investment Trust Fund	123,249	151,939
Cash in bank and in transit	27,389	13,086
	$ 724,998	$ 1,428,901

a) Fixed-income securities have an average effective yield of 3.0% (2002 2.8%) per annum. All of the securities have terms to maturity of less than three years (2002 less than two years).

ACCOUNTS AND ACCRUED INTEREST RECEIVABLE **Schedule 9**

	In thousands	
	2003	**2002**
Lottery Fund	$ 72,243	$ 28,376
Alberta Treasury Branches	61,401	45,416
Accrued interest receivable	50,919	60,290
Present value of future contributions from credit union system	47,043	53,831
The Alberta Government Telephones Commission	24,572	5,023
Swap accruals	11,259	16,446
Other	946	1,796
	268,383	211,178
Less allowance for doubtful accounts	812	788
	$ 267,571	$ 210,390

PORTFOLIO INVESTMENTS **Schedule 10**

	In thousands			
	2003		2002	
	Book Value	Fair Value	Book Value	Fair Value
Fixed-income securities (a)				
Government of Canada, direct and guaranteed	$ 367,530	$ 367,797	$ 524,388	$ 526,842
Provincial, direct and guaranteed	1,224,589	1,230,691	1,133,220	1,147,521
Municipal	81,971	82,367	140,092	141,804
Corporate	1,368,176	1,366,784	1,271,037	1,277,853
	$ 3,042,266	$ 3,047,639	$ 3,068,737	$ 3,094,020

a) The Department's fixed-income securities are held to repay debt as it matures and to provide funding for the capital plan. The securities held have an average effective market yield of 3.4% (2002 3.3%) per annum. All (2002 98%) of the securities have terms to maturity of less than two years.

LOANS AND ADVANCES TO GOVERNMENT ENTITIES **Schedule 11**

	In thousands	
	2003	2002
Agriculture Financial Services Corporation	$ 999,734	$ 888,191
Alberta Social Housing Corporation	346,078	361,103
Public Trustee	224	224
	$ 1,346,036	$ 1,249,518

OTHER LOANS, ADVANCES AND INVESTMENTS — Schedule 12

	In thousands 2003	2002
Loans and advances		
Farm Credit Stability Act	$ 41,889	$ 73,263
Board of Governors of the University of Alberta	2,018	2,342
Pratt & Whitney Canada Ltd.	1,963	2,519
University of Lethbridge Students' Union	786	948
Implemented guarantees and indemnities	224	236
Judgement debts	51	91
Accountable advances	4	-
	46,935	79,399
Less allowance for doubtful loans and advances	276	327
	46,659	79,072
Investments		
N.A. Properties (1994) Ltd.	1,986	1,635
Alberta Municipal Financing Corporation	45	45
	2,031	1,680
	$ 48,690	$ 80,752

CAPITAL ASSETS — Schedule 13

		In thousands 2003			2002
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment	10 years	$ 109	$ 109	$ -	$ -
Computer hardware and software	5 years	1,096	578	518	698
		$ 1,205	$ 687	$ 518	$ 698

ACCOUNTS AND ACCRUED INTEREST PAYABLE — Schedule 14

	In thousands 2003	2002
Accrued interest on unmatured debt	$ 167,944	$ 227,135
Investment purchases	-	146,407
Other	19,555	32,445
	$ 187,499	$ 405,987

UNMATURED DEBT **Schedule 15**

			In thousands			
			2003		2002	
	Effective Rate (a)(b)(c)	Modified Duration (d)	Book Value (a)	Fair Value (a)	Book Value (a)	Fair Value (a)
	%	years				
Canadian dollar debt and fully hedged foreign currency debt						
Floating rate and short-term fixed rate (e)	4.99	0.29	$ 1,513,571	$ 1,550,492	$ 1,067,342	$ 1,092,912
Fixed rate long-term (f)	6.87	4.45	3,839,493	4,290,299	4,605,748	5,013,809
	6.34	3.35	5,353,064	5,840,791	5,673,090	6,106,721
Unhedged U.S. dollar debt (g)						
Floating rate and short-term fixed rate (e)	1.61	0.10	1,055,900	1,050,468	2,328,856	2,475,004
Fixed rate long-term	6.68	1.19	504,204	553,938	510,097	593,097
	3.24	0.48	1,560,104	1,604,406	2,838,953	3,068,101
	5.68	2.72	$ 6,913,168	$ 7,445,197	$ 8,512,043	$ 9,174,822

a) Book value represents the amount the Department owes. Fair value is an approximation of market value to the holder. The book value, fair value and weighted average effective rate include the effect of interest rate and currency rate swaps. For non-marketable issues, the effective rate and fair value are determined by reference to yield curves for comparable quoted issues.

b) Weighted average effective rates on unhedged U.S. dollar debt are based upon debt stated in U.S. dollars.

c) Weighted average effective rate on total unmatured debt is on debt inclusive of deferred exchange losses on unhedged U.S. dollar debt (see note (g)).

d) Modified duration is the weighted average term to maturity of the security's cash flows (i.e., interest and principal) and is a measure of price volatility; the greater the modified duration of a bond, the greater its percentage price volatility.

e) Floating rate debt includes short-term debt, term debt with less than one year remaining to maturity, and term debt with interest rate reset within a year.

f) Canadian dollar fixed rate debt includes $678,696 (2002 $678,696) held by the Canada Pension Plan Investment Fund.

g) Unhedged U.S. dollar debt is translated into Canadian dollars at the March 31 noon exchange rate of $1.47 per U.S. dollar (2002 $1.59 per U.S. dollar). Deferred exchange gains on unhedged U.S. dollar debt amounted to $23,457 at March 31, 2003 (2002 deferred exchange losses $82,616). Amortization of deferred exchange gains amounted to $50,105 for the year ended March 31, 2003 (2002 amortization of deferred losses $106,627).

Schedule 15 (continued)

Debt principal repayment requirements at par in each of the next five years, including short-term debt maturing in 2003-04, and thereafter are as follows:

	In millions	
	Total in Canadian Dollars	**Unhedged in US Dollars**
2003-04	$1,836	$ 500
2004-05	1,635	439
2005-06	1,300	108
2006-07	115	-
2007-08	268	-
Thereafter to 2016-17	1,754	-
	$6,908	$1,047

None of the debt has call provisions (2002 $110,000).

Derivative financial instruments

The Department uses interest rate swaps and currency rate swaps and contracts to manage the interest rate risk and currency exposure associated with unmatured debt. In addition, forward interest rate agreements are used to manage interest rate exposure in the short term. Associated with these instruments are credit risks that could expose the Department to potential losses. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Credit exposure to counterparties is a fraction of the notional principal amount, as shown in the table below. The Department minimizes its credit risk associated with these contracts by dealing with only the most credit worthy counterparties.

Interest rate swaps involve the exchange of a series of interest payments, either at a fixed or floating rate, based upon a contractual or notional principal amount. An interest rate swap agreement based upon a notional amount involves no exchange of underlying principal. The notional amount serves as the basis for determining the exchange of interest payments. At March 31, 2003, interest rate swap agreements were being used primarily to convert fixed interest rate payments to floating rates.

Cross currency interest rate swaps involve both the swapping of interest rates and currencies.

Schedule 15 (continued)

The following table summarizes the Department's derivative portfolio and related credit exposure. Notional amount represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. Replacement cost represents the cost of replacing, at current market rates, all contracts which have a positive market value.

	In thousands			
	2003		**2002**	
	Notional Amount	**Replacement Cost**	**Notional Amount**	**Replacement Cost**
Interest rate swaps	$ 1,906,000	$ 24,491	$ 2,493,000	$ 28,818
Cross currency interest rate swaps	536,000	-	1,070,000	-
	$ 2,442,000	$ 24,491	$ 3,563,000	$ 28,818

PENSION OBLIGATIONS **Schedule 16**

Because the pension plans referred to in Note 8 are multi-employer, the Department has no obligations in respect of pension plans for its employees.

However, in respect of other public sector pension plans, the Department has pension obligations as described below.

	In thousands	
	2003	**2002**
Obligations to pension plans for current and former employees and Members of the Legislative Assembly		
Public Service Management (Closed Membership) Pension Plan (a)	$ 695,785	$ 630,281
Members of the Legislative Assembly Pension Plan (b)	49,323	47,437
	745,108	677,718
Obligations to pension plans for employees of organizations outside the government reporting entity		
Universities Academic Pension Plan (c)	157,134	151,203
Special Forces Pension Plan (c)	60,005	51,977
	217,139	203,180
	$ 962,247	$ 880,898

a) The Public Service Management (Closed Membership) pension plan provides benefits to former members of the Public Service Management pension plan who were retired, were entitled to receive a deferred pension or had attained 35 years of service before August 1, 1992. The costs of all benefits under the plan are paid by the Department.

b) The Department has a liability for payment of pension benefits under a defined benefit pension plan for Members of the Legislative Assembly. Active participation in this plan was terminated as of June 1993, and no benefits can be earned for service after this date.

Schedule 16 (continued)

c) Under the Public Sector Pension Plans Act, the Department has obligations for payment of additional contributions under defined benefit pension plans for certain employees of post-secondary educational institutions and municipalities. The plans are the Universities Academic and Special Forces plans.

For Universities Academic, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions of 1.25 per cent of pensionable salaries by the Department, and such percentages by employers and employees as will fund equally the remaining amount, as determined by the plan valuation, over the period ending on or before December 31, 2043. Current service costs are funded by employers and employees.

For Special Forces, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions in the ratio of 45.45 per cent by the Department and 27.27 per cent each by employers and employees, over the period ending on or before December 31, 2036. Current service costs are funded by employers and employees. The Act provides that payment of all benefits arising from pensionable service prior to 1994, excluding post-1991 cost of living adjustment benefits, is guaranteed by the Province.

Pension obligations are based upon actuarial valuations performed at least triennially using the projected benefit method prorated on services. The assumptions used in the valuations were adopted after consultation between the pension plan boards, the government and the actuaries, depending on the plan, and represent best estimates of future events. Each plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses are amortized over the expected average remaining service lives of the related employee groups.

Information about the economic assumptions used in the most recent actuarial valuations is provided below for each plan. Demographic assumptions used in the valuations reflect the experience of the plans.

Plan	Latest Valuation	Real Rate of Return %	Inflation Rate %	Investment Rate of Return %
Public Service Management (Closed Membership) Pension Plan	December 31, 2002	3.0	3.0	6.0
Members of the Legislative Assembly Pension Plan	March 31, 2003	3.0	3.0	6.0
Universities Academic Pension Plan	December 31, 2000	4.0	3.5	7.5
Special Forces Pension Plan	December 31, 2001	3.75	3.25	7.0

These actuarial valuations indicated a deficiency of net assets over actuarial present value of accrued benefits. Including deferred adjustments, unfunded liabilities were extrapolated to March 31, 2003.

A separate pension plan fund is maintained for each pension plan except for the Members of the Legislative Assembly plan. Pension plan fund assets are invested in both marketable investments of organizations external to the government and in Province of Alberta bonds and promissory notes.

OTHER ACCRUED LIABILITIES **Schedule 17**

	In thousands 2003	2002
Future funding to school boards to enable them to repay debentures issued to the Alberta Municipal Financing Corporation	$ 608,135	$ 697,763
Guarantees and indemnities (Schedule 19)	3,601	3,721
Vacation entitlements	1,757	1,674
Future funding to settle obligations under the credit union deficit financing agreement	-	78,000
Other	419	450
	$ 613,912	$ 781,608

GUARANTEED DEBT OF GOVERNMENT ENTITIES **Schedule 18**

In thousands

	Held by: Department of Finance	Alberta Heritage Savings Trust Fund	Others	Total 2003	Total 2002
Debentures					
Alberta Municipal Financing Corporation	$ 160,000	$ -	$ 3,671,081	$ 3,831,081	$ 3,590,816
Alberta Social Housing Corporation	346,077	100,037	81,651	527,765	548,249
	506,077	100,037	3,752,732	4,358,846	4,139,065
Deposits					
Alberta Treasury Branches	7,888	-	12,089,023	12,096,911	11,425,210
	$ 513,965	$ 100,037	$ 15,841,755	$ 16,455,757	$ 15,564,275

Guarantees include principal borrowings only and exclude guaranteed interest, the amount of which is not determinable.

Schedule 18 (continued)

The net asset positions from the most recent financial statements of government entities with guaranteed liabilities are reported below.

Entity	Date	Position	In thousands 2003	2002
Alberta Municipal Financing Corporation	December 31, 2002	Shareholders' equity	$ 26,740	$ 132,802
Alberta Social Housing Corporation	March 31, 2003	Surplus	$ 307,199	$ 306,588
Alberta Treasury Branches	March 31, 2003	Equity	$ 790,937	$ 592,033

OTHER GUARANTEES (a) **Schedule 19**

	In thousands 2003	2002	Expiry Date
Farm Credit Stability Act (b)	$ 43,061	$ 72,602	2011
Centre for Engineering Research Inc.	1,553	1,950	2005
University of Calgary	1,134	1,194	2016
Rural utilities loans	973	1,450	2015
Small Business Term Assistance Act	30	43	(c)
	46,751	77,239	
Less estimated liability (Schedule 17)	3,601	3,721	
	$ 43,150	$ 73,518	

a) Authorized loan guarantee limits decline as guaranteed loans are repaid.

The lender takes appropriate security prior to issuing a loan to the borrower which is guaranteed by the Province. The security taken depends on the nature of the loan. Interest rates are negotiated with the lender by the borrower and typically range from prime to prime plus two per cent.

No new program guarantees are being issued under the following Acts: Farm Credit Stability Act, Rural Utilities Act and the Small Business Term Assistance Act.

b) The expiry date shown is the latest expiry date for guaranteed loans under the program.

c) Loans have expired or are in the process of realization of security.

RELATED PARTY TRANSACTIONS **Schedule 20**

Related parties are those entities consolidated in the Province of Alberta's financial statements. Related parties also include management in the Department.

As explained in Note 2(a), the Department is responsible for managing all departments' cash transactions. As a result, the Department engages in transactions with its own funds and agencies and with all other departments and their funds and agencies in the normal course of operations.

The Deputy Minister of Finance is a director of Alberta Pensions Administration Corporation and Alberta Municipal Financing Corporation. Alberta Pensions Administration Corporation is wholly owned and Alberta Municipal Financing Corporation is 70% owned by the Government of Alberta, through the Department. The Deputy Minister of Finance did not receive any benefit during the year, in cash or in kind, as a result of these directorships.

The investment in Alberta Municipal Financing Corporation is recorded at cost (see Schedule 12) because the Corporation has the power to pay its retained earnings, which amounted to $26,676,000 at December 31, 2002 (2001 $132,738,000), to municipal and other shareholders which have borrowed money from the Corporation. During the 2002-03 fiscal year, the Department paid $160,284,000 (2002 $175,845,000) to the Corporation by way of grants to school boards to satisfy their interest and principal repayment obligations in respect of school board debentures. These amounts are not included in the table below as school boards are not related parties. The investment in Alberta Pensions Administration Corporation is not significant, either on a cost or an equity basis.

The Department and its employees paid or collected certain taxes and fees set by regulation for permits, licences and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

Schedule 20 (continued)

The Department had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties.

	In thousands			
	Entities in the Ministry		**Other Entities**	
	2003	**2002**	**2003**	**2002**
Revenues				
Transfers	$ 119,549	$ 186	$ 280,243	$ 153,376
Interest	10,321	1,616	69,722	68,851
Charges for services	16,301	15,466	175	256
	$ 146,171	$ 17,268	$ 350,140	$ 222,483
Expenses				
Cost of services	$ 77	$ 69	$ 3,157	$ 3,125
Assets				
Accounts receivable	$ 86,005	$ 50,439	$ 72,247	$ 28,376
Accrued interest receivable	1,911	1,693	15,050	13,757
Portfolio investments	160,000	160,000	-	-
Loans, advances and investments	2,031	1,680	1,345,812	1,249,294
	$ 249,947	$ 213,812	$ 1,433,109	$ 1,291,427
Liabilities				
Accounts and accrued interest payable	$ 19	$ -	$ 175	$ -

The above transactions do not include support service arrangement transactions disclosed in Schedule 3.

The Department also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements but are disclosed in Schedule 21.

	Entities in the Ministry		**Other Entities**	
	2003	**2002**	**2003**	**2002**
Expenses - incurred by others				
Accommodation	$ -	$ -	$ 1,173	$ 921
Legal services	-	-	408	964
	$ -	$ -	$ 1,581	$ 1,885

ALLOCATED COSTS BY PROGRAM

Schedule 21

In thousands

	Ministry Support Services	Fiscal Planning and Accountability	Pensions, Insurance and Financial Institutions	Treasury Management	Debt Servicing Costs and Other	Total
Expenses[1]	$ 5,284	$ 7,760	$ 3,079	$ 3,076	$ 543,413	$ 562,612
Expenses - incurred by others						
Accommodation	402	251	484	36	-	1,173
Legal services	28	61	292	27	-	408
	430	312	776	63	-	1,581
Valuation adjustments						
Vacation pay	57	2	3	21	-	83
Doubtful accounts	-	-	-	(27)	-	(27)
Other	-	-	-	-	80,743	80,743
	57	2	3	(6)	80,743	80,799
2003 Total	$ 5,771	$ 8,074	$ 3,858	$ 3,133	$ 624,156	$ 644,992
2002 Total	$ 4,886	$ 7,540	$ 3,462	$ 2,365	$ 800,613	$ 818,866

1) Expenses - directly incurred as per Statement of Operations, excluding valuation adjustments.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND FINANCIAL STATEMENTS MARCH 31, 2003

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of the Provincial Judges and Masters in Chambers Reserve Fund (the Fund) as at March 31, 2003 and the statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Fund'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 Fund as at March 31, 2003 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
August 1, 2003

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND
BALANCE SHEET
MARCH 31, 2003
($ thousands)

	2003	2002
ASSETS		
Cash and cash equivalents (Note 3)	$ 26,177	$ 18,624
Receivable from the Province of Alberta	308	3,587
	26,485	22,211
LIABILITIES		
Amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Notes 2(c) and 4)	26,485	22,211
NET ASSETS	$ -	$ -

The accompanying notes are part of these financial statements.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2003
($ thousands)

	2003	2002(a)
Increase in assets		
Contributions from the Province of Alberta	$ 3,592	$ 7,362
Investment income	682	121
Initial transfer from the Province of Alberta	-	14,728
	4,274	22,211
Decrease in assets		
Increase in amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	4,274	22,211
Increase in net assets	-	-
Net assets at beginning of year	-	-
Net assets at end of year	$ -	$ -

(a) For the period from November 23, 2001 to March 31, 2002

The accompanying notes are part of these financial statements.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2003

NOTE 1 AUTHORITY AND PURPOSE

The Provincial Judges and Masters in Chambers Reserve Fund (Reserve Fund) operates under the authority of the *Financial Administration Act,* Chapter F-12, Revised Statutes of Alberta 2000 and the Provincial Judges and Masters in Chambers Reserve Fund Directive (Treasury Board Directive 03/01).

The Reserve Fund is established to collect contributions from the Province of Alberta and to invest the funds which are reserved to meet future benefit payments of the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Unregistered Plan). The Unregistered Plan is established effective April 1, 1998 to provide additional pension benefits to Provincial Judges and Masters in Chambers whose pensionable earnings are in excess of $86,111, the yearly maximum pensionable earnings limit allowed by the *Income Tax Act* for 2002 and 2003.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Reserve Fund to meet future benefit payments of the Unregistered Plan.

(b) Valuation of Assets and Liabilities

Short-term securities included in cash and cash equivalents are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

The fair values of deposits, receivables and accrued liabilities are estimated to approximate their book values.

(c) Liabilities

Accrued liabilities of the Reserve Fund are funded by investment income and contributions from the Province of Alberta at a rate determined by the Unregistered Plan's actuary and approved by the Minister of Finance. The rate in effect at March 31, 2003 was unchanged from 2002 at 39.97% of the pensionable earnings of Provincial Judges and Masters in Chambers that were in excess of $86,111. These amounts represent assets held by the Reserve Fund, which are available to meet future benefit payments of the Unregistered Plan over the long term. Based on an actuarial valuation of the Unregistered Plan as at March 31, 2003, the Plan's actuary has recommended that the Province's contribution rate decrease to 36.04% of pensionable salary in excess of the yearly maximum pensionable earnings limit.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of a deposit in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed with the objectives 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 three years. As at March 31, 2003, securities held by the CCITF had an average effective market yield of 3.23% per annum (2002 2.58% per annum) and an average duration of 71 days (2002 68 days).

NOTE 4 PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (UNREGISTERED) PENSION PLAN (UNREGISTERED PLAN)

An actuarial valuation of the Unregistered Plan was carried out as at March 31, 2003 by Johnson Incorporated.

As at March 31, 2003, the Unregistered Plan reported an actuarial surplus of $0.6 million (2002 $3.1 million), taking into account the amounts owing from the Reserve Fund.

NOTE 5 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Finance.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND FINANCIAL STATEMENTS MARCH 31, 2003

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of the Supplementary Retirement Plan Reserve Fund as at March 31, 2003 and the statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Fund'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 Fund as at March 31, 2003 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
June 13, 2003

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND
BALANCE SHEET
MARCH 31, 2003
($ thousands)

	2003	2002
Assets		
Cash and cash equivalents (Note 3)	$ 14,057	$ 7,210
Receivable from participating employers	509	410
	14,566	7,620
Liabilities		
Amounts owing to the Supplementary Retirement Plan for Public Service Managers (Notes 2(c) and 4)	14,566	7,620
Net Assets	$ -	$ -

The accompanying notes are part of these financial statements.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2003
($ thousands)

	2003	2002
Increase in assets		
Contributions from participating employers	$ 6,638	$ 3,801
Investment income	308	189
	6,946	3,990
Decrease in assets		
Increase in amounts owing to the Supplementary Retirement Plan for Public Service Managers	6,946	3,984
Administration expenses	-	6
	6,946	3,990
Increase in net assets	-	-
Net assets at beginning of year	-	-
Net assets at end of year	$ -	$ -

The accompanying notes are part of these financial statements.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2003

NOTE 1 AUTHORITY AND PURPOSE

The Supplementary Retirement Plan Reserve Fund (Reserve Fund) operates under the authority of the Financial Administration Act, Chapter F-12, Revised Statutes of Alberta 2000 and Treasury Board Directive 05/99.

The Reserve Fund is established to collect contributions from participating employers and to invest the funds which are reserved to meet future benefit payments of the Supplementary Retirement Plan for Public Service Managers (SRP). The SRP is established effective July 1, 1999 to provide additional pension benefits to eligible public service managers whose pensionable earnings are in excess of $86,111, the yearly maximum pensionable earnings limit allowed by the federal Income Tax Act for 2002 and 2003.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Reserve Fund to meet future benefit payments of the SRP.

(b) Valuation of Assets and Liabilities

Short-term securities included in cash and cash equivalents are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

The fair values of deposits, receivables and accrued liabilities are estimated to approximate their book values.

(c) Liabilities

Accrued liabilities of the Reserve Fund are funded by investment income and contributions from participating employers at a rate determined by the SRP's actuary and approved by the government. The rate in effect at March 31, 2003 was unchanged from 2002 at 42.5% of the pensionable salary of eligible public service managers that were in excess of $86,111. These amounts represent assets held by the Reserve Fund, which are available to meet future benefit payments of the SRP over the long term. Based on an actuarial valuation of the SRP as at December 31, 2002, the Plan's actuary has recommended that the employer contribution rate decreases, effective July 1, 2003, to 6.8% of pensionable salary in excess of the yearly maximum pensionable earnings limit.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of a deposit in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed with the objectives 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 three years. As at March 31, 2003, securities held by the CCITF had an average effective market yield of 3.23% (2002 2.58%) per annum and an average duration of 71 days (2002 68 days).

NOTE 4 SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS (SRP)

An actuarial valuation of the SRP was carried out as at December 31, 2002 by Aon Consulting Inc.

As at December 31, 2002, the SRP reported an actuarial surplus of $6.5 million (2001 actuarial deficiency of $0.4 million), taking into account the amounts owing from the Reserve Fund.

NOTE 5 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Finance.

ALBERTA INSURANCE COUNCIL
FINANCIAL STATEMENTS
DECEMBER 31, 2002

AUDITOR'S REPORT

To the Members of the Alberta Insurance Council

We have audited the statement of financial position of Alberta Insurance Council as at December 31, 2002 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Council as at December 31, 2002, and the results of its operations, the changes in its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants

Edmonton, Alberta
March 6, 2003

ALBERTA INSURANCE COUNCIL
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2002

	2002	2001
ASSETS		
Current assets		
Cash (Note 3)	$ 1,820,604	$ 1,514,648
Accounts receivable	77,685	76,879
Prepaid expenses	13,141	18,268
	1,911,430	1,609,795
Recoverable program development costs	86,081	94,163
Deferred program development costs (Note 4)	244,094	226,594
Property, plant and equipment (Note 5)	179,606	165,888
	$ 2,421,211	$ 2,096,440
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 101,071	$ 47,206
Deferred tenant inducement	18,528	23,258
Deferred licence and assessment fee revenue	483,400	307,130
	602,999	377,594
NET ASSETS		
Net assets		
Invested in property, plant and equipment	179,606	165,888
Invested in program development	244,094	226,594
Unrestricted	1,394,512	1,326,364
	1,818,212	1,718,846
	$ 2,421,211	$ 2,096,440

Approved by the Board of Directors

L. Yanke, Director

V. Chatten, Director

ALBERTA INSURANCE COUNCIL
STATEMENT OF CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2002

	Invested in property, plant and equipment	Invested in program development	Unrestricted	Total 2002	Total 2001
Balance - Beginning of year	$ 165,888	$ 226,594	$ 1,326,364	$ 1,718,846	$ 1,483,253
Excess (deficiency) of revenue over expenditures	(76,532)	-	175,898	99,366	235,593
Invested in property, plant and equipment	90,250	-	(90,250)	-	-
Invested in program development	-	17,500	(17,500)	-	-
Balance - End of year	$ 179,606	$ 244,094	$ 1,394,512	$ 1,818,212	$ 1,718,846

ALBERTA INSURANCE COUNCIL
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2002

	Budget 2002 (Unaudited)	2002	2001
Revenue			
Licence and assessment fees	$ 2,205,000	$ 2,093,479	$ 1,891,426
Interest and other	65,000	51,865	80,769
Curriculum development exam fees	83,000	-	-
	2,353,000	2,145,344	1,972,195
Expenditures			
Salaries and benefits	1,302,000	1,241,529	1,032,234
Occupancy	210,000	202,300	206,443
Council meetings	115,000	130,079	110,442
Travel	60,000	82,183	67,165
Amortization of property, plant and equipment	80,000	76,532	67,872
Legal fees	95,000	61,592	53,357
Communications	40,000	44,281	39,111
Freight and postage	70,000	36,031	45,674
Appeal boards	25,000	26,618	12,421
Printing and stationery	19,000	25,818	30,803
Accreditation committee	20,000	25,254	-
Professional fees	30,000	22,070	32,282
Training	-	18,825	4,438
Office	25,000	16,702	15,182
Other	21,000	16,325	9,140
Insurance	8,000	10,289	9,213
Promotions and publications	15,000	5,892	-
Software maintenance	40,000	3,658	825
	2,175,000	2,045,978	1,736,602
Excess of revenue over expenditures	$ 178,000	$ 99,366	$ 235,593

ALBERTA INSURANCE COUNCIL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2002

	2002	2001
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenditures	$ 99,366	$ 235,593
Items not affecting cash		
Amortization of property, plant and equipment	76,532	67,872
Amortization of tenant inducement	(4,730)	(4,731)
	171,168	298,734
Net changes in non-cash working capital items		
Increase in accounts receivable	(806)	(26,263)
Decreases in prepaid expenses	5,127	3,873
Increase (decrease) in accounts payable and accrued liabilities	53,865	(6,475)
Increase in deferred licence and assessment fee revenue	176,270	43,526
	405,624	313,395
Investing activities		
Purchase of property, plant and equipment	(90,250)	(80,662)
Expenditures on deferred program development	(17,500)	(104,566)
Program development costs	8,082	-
	(99,668)	(185,228)
Increase in cash	305,956	128,167
Cash - Beginning of year	1,514,648	1,386,481
Cash - End of year	$ 1,820,604	$ 1,514,648
Supplementary information		
Interest received	$ 50,323	$ 82,323

ALBERTA INSURANCE COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2002

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Insurance Council (the "Council") operates under the authority of the *Insurance Act*, Chapter I-3, Revised Statutes of Alberta 2000, as amended. As a not-for-profit organization under the *Income Tax Act,* the Council is not subject to either federal or provincial income taxes.

The Council provides administration services to the Life Insurance, General Insurance and Insurance Adjusters Councils. These Councils are responsible for regulating their segments of the insurance industry.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Because the precise determination of many assets, liabilities, revenues and expenses are dependent upon future events, the preparation of financial statements for a period necessarily includes the use of estimates and approximations which have been made using careful judgement. Actual results could differ from those estimates. These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Revenue Recognition

License and assessment fees are taken into income on a straight line basis over the term of the license or assessment. License and assessment fees received but not yet taken into income are recorded as deferred license and assessment fee revenue. Examination fees are taken into income when the related exam is held.

Deferred Program Development Costs

Costs, which have been incurred by the Council, as a committee member of the Canadian Insurance Self Regulatory Organization ("CISRO") for the development of the Life License Qualification Program (the "program") have been deferred until the program is implemented. Once the program is implemented, the costs will be amortized on a straight-line basis over a period of five years.

Property, Plant and Equipment and Amortization

Property, plant and equipment is recorded at cost and is being amortized over their estimated useful lives on a straight-line basis as follows:

Leasehold improvements	Term of lease
Furniture and office equipment	10 years
Computer equipment	3 years
Computer software	3 years
Telephone equipment	5 years

Deferred Tenant Inducement

Deferred tenant inducement in the amount of $4,731 (2001 - $4,731) is recorded at cost and is being amortized over the eight-year lease term into occupancy expense.

Contributed Services

The work of the Council is dependent on the voluntary services of members. The value of donated services is not recognized in these financial statements.

NOTE 3 CASH

Included in Cash is an amount of $1,615,945 (2001 - $1,210,097) invested in the Consolidated Cash Investment Trust Fund ("CCITF"). The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital.

NOTE 4 DEFERRED PROGRAM DEVELOPMENT COSTS

	2002	2001
Travel	$ 79,165	$ 79,165
Professional fees	147,429	147,429
Exam development	17,500	-
	$ 244,094	$ 226,594

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

	2002			2001
	Cost	Accumulated amortization	Net	Net
Leasehold improvements	$ 67,111	$ 43,950	$ 23,161	$ 31,671
Furniture and office equipment	148,532	103,067	45,465	46,424
Computer equipment	270,113	212,560	57,553	31,113
Computer software	192,432	154,714	37,718	35,251
Telephone equipment	38,864	23,155	15,709	21,429
	$ 717,052	$ 537,446	$ 179,606	$ 165,888

NOTE 6 LEASE COMMITMENTS

The Council is committed to operating lease payments for business premises and equipment as follows:

2003	$ 87,253
2004	73,945
2005	47,328
2006	43,384

NOTE 7 FINANCIAL INSTRUMENTS

The carrying value of financial assets and liabilities approximate fair value. The Council does not hedge interest rate transactions, and there are no unrecorded financial instruments. Credit risk is negligible as the majority of revenue is from license, assessment and examination fees, which are billed in advance.

NOTE 8 COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year.

Schedule 1

ALBERTA INSURANCE COUNCIL
SCHEDULE OF SALARIES AND BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2002

PER DIEM PAYMENTS OF COUNCIL MEMBERS

	2002		2001	
	#	Total	#	Total
Councils (a)				
Chairs	4	$ 20,700	4	$ 16,650
Council Members	22	63,305	19	44,550
Total	26	$ 84,005	23	$ 61,200

(a) This includes the Alberta Insurance Council, the Life Insurance Council, the General Insurance Council and the Insurance Adjusters Council and the Audit Committee.

SALARIES AND BENEFITS

	2002				2001	
	#	Salary[b]	Benefits[c]	Total	#	Total
General Manager	1	$ 142,437	$ 25,849	$ 168,286	1	$ 161,784
Assistant General Manager	1	115,637	26,048	141,685	1	118,696
Full-time staff [d]	17	776,879	131,751	908,630	15	726,673
Part-time staff	1	21,559	1,369	22,928	3	25,081
Total	20	$ 1,056,512	$ 185,017	$ 1,241,529	20	$ 1,032,234

(b) Salary includes regular base pay, bonuses, overtime and accrued vacation pay. Accrued vacation pay was $19,204 for 2002 (2001 - $8,922).

(c) Employer's share of all employee benefits and contributions or payments made on behalf of employees including group RRSP, health care, dental coverage, group life insurance and long and short-term disability plans and vacation pay.

(d) Full-time staff consists of all individuals working 29 hours or more per week. Average annual salary and benefits was $52,659 for 2002 (2001 - $49,687).

ALBERTA MUNICIPAL FINANCING CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2002

AUDITOR
GENERAL
Alberta

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, 2002 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, 2002 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]

Fred J. Dunn, CA
Auditor General

Edmonton, Alberta
January 31, 2003

ALBERTA MUNICIPAL FINANCING CORPORATION
BALANCE SHEET
AS AT DECEMBER 31, 2002
(thousands of dollars)

	2002		2001
	Budget	Actual	Actual
ASSETS			
Cash (Note 3)	$ 19,812	$ 6,030	$ 30,917
Accrued interest receivable	133,078	135,649	128,422
Loans to local authorities (Note 4)	3,719,666	3,818,270	3,454,950
	$ 3,872,556	$ 3,959,949	$ 3,614,289
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Accrued interest payable	$ 64,616	$ 59,035	$ 62,922
Due to the General Revenue Fund (Note 10)	-	100,000	-
Debt (Note 5 and Schedule 1)	3,685,343	3,774,174	3,418,565
	3,749,959	3,933,209	3,481,487
Shareholders' equity:			
Share capital (Note 6):			
Authorized: 7,500 common shares, par value $10 per share			
Issued and fully paid:			
6,373 shares (2001 - 6,372)	64	64	64
Retained earnings	122,533	26,676	132,738
	122,597	26,740	132,802
	$ 3,872,556	$ 3,959,949	$ 3,614,289

The accompanying notes are part of these financial statements.

G.H. Sherwin, CA
Chairman of the Board

A.J. McPherson
Director

ALBERTA MUNICIPAL FINANCING CORPORATION

STATEMENT OF LOSS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 2002

(thousands of dollars)

	2002		2001
	Budget	Actual	Actual
Interest Income:			
Loans	$ 322,193	$ 323,829	$ 328,622
Amortization of loan discounts	15,744	15,744	19,872
Other	500	618	1,671
	338,437	340,191	350,165
Interest Expense:			
Debt	343,206	342,743	359,532
Amortization of net discounts on debt	6,037	3,687	7,633
	349,243	346,430	367,165
Net interest expense	(10,806)	(6,239)	(17,000)
Other Income:			
Loan prepayment fees	1,000	519	141
Net interest expense and other income	(9,806)	(5,720)	(16,859)
Non-Interest Expense:			
Administration and office expenses (Note 7)	399	342	316
Net loss	(10,205)	(6,062)	(17,175)
Retained earnings, beginning of year	132,738	132,738	149,913
	122,533	126,676	132,738
Transfer to the General Revenue Fund (Note10)	-	(100,000)	-
Retained earnings, end of year	$ 122,533	$ 26,676	$ 132,738

ALBERTA MUNICIPAL FINANCING CORPORATION

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED DECEMBER 31, 2002

(thousands of dollars)

	2002		2001
	Budget	Actual	Actual
Operating Activities:			
Interest received on loans	$ 317,537	$ 316,602	$ 339,038
Other interest	500	618	1,671
Loan prepayment fees	1,000	519	141
Administration and office expenses	(399)	(342)	(316)
Interest paid on debt	(341,512)	(346,630)	(370,394)
Cash flows used in operating activities	(22,874)	(29,233)	(29,860)
Investing Activities:			
Loan repayments	417,028	418,565	456,062
New loans issued	(666,000)	(766,141)	(363,339)
Cash flows (used in) from investing activities	(248,972)	(347,576)	92,723
Financing Activities:			
Debt issues	1,455,476	2,281,657	722,520
Debt redemptions	(1,194,735)	(1,929,735)	(776,739)
Cash flows from (used in) financing activities	260,741	351,922	(54,219)
Net (decrease) increase in cash	(11,105)	(24,887)	8,644
Cash, beginning of year	30,917	30,917	22,273
Cash, end of year	$ 19,812	$ 6,030	$ 30,917

ALBERTA MUNICIPAL FINANCING CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2002

NOTE 1 AUTHORITY

The Alberta Municipal Financing Corporation operates under the authority of the *Alberta Municipal Financing Corporation Act*, Chapter A-27, Revised Statutes of Alberta 2000, as amended.

NOTE 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) Debt

Debt premiums and 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 premiums or discounts.

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

(b) 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.

(c) Measurement Uncertainty

In preparing the financial statements, management must make estimates and assumptions concerning values of certain assets, liabilities, net income and related disclosures reported in these financial statements. Actual results could differ from these estimates.

(d) Credit Risk

Credit risk is the risk of loss due to borrowers failing to meet their obligations to the Corporation. Historically, the Corporation has not needed 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.

NOTE 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.

NOTE 4 LOANS TO LOCAL AUTHORITIES

	2002	2001
	(thousands of dollars)	
Loans to local authorities	$ 3,854,073	$ 3,506,497
Less: Unamortized discounts	35,803	51,547
	$ 3,818,270	$ 3,454,950

At the year-end, 2002 loan payments related to loans of $962,300 were in arrears. The book value for these loans has not been reduced as the Corporation expects the loans will be current in 2003.

NOTE 5 DEBT

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

(b) Debt amounting to $2,706,081,000 (2001 - $2,880,816,000) 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 discounted at the Province's borrowing rate.

(c) Debt redemption requirements with the assumption of no early redemption during each of the next five years, are as follows:

	Debt Redemption
	(thousands of dollars)
2003	$ 666,023
2004	338,491
2005	423,604
2006	395,396
2007	335,383
	$ 2,158,897

NOTE 6 SHARE CAPITAL

Particulars of share capital are summarized hereunder:

		Number of Shares		
Class	Restricted to	Authorized	Issued and Fully Paid	Total Dollar Amount
A	Province of Alberta	4,500	4,500	$ 45,000
B	Municipalities, airport authorities and hospitals	1,000	854	8,540
C	Cities	750	582	5,820
D	Towns and villages	750	301	3,010
E	Schools, universities and colleges	500	136	1,360
		7,500	6,373	$ 63,730

During the year, two Class B shares were issued and one Class D share was cancelled at $10.00 each.

NOTE 7 DIRECTORS' FEES AND RELATED PARTY TRANSACTIONS

Directors' fees paid by the Corporation are as follows:

	2002		2001	
	Number of Individuals	Total	Number of Individuals	Total
Chairman of the Board	1	$ 2,500	1	$ 2,100
Board members	6	$ 14,400	6	$ 11,100

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. Included in administration and office expenses of $342,126 (2001 - $316,549) is the amount of $214,024 (2001 - $184,617) that was paid to the controlling shareholder, Province of Alberta, at prices which approximate market.

NOTE 8 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, 2002
(thousands of dollars)

Maturities	Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	2002 Total		2001 Total
Assets								
Cash	$ 6,030	$ -	$ -	$ -	$ -	$ 6,030		$ 30,917
Accrued Interest Receivable	135,649	-	-	-	-	135,649		128,422
Loans	67,660	89,750	801,041	1,246,809	1,648,813	3,854,073	(i)	3,506,497
Effective Rate	9.1%	10.3%	9.2%	9.2%	7.0%	8.3%		9.0%
Total	$ 209,339	$ 89,750	$ 801,041	$ 1,246,809	$ 1,648,813	$ 3,995,752		$ 3,665,836
Liabilities								
Accrued Interest Payable	$ 59,035	$ -	$ -	$ -	$ -	$ 59,035		$ 62,922
Debt	665,573	338,491	1,153,791	1,293,952	322,367	3,774,174		3,418,565
Effective Rate	9.6%	13.3%	9.7%	7.4%	6.2%	8.9%		10.2%
Total	$ 724,608	$ 338,491	$ 1,153,791	$ 1,293,952	$ 322,367	$ 3,833,209		$ 3,481,487
Net Gap	$ (515,269)	$ (248,741)	$ (352,750)	$ (47,143)	$ 1,326,446	$ 162,543		$ 184,349

(i) This total is not reduced by unamortized discount of $35,803 (2001 - $51,547).

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.

NOTE 9 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 loans and debt that could be exchanged with unrelated parties who are interested in acquiring these instruments. For loans and debt, fair value is calculated using net present value techniques where the Corporation's future cash flows are discounted at the Corporation's cost of funds.

Changes in interest rates are the main cause of changes in the fair value of the Corporation's financial instruments.

The fair value of cash approximates its carrying value.

The following table presents the financial instruments with a carrying value different from the recorded value at December 31:

	2002		2001	
	Fair Value	Book Value	Fair Value	Book Value
	(thousands of dollars)			
Loans, including accrued interest receivable	$ 4,530,131	$ 3,953,919	$ 4,133,534	$ 3,583,372
Debt, including accrued interest payable	$ 4,404,516	$ 3,833,209	$ 4,063,567	$ 3,481,487

NOTE 10 TRANSFER OF RETAINED EARNINGS TO THE GENERAL REVENUE FUND

On December 9, 2002, the Minister of Finance directed the transfer of $100 million of the Corporation's retained earnings to the General Revenue Fund. The transfer was made in accordance with Section 33 of the *Financial Administration Act*.

NOTE 11 BUDGET

The 2002 budget was approved by the Board of Directors on March 20, 2002.

Schedule 1

ALBERTA MUNICIPAL FINANCING CORPORATION
SCHEDULE OF DEBT
AS AT DECEMBER 31, 2002
(thousands of dollars)

Maturity Date	Interest Rate	Principal Outstanding
Canada Pension Plan Investment Fund (Note 5(b))		
Apr 05, 2003	13.82	$ 209,284
Dec 01, 2003	11.50	231,739
Dec 03, 2004	13.25	338,491
Nov 01, 2005	11.66	283,604
Nov 03, 2006	9.85	395,396
Nov 02, 2007	9.66	335,383
Oct 03, 2008	10.04	259,294
Oct 02, 2009	9.99	291,414
Nov 01, 2009	9.62	32,457
Dec 01, 2009	9.26	6,652
Oct 01, 2020	6.28	222,367
Jun 01, 2022	6.06	100,000
Total		2,706,081
Public		
Apr 03, 2003	2.74	32,500
Apr 03, 2003	2.74	32,500
Aug 01, 2003	4.91	160,000
Jun 01, 2005	4.60	140,000
Sep 01, 2011	5.70	200,000
Jun 01, 2012	5.85	500,000
Total		1,065,000
		3,771,081
Net unamortized premium		3,093
Total debt 2002		$3,774,174
Total debt 2001		$3,418,565

ALBERTA PENSIONS ADMINISTRATION CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2002

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Shareholder of
Alberta Pensions Administration Corporation

I have audited the balance sheet of the Alberta Pensions Administration Corporation as at December 31, 2002 and the statements of income and cash flows 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, 2002 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
February 14, 2003

ALBERTA PENSIONS ADMINISTRATION CORPORATION
BALANCE SHEET
DECEMBER 31, 2002
($ thousands)

	2002	2001
ASSETS		
Cash (Note 5)	$ 46	$ 423
Accounts receivable	5	28
Prepaid expenses	2	6
Due from pension plans	3,925	2,222
Capital assets (Note 6)	6,918	4,028
	$ 10,896	$ 6,707
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities		
Accounts payable and accrued liabilities	$ 3,039	$ 1,998
Accrued salaries and benefits	342	156
Accrued vacation pay	597	510
Capital lease obligation	-	15
Deferred capital contributions [Note 3(b)]	6,918	4,028
	10,896	6,707
Shareholder's equity		
Share capital (Note 7)	-	-
	$ 10,896	$ 6,707

The accompanying notes are part of these financial statements.

On behalf of the Board:

Jack H. McMahon
Chairman of the Board

R. C. (Rick) Milner
Audit Committee Chairman

ALBERTA PENSIONS ADMINISTRATION CORPORATION
STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2002
($ thousands)

	Budget 2002	Actual 2002	Actual 2001
	(Note 16)		
Revenue			
Service revenue (Note 8)	$ 20,905	$ 21,881	$ 15,365
Miscellaneous revenue	156	79	157
Total revenue	21,061	21,960	15,522
Operating costs before APEX business system and plan specific costs			
Salaries and benefits	8,391	8,112	6,180
Data processing	3,396	2,953	2,824
Materials and supplies	976	1,493	904
Contract services	827	644	559
Rent	555	502	477
Amortization	400	465	371
Operating costs before APEX business system and plan specific costs	14,545	14,169	11,315
APEX business system costs (Note 15)	4,796	5,743	2,448
Operating costs before plan specific costs	19,341	19,912	13,763
Plan specific costs (Note 11)	1,720	2,048	1,759
Total operating costs	21,061	21,960	15,522
Net income	$ -	$ -	$ -

ALBERTA PENSIONS ADMINISTRATION CORPORATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2002
($ thousands)

	2002	2001
Operating activities		
Net income	$ -	$ -
Items not requiring cash		
Amortization	601	439
Capital contributions recognized	(601)	(439)
	-	-
Changes in non-cash working capital (Note 9)		
	(362)	436
	(362)	436
Investing activities		
Acquisition of property and equipment		
APEX	(2,477)	(2,640)
Non-APEX	(1,014)	(332)
	(3,491)	(2,972)
Financing activities		
Decrease in capital lease obligation	(15)	(45)
Capital contributions received	3,491	2,972
	3,476	2,927
Increase (decrease) in cash for the year	(377)	391
Cash at beginning of year	423	32
Cash at end of year	$ 46	$ 423

ALBERTA PENSIONS ADMINISTRATION CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2002

NOTE 1 AUTHORITY

The Alberta Pensions Administration Corporation (APA) was incorporated under the *Business Corporations Act,* Chapter B-9, Revised Statutes of Alberta, 2000. The issued share of the Corporation is owned by the Province of Alberta, and accordingly the Corporation is exempt from income taxes.

NOTE 2 NATURE OF OPERATIONS

(a) Public Sector Pension Plans

The Minister of Finance of Alberta, operating under the authority of the *Public Sector Pension Plans Act,* Chapter P-41, Revised Statutes of Alberta 2000, and the *Financial Administration Act*, Chapter F-12, RSA 2000, is responsible for administering the following pension plans:

Local Authorities Pension Plan
Public Service Pension Plan
Management Employees Pension Plan
Supplementary Retirement Plan for Public Service Managers
Special Forces Pension Plan
Public Service Management (Closed Membership) Pension Plan
Provincial Judges and Masters In Chambers (Registered) Pension Plan
Provincial Judges and Masters In Chambers (Unregistered) Pension Plan
Members of the Legislative Assembly Pension Plan

All administrative services required by the pension plans are provided by the Corporation pursuant to an agreement with the Minister dated December 31, 2004. These services include the collection of contributions, payment of benefits and refunds, communication to stakeholders, pension plan board support services and other services specifically approved by individual pension boards.

(b) Other Pension Plan

The Universities Academic Pension Plan (UAPP) Board of Trustees requested, and APA agreed, in an Administrative Services Agreement dated December 20, 2000, to provide certain pension administrative services to the Board of Trustees for the period of January 1, 2001 to December 31, 2002. Effective January 1, 2003, APA no longer provides administrative services to UAPP.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

(a) Property and Equipment

Property and equipment is recorded at cost.

Property and equipment is amortized on a straight line basis over the estimated useful life of the asset as follows:

Computer equipment	2 to 3 years
Computer software	2 to 3 years
Furniture and equipment	5 years
Telephone system	3 years
Leasehold improvements	Lease period
APEX business system	5 years

The costs of the Alberta Pension Excellence (APEX) business system, a business process re-engineering initiative, directly attributable to the development, betterment or acquisition of computer software are capitalized. These activities include:

Costs associated with documenting plan rules and developing specifications for programming new pension software.

Purchase and installation of new pension software.

Program modifications to new pension software.

Property and equipment under construction, including software development projects, is not amortized until completion and implementation.

(b) Recognition of Deferred Capital Contributions

Contributions from the Public Sector Pension Plans to acquire property and equipment are recorded as deferred capital contributions. These amounts are recognized as revenue on the same basis as the acquired property and equipment is amortized to operating costs.

(c) Pensions

The Corporation participates in multiemployer pension plans with related government entities. Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year.

NOTE 4 VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount of consideration agreed upon in an arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable, accounts payable and accrued liabilities are estimated to approximate their book value.

NOTE 5 CASH

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund which is managed to provide competitive interest income while maintaining maximum security and liquidity of depositors’ capital.

NOTE 6 PROPERTY AND EQUIPMENT

	2002			2001
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	($ thousands)			
Computer equipment	$ 1,622	$ 787	$ 835	$ 282
Software development projects	113	113	-	-
Computer software	512	400	112	155
Furniture and equipment	528	287	241	320
Telephone system	43	43	-	-
Leasehold improvements	142	18	124	6
APEX business system (Note 15)	5,810	204	5,606	3,265
	$ 8,770	$ 1,852	$ 6,918	$ 4,028

NOTE 7 SHARE CAPITAL

	2002	2001
Authorized		
Unlimited number of common shares		
Unlimited number of preferred shares		
Issued		
1 common share, for cash (Note 1)	$1	$1

NOTE 8 SERVICE REVENUE

The Corporation charged each plan with its respective share of the Corporation's operating costs and plan specific costs as follows:

	2002	2001
	($ thousands)	
Public Sector Pension Plans		
Local Authorities Pension Plan	$ 12,780	$ 8,887
Public Service Pension Plan	5,676	4,045
Management Employees Pension Plan	1,104	686
Special Forces Pension Plan	827	627
Public Service Management (Closed Membership) Pension Plan	286	178
Members of the Legislative Assembly Pension Plan	68	61
Provincial Judges and Masters in Chambers (Registered) Pension Plan	65	61
Supplementary Retirement Pension Plans		
Supplementary Retirement Plan for Public Service Managers	330	217
Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	61	46
Other Pension Plan		
Universities Academic Pension Plan	684	557
	$ 21,881	$ 15,365

NOTE 9 CHANGES IN NON-CASH WORKING CAPITAL

	2002	2001
	($ thousands)	
Changes in non-cash working capital consist of the following		
Decrease/(increase) in accounts receivable	$ 23	$ (2)
Decrease in prepaid expenses	4	14
Increase in due from pension plans	(1,703)	(992)
Increase in accounts payable and accrued liabilities	1,041	1,240
Increase in accrued salaries and benefits	186	121
Increase in accrued vacation pay	87	55
	$ (362)	$ 436

NOTE 10 RELATED PARTY TRANSACTIONS

		2002	2001
		($ thousands)	
The Corporation received the following services at amounts which approximate market from:			
Alberta Finance	Accounting and administrative	$ 23	$ 31
Alberta Infrastructure	Postage and parking rental	59	104
Alberta Corporate Service Centre	Data processing and postage	758	708

The Corporation also provided services to the Public Sector Pension Plans as disclosed in Notes 8 and 11.

NOTE 11 PLAN SPECIFIC COSTS

The Corporation makes certain payments on behalf of the pension plans. These costs, which are incurred directly by the pension plans, and which the Corporation does not control, are as follows:

	2002	2001
	($ thousands)	
Remuneration for Pension Plan Boards	$ 162	$ 120
Salaries and benefits	314	253
Contract services	1,205	1,039
Materials and supplies	367	347
	$ 2,048	$ 1,759

NOTE 12 SALARIES AND BENEFITS DISCLOSURE

		2002			2001
		Salary [a]	Benefits and Allowances [b]	Total	Total
		($ thousands)			
Chairman of APA Board	[c]	$ 24	$ -	$ 24	$ 20
Board Members of APA	[c]	48	2	50	32
Executives:					
Chief Executive Officer	[d][e][f]	142	27	169	158
Executive Director Operations & Corporate Secretary	[g]	132	23	155	126
Executive Director Finance and Administration	[e][g]	119	26	145	115
Executive Director Pension Policy		113	16	129	112
Executive Director Corporate Development	[g][h]	91	16	107	-
Chief Information Officer	[g][i]	43	9	52	123

(a) Salary includes regular base pay, honoraria, incentive pay and other lump sum payments.

(b) Benefits and allowances include the employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, long-term disability, WCB premiums, professional memberships, tuition fees and vacation payouts.

(c) Remuneration paid to the Chairman and four (2001: three) Board Members is classified as contract services and is paid in accordance with the fee structure approved by the Minister of Finance.

(d) Position was reclassified from Chief Operating Officer effective February 4, 2002.

(e) Position was occupied by two individuals consecutively in 2002.

(f) Automobile provided, no dollar amount included in benefits and allowances figures.

(g) Benefits and allowances include vacation payouts to the Executive Director Operations and Corporate Secretary $5,000 (2001 $4,000) and the Executive Director Finance and Administration $9,000 (2001: $nil), the Executive Director Corporate Development $4,000 (2001: $nil) and the Chief Information Officer $nil (2001: $4,000).

(h) Position created on March 4, 2002.

(i) Position was reclassified from Executive Director of Information Technology effective October 1, 2002. Position was occupied by two individuals for a period of five months in 2002.

NOTE 13 PENSION

The Corporation participates in the Management Employees Pension Plan and Public Service Pension Plan which are multiemployer pension plans. The expense for these pension plans is equivalent to the annual contributions of $430,000 for the year ended December 31, 2002 (2001: $348,000).

NOTE 14 COMMITMENTS

The Corporation has entered into agreements with minimum annual commitments as follows:

(a) A lease agreement with the Landlord for office space.

	($ thousands)
2003	$ 557
2004 to 2007	$ 540

(b) A fixed price agreement with a service provider for the development of the APEX business system.

	($ thousands)
2003	$ 3,593

(c) A lease agreement for an automobile.

	($ thousands)
2003	$ 9
2004	$ 9
2005	$ 1

NOTE 15 APEX BUSINESS SYSTEM

The APEX business system will provide a fully integrated system of enhanced pension administration services to employers, members, pensioners and pension plan Boards. These enhancements will be accomplished through the implementation of new pension software, web based functionality and process improvements. Funding for the APEX business system is provided by contributions from the Public Service Pension Plan, the Local Authorities Pension Plan, the Management Employees Pension Plan and the Special Forces Pension Plan.

(a) New Pension Software and Web Based Functionality (Implementation Phase)

Costs incurred, expensed, capitalized and amortized during the year were as follows:

	2002	2001
	($ thousands)	
Costs incurred during the year	$ 8,220	$ 5,088
Costs expensed during the year		
Alternatives phase	-	309
Implementation phase	5,607	2,071
Amortization	136	68
	5,743	2,448
Costs capitalized during the year	2,477	2,640
Costs amortized during the year	(136)	(68)
Unamortized costs at beginning of year	3,265	693
Unamortized costs at end of year	$ 5,606	$ 3,265

The approved operating and capital budget for this phase is:

	Budget	Actual to December 31, 2002
	($ thousands)	
New Pension Software	$ 16,801	$ 11,438
Web Based Functionality	1,802	1,357
	$ 18,603	$ 12,795

(b) Process Improvements

Operating and capital budget for the following process improvements have been approved. No costs have been incurred to December 31, 2002.

	Budget
	($ thousands)
Document Management	$ 520
Document Imaging	1,613
Workflow	1,085
	$ 3,218

NOTE 16 BUDGET

The 2002 budget was approved by the Board of Directors on November 21, 2001.

NOTE 17 COMPARATIVE FIGURES

Certain 2001 figures have been reclassified to conform to the 2002 presentation.

THE ALBERTA GOVERNMENT TELEPHONES COMMISSION FINANCIAL STATEMENTS DECEMBER 31, 2002

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Member of
The Alberta Government Telephones Commission

I have audited the balance sheet of The Alberta Government Telephones Commission as at December 31, 2002 and the statement of revenue, expense and retained earnings for the year then ended. These financial statements are the responsibility of the Commission'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 Commission as at December 31, 2002 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
April 23, 2003

THE ALBERTA GOVERNMENT TELEPHONES COMMISSION
BALANCE SHEET
AS AT DECEMBER 31, 2002
(thousands of dollars)

	2002	2001
ASSETS		
Cash and cash equivalents (Note 3)	$ 50,704	$ 50,061
Interest and accounts receivable	102	194
	$ 50,806	$ 50,255
LIABILITIES AND EQUITY		
Accounts payable and accrued liabilities	$ 190	$ 194
Income taxes (Note 2(c))	24,290	45,185
Due to the Province of Alberta (Note 4)	26,326	4,876
	50,806	50,255
Retained earnings	-	-
	$ 50,806	$ 50,255

The accompanying notes are part of these financial statements.

On behalf of the Commission:

R. M. Matheson
Chairman and Sole Commission Member

THE ALBERTA GOVERNMENT TELEPHONES COMMISSION
STATEMENT OF REVENUE, EXPENSE AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2002
(thousands of dollars)

	2002		2001
	Budget (Note 6)	Actual	
Revenue:			
Interest on deposits	$ 1,800	$ 1,030	$ 2,038
Foreign exchange gain on income taxes	-	434	-
Foreign exchange gain on notes	-	-	2,773
	1,800	1,464	4,811
Expense:			
Interest on income taxes	1,800	913	1,916
Foreign exchange loss on notes	-	386	-
Foreign exchange loss on income taxes	-	-	2,633
Interest and other	-	10	2
	1,800	1,309	4,551
Gain on valuation adjustment	-	21,295	-
Excess of revenue over expense for the year	-	21,450	260
Retained earnings at beginning of year	-	-	-
Transfer to the Province of Alberta	-	(21,450)	(260)
Retained earnings at end of year	$ -	$ -	$ -

THE ALBERTA GOVERNMENT TELEPHONES COMMISSION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 1 AUTHORITY

The Alberta Government Telephones Commission (the Commission) operates under the authority of the Telecommunications Act, Chapter T-3.5, Statutes of Alberta 1988, as amended.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Financial Statement Presentation

A cash flow statement is not provided, as disclosure in the financial statements is considered adequate.

(b) Valuation of Assets and Liabilities

Due to the short-term nature of cash and cash equivalents, interest and accounts receivable, and accounts payable and accrued liabilities, the carrying value approximates fair value.

(c) Income Taxes

The income tax provision is management's estimate of income taxes payable for its U.S. subsidiaries, which were wound-up in 1999.

(d) Foreign Currency

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. Foreign currency transactions are translated at the average exchange rate prevailing during the year.

NOTE 3 CASH AND CASH EQUIVALENTS

	2002	2001
	(thousands of dollars)	
Bank deposits	$ 494	$ 689
CCITF account	2,348	2,231
Short-term deposits	47,862	47,141
	$ 50,704	$ 50,061

The Consolidated Cash Investment Trust Fund (CCITF) is a demand account managed by Alberta Finance 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.

Short-term deposits are comprised of bank certificates that are reinvested as they mature.

NOTE 4 DUE TO THE PROVINCE OF ALBERTA

	2002	2001
	(thousands of dollars)	
Balance at beginning of year	$ 4,876	$ 4,616
Excess of revenue over expenses of the Commission	21,450	260
Balance at end of year	$ 26,326	$ 4,876

Pursuant to section 15 of the Telecommunications Act, the amount due to the Province of Alberta can be paid, with the approval of the Lieutenant Governor in Council, with money that the Commission determines to be surplus.

NOTE 5 FEES AND BENEFITS

The Commission did not pay any fees or benefits to the Sole Commission Member. The Commission has no employees.

NOTE 6 BUDGET

The 2002 budget was published in the 2002-03 Government and Lottery Fund Estimates at page 198.

ALBERTA TREASURY BRANCHES
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2003

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance

I have audited the consolidated balance sheet of Alberta Treasury Branches as at March 31, 2003, and the consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of Alberta Treasury Branches' management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with 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 consolidated financial statements present fairly, in all material respects, the financial position of Alberta Treasury Branches as at March 31, 2003 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 13, 2003

ALBERTA TREASURY BRANCHES
CONSOLIDATED BALANCE SHEET
AS AT MARCH 31
($ in thousands)

	2003	2002	2001
ASSETS			
Cash resources (Note 4)			
Cash and non-interest bearing deposits with banks	$ 90,495	$ 104,434	$ 146,550
Interest bearing deposits with banks	579,607	752,269	752,519
Cheques and other items in transit, net	-	15,627	-
	670,102	872,330	899,069
Securities (Note 5)	578,850	807,793	926,180
Loans, net of allowances for credit losses (Notes 6 and 7)			
Residential mortgage	4,956,773	4,423,668	3,977,883
Personal	1,803,170	1,629,781	1,510,325
Business and other	5,077,850	4,485,969	4,189,693
General allowance for credit losses	(146,311)	(138,855)	(123,649)
	11,691,482	10,400,563	9,554,252
Other			
Premises and equipment (Note 8)	81,322	74,661	74,183
Other assets (Notes 9)	179,984	198,463	205,502
	261,306	273,124	279,685
	$ 13,201,740	$ 12,353,810	$ 11,659,186
LIABILITIES AND EQUITY			
Deposits (Note 10)			
Personal	$ 7,508,559	$ 6,978,556	$ 6,307,770
Business and other	4,588,352	4,446,654	4,611,093
	12,096,911	11,425,210	10,918,863
Other			
Other liabilities (Note 11)	250,731	306,385	282,118
Cheques and other items in transit, net (Note 4)	17,745	-	6,654
	268,476	306,385	288,772
Subordinated debentures (Note 12)	45,416	30,182	17,444
Equity	790,937	592,033	434,107
	$ 13,201,740	$ 12,353,810	$ 11,659,186

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board:

R. Triffo, Chairman of the Board

B. Hesje, Chairman of the Audit Committee

ALBERTA TREASURY BRANCHES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED MARCH 31
($ in thousands)

	2003	2002	2001
Interest income			
Loans	$ 657,374	$ 669,422	$ 726,242
Securities	18,613	34,697	43,355
Deposits with banks	21,537	35,326	40,229
	697,524	739,445	809,826
Interest expense			
Deposits	330,896	372,243	446,959
Subordinated debentures	2,468	1,619	898
	333,364	373,862	447,857
Net interest income	364,160	365,583	361,969
Provision for (recovery of) credit losses (Note 7)	(43,211)	21,095	20,969
Net interest income after provision for (recovery of) credit losses	407,371	344,488	341,000
Other income			
Service charges	49,699	45,751	44,229
Credit fees	26,520	25,581	17,238
Commission and other	12,017	12,045	11,937
Card fees	13,892	12,679	10,182
Foreign exchange	5,314	5,153	5,489
	107,442	101,209	89,075
Net interest and other income	514,813	445,697	430,075
Non-interest expenses			
Salaries and employee benefits (Notes 13 and 14)	160,160	146,789	134,856
Premises and equipment, including amortization	46,922	42,905	42,314
Communications and electronic processing	55,884	52,559	49,695
Other	52,943	45,518	41,741
	315,909	287,771	268,606
Net income	$ 198,904	$ 157,926	$ 161,469

ALBERTA TREASURY BRANCHES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED MARCH 31
($ in thousands)

	2003	2002	2001
Equity at beginning of year	$ 592,033	$ 434,107	$ 272,638
Net income	198,904	157,926	161,469
Equity at end of year	$ 790,937	$ 592,033	$ 434,107

ALBERTA TREASURY BRANCHES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31
($ in thousands)

	2003	2002	2001
Cash flows from operating activities			
Net income	$ 198,904	$ 157,926	$ 161,469
Adjustments to determine net cash flows:			
Provision for (recovery of) credit losses	(43,211)	21,095	20,969
Amortization	20,107	17,419	16,379
Net changes in accrued interest receivable and payable	12,604	4,867	14,233
Other items, net	(49,779)	26,439	1,505
	138,625	227,746	214,555
Cash flows from financing activities			
Net change in deposits	671,701	506,347	994,237
Issue of subordinated debentures	15,234	12,738	9,925
	686,935	519,085	1,004,162
Cash flows from investing activities			
Net change in interest bearing deposits with banks	172,662	250	(257,617)
Purchase of investment securities	(6,653,500)	(8,595,386)	(7,324,304)
Maturity of investment securities	6,882,443	8,713,773	7,090,578
Net change in loans	(1,247,708)	(867,406)	(641,646)
Net purchases of capital assets	(26,768)	(17,897)	(26,946)
	(872,871)	(766,666)	(1,159,935)
Net (decrease) increase in cash and cash equivalents	(47,311)	(19,835)	58,782
Cash and cash equivalents at beginning of year	120,061	139,896	81,114
Cash and cash equivalents at end of year	$ 72,750	$ 120,061	$ 139,896
Represented by:			
Cash and non-interest bearing deposits with banks	$ 90,495	$ 104,434	$ 146,550
Cheques and other items in transit, net	(17,745)	15,627	(6,654)
	$ 72,750	$ 120,061	$ 139,896
Supplementary cash flow information:			
Amount of interest paid during the year	$ 335,260	$ 378,411	$ 401,759

ALBERTA TREASURY BRANCHES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2003

($ in thousands)

NOTE 1 AUTHORITY

Alberta Treasury Branches (ATB) is an Agent of the Crown in right of Alberta and operates under the authority of the Alberta Treasury Branches Act, Revised Statutes of Alberta, 2000, chapter A-37. Under the Act, ATB was established as a provincial Crown corporation governed by a Board of Directors appointed by the Lieutenant Governor in Council. ATB's primary business is providing financial services within Alberta.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements are prepared by management in accordance with Canadian generally accepted accounting principles. Comparative amounts have been reclassified where necessary to conform with the current year's presentation. The significant accounting policies followed in the preparation of these Consolidated Financial Statements are summarized below:

- Basis of consolidation

  The Consolidated Financial Statements include the assets, liabilities and results of operations and cash flows of ATB and its wholly owned subsidiaries (Note 22). All intercompany transactions and balances have been eliminated.

- Translation of foreign currencies

  Assets and liabilities arising from foreign currency transactions are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. The income and expenses related to these transactions are translated using the average exchange rate for the year. Realized and unrealized gains and losses arising from these translations are included in other income in the Consolidated Statement of Income.

- Specific accounting policies

  Other significant accounting policies are disclosed in the following notes with the related financial disclosure.

NOTE 3 MEASUREMENT UNCERTAINTY

In preparing the Consolidated Financial Statements, management must make estimates and assumptions concerning values of certain assets and liabilities, net income and related disclosures such as credit loss allowances, pension liability, accrued liabilities and amortization. Actual results could differ from these estimates.

NOTE 4 CASH RESOURCES

Cash resources consist of cash, operating and investment deposits with banks and items in transit. Deposits with banks are recorded at cost and interest income on interest bearing deposits is recorded on an accrual basis. Cheques and other items in transit represent the net position of uncleared settlements with other financial institutions and are recorded at cost.

If the total amount of uncleared settlements due to other financial institutions exceeds the total amount of uncleared settlements owed to ATB, the net amount is reported under other liabilities on the Consolidated Balance Sheet.

NOTE 5 SECURITIES

Securities are comprised of debt and equity securities and are reported at cost or amortized cost, adjusted to recognize other than temporary losses in the underlying value. All securities held are investment account securities purchased with the intention to hold them to maturity, or until market conditions render alternative investments more attractive. Gains and losses on disposal of securities are included in income in the year of disposal. The cost or amortized cost of debt securities approximates the market value of securities. The market value of equity securities is $11,528 as per quoted market price at March 31, 2003.

The carrying value of securities, by remaining term to maturity, is as follows:

	Within one year	No specific maturity	2003 Total carrying value	2002 Total carrying value	2001 Total carrying value
Issued or guaranteed by the Canadian federal government	$ 8,728	$ -	$ 8,728	$ 31,959	$ 106,756
Corporate debt	558,144	-	558,144	775,834	819,424
Equity	-	11,978	11,978	-	-
	$566,872	$ 11,978	$ 578,850	$ 807,793	$ 926,180

Securities pledged at March 31, 2003 totalled $172,940 (2002: $41,625; 2001: $91,600)(Note 16).

NOTE 6 LOANS

Loans are stated net of any unearned interest and of an allowance for credit losses. Interest income is recorded on an accrual basis, except for impaired loans. Impaired loans, except for credit cards, are classified as impaired when there is no longer reasonable assurance as to the timely collection of the full amount of principal or interest, or principal or interest payments are 90 days past due.

Consumer credit card loans are classified as impaired and written off when principal or interest payments become 180 days past due. Business and agricultural credit card loans that become 90 days past due are removed from the credit card portfolio and transferred into the applicable impaired loan category.

When a loan is classified as impaired the carrying amount of the loan is reduced to its estimated realizable amount. Interest income on the loan ceases to be accrued. No portion of cash received on an impaired loan is recorded as interest income until such time as any prior write-offs or specific allowances have been reversed. Impaired loans are returned to performing status when there is reasonable assurance of the timely collection of all principal and interest, all arrears have been collected, and allowances for loan losses have been reversed. Loan and commitment fees are deferred and recognized as other income over the term of the loan or over the commitment period, as appropriate. The unrecognised portion of loan and commitment fees is included in other liabilities in the Consolidated Balance Sheet.

Loans consist of the following:

	Gross Loans	Specific Allowances	General Allowances	2003 Net Carrying Value	2002 Net Carrying Value	2001 Net Carrying Value
Residential mortgage	$ 4,961,458	$ 4,685	$ 4,899	$ 4,951,874	$ 4,417,971	$ 3,970,420
Personal	1,806,125	2,955	46,447	1,756,723	1,583,409	1,461,446
Agricultural	1,325,923	2,634	10,796	1,312,493	1,264,358	1,216,503
Independent business, commercial and other	3,772,709	18,148	84,169	3,670,392	3,134,825	2,905,883
	$ 11,866,215	$ 28,422	$ 146,311	$ 11,691,482	$ 10,400,563	$ 9,554,252

Total net loans include loans of $49,908 (2002: $5,781; 2001: $10,343) denominated in U.S. funds.

Impaired loans (included in the preceding schedule):

	Specific			General			
	2003	2002	2001	2003	2002	2001	2003
Balance at beginning of year	$ 89,588	$ 93,240	$100,894	$138,855	$123,649	$111,639	$228,443
Write-offs*	(29,459)	(19,635)	(27,553)	-	-	-	(29,459)
Recoveries	25,550	10,094	10,940	-	-	-	25,550
Provision for (recovery of) credit losses	(50,667)	5,889	8,959	7,456	15,206	12,010	(43,211)
Balance at end of year	$ 35,012	$ 89,588	$ 93,240	$146,311	$138,855	$123,649	$181,323

The total recorded investment at March 31, 2003 in assets acquired in satisfaction of problem loans was $128, with an allowance for losses of $97 and a net carrying value of $31. (2002: $99; 2001: $171). These amounts are included in the preceding schedules.

NOTE 7 ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses is maintained at a level considered adequate to absorb credit-related losses for all on- and off-balance sheet items. Off-balance sheet items include loan guarantees, letters of credit, and derivative financial instruments. The allowance for credit losses is deducted from the related asset category, and any amounts provided to cover potential losses from off-balance sheet items are included in other liabilities. The provision for credit losses that is recorded in the Consolidated Statement of Income represents the net credit loss experience for the year. It is the amount that is required to establish the adequate allowance for credit losses. The allowance consists of specific and general allowances.

The specific allowances on non-consumer impaired loans are established on a loan-by-loan basis to reduce the carrying value of the impaired loans to the amount expected to be recovered. Various methods are used to determine the net realizable values including the discounted value of estimated future cash flows, the fair value of any underlying security discounted to the amount recoverable in the event of realization, or the observable market value for the loan. The specific allowance on consumer loans is calculated using a formula based on recent loss experience. Any change in the amount expected to be recovered on an impaired loan is charged or credited to the provision for credit losses in the Consolidated Statement of Income.

The general allowance recognizes that not all credit losses can be specifically identified on a loan-by-loan basis. The general allowance is determined using a statistical estimate of probable losses inherent in the portfolio based on historical and expected loss experience, loan portfolio composition, and other relevant indicators. It is also based on management's judgement concerning the strength of the economy.

Changes in the allowance for credit losses are as follows:

	Specific			General			Total		
	2003	2002	2001	2003	2002	2001	2003	2002	2001
Balance at beginning of year	$ 89,588	$ 93,240	$100,894	$138,855	$123,649	$111,639	$228,443	$216,889	$212,533
Write-offs*	(29,459)	(19,635)	(27,553)	-	-	-	(29,459)	(19,635)	(27,553)
Recoveries	25,550	10,094	10,940	-	-	-	25,550	10,094	10,940
Provision for (recovery of) credit losses	(50,667)	5,889	8,959	7,456	15,206	12,010	(43,211)	21,095	20,969
Balance at end of year	$ 35,012	$ 89,588	$ 93,240	$146,311	$138,855	$123,649	$181,323	$228,443	$216,889

* Includes $7,000 (2002: $0; 2001: $0) relating to loans restructured during the year.

The specific allowance at the end of year consists of the following:

	2003	2002	2001
Loan losses	$ 28,422	$ 34,875	$ 36,297
Guarantees/losses	-	45,000	45,000
Cost of credit recovery	6,590	9,713	11,943
	$ 35,012	$ 89,588	$ 93,240

NOTE 8 PREMISES AND EQUIPMENT

Land is carried at cost. Buildings, equipment, software and leasehold improvements are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful life of the related assets.

The maximum estimated useful life for the various classes are as follows:

Buildings	to 20 years
Equipment and software	to 10 years
Leasehold improvements	to 10 years

Gains and losses on the disposal of assets are recorded in the Consolidated Statement of Income in the year of disposal. Losses due to write-downs of the net carrying value of assets to their fair market value are recorded in the Consolidated Statement of Income in the year of write-down.

As at March 31, 2003, the balances are as follows:

			2003	2002	2001
	Cost	Accumulated amortization	Net carrying value	Net carrying value	Net carrying value
Land	$ 7,531	$ -	$ 7,531	$ 7,649	$ 7,186
Buildings	63,453	49,189	14,264	15,100	15,119
Equipment and software	98,127	70,516	27,611	27,642	28,078
Leasehold improvements	67,313	35,397	31,916	24,270	23,800
	$ 236,424	$ 155,102	$ 81,322	$ 74,661	$ 74,183

Amortization charged to the Consolidated Statement of Income for the year ended March 31, 2003, in respect to the above assets was $20,107 (2002: $17,419; 2001: $16,379)

NOTE 9 OTHER ASSETS

	2003	2002	2001
Accrued interest receivable	$ 130,097	$ 144,597	$ 154,013
Other items, including accounts receivable, accrued pension benefit asset and prepaid items	49,887	53,866	51,489
	$ 179,984	$ 198,463	$ 205,502

NOTE 10 DEPOSITS

Repayment of all deposits, including accrued interest, is guaranteed by the Crown in right of Alberta. A deposit guarantee fee is assessed by the Crown. For the year ended March 31, 2003 the fee was $15,985 (2002: $15,234; 2001: $12,738).

Deposits are summarized as follows:

	2003				2002	2001
	Payable on demand	Payable after notice	Payable on a fixed date	Total	Total	Total
Personal	$ 765,101	$ 1,218,245	$ 5,525,213	$ 7,508,559	$ 6,978,556	$ 6,307,770
Business and other	1,631,829	288,988	2,667,535	4,588,352	4,446,654	4,611,093
	$ 2,396,930	$ 1,507,233	$ 8,192,748	$ 12,096,911	$ 11,425,210	$ 10,918,863

Total deposits include $127,485 (2002: $124,139; 2001: $96,574) denominated in U. S. funds.

As at March 31, 2002, deposits by the Province of Alberta total $8,880 (2002: $16,963; 2001: $33,307) and include deposits for loans made under the Alberta Farm Credit Stability Program in the amount of $7,888 (2002: $15,972; 2001: $32,165).

NOTE 11 OTHER LIABILITIES

	2003	2002	2001
Accrued interest payable	$ 142,008	$ 143,904	$ 148,453
Allowance for credit losses on loan guarantees	-	45,000	45,000
Other items, including accounts payable, deposit guarantee fee payable, accrued pension benefit liability and other accrued liabilities	108,723	117,481	88,665
	$ 250,731	$ 306,385	$ 282,118

NOTE 12 SUBORDINATED DEBENTURES

Subordinated debentures are unsecured and subordinated to deposits and other liabilities. The following debentures were privately placed with the Crown in right of Alberta and represent ATB's obligation for the cost of the deposit guarantee for years prior to 2003. These debentures are non-convertible, non-redeemable, non-transferrable, and bear a fixed interest rate payable semi-annually.

Maturity Date	Interest Rate	2003	2002	2001
June 30, 2004	5.475%	$ 7,519	$ 7,519	$ 7,519
June 30, 2005	6.540%	9,925	9,925	9,925
June 30, 2006	5.840%	12,738	12,738	-
June 30, 2007	5.485%	15,234	-	-
		$ 45,416	$ 30,182	$ 17,444

NOTE 13 EMPLOYEE FUTURE BENEFITS

ATB participates with other Alberta public sector employers in the Public Service Pension Plan (PSPP). The PSPP is a defined benefit pension plan which provides pension benefits for ATB's non-management employees based on years of service and earnings. ATB accounts for the cost of its participation in the PSPP on a defined contribution basis. Expenses related to this plan were $2,845 (2002: $2,699; 2001: $2,492) and are recorded in salaries and employee benefits in the Consolidated Statement of Income.

For its management employees, ATB provides a registered pension plan with defined benefit and defined contribution provisions and a defined benefit supplemental plan. Assets are set aside to satisfy the pension obligation of the registered plan. ATB has the ultimate responsibility for ensuring that the liabilities of the registered plan are adequately funded over time. The supplemental plan is not pre-funded and benefits are paid from ATB's assets as they become due.

The cost of the defined contribution provisions of the registered plan is recorded based on the contributions from ATB in the current year, and is included in the Consolidated Statement of Income under salaries and employee benefits. In the year ended March 31, 2003 the expense was $3,929 (2002: $2, 773; 2001: $2,479).

The pension expense for the defined benefit provisions of the registered plan and for the supplemental plan is actuarially determined as the cost of employee benefits earned in the year, interest expense on the accrued benefit obligation, expected investment return on the plan assets and amortization of deferred amounts, using management's best estimate and actuarial assumptions outlined in the following table. It is recorded in the Consolidated Statement of Income as a component of salaries and employee benefits. The difference between the pension expense and the actual cash contributions to the plan is recorded in the Consolidated Balance Sheet as part of other assets or other liabilities, as appropriate.

Management employees defined benefit pension plans

	Registered plan			Supplemental plan		
	2003	2002	2001	2003	2002	2001
Change in fair value of plan assets						
Fair value of plan assets at beginning of year	$ 56,435	$ 58,316	$ 54,448	$ -	$ -	$ -
Contributions from ATB	1,252	948	-	54	7	-
Contributions from employees	935	904	977	-	-	-
Actual return on plan assets	(6,861)	2,059	3,988	-	-	-
Benefits paid	(1,437)	(1,120)	(399)	(54)	(7)	-
Transfers to other plans	-	(4,672)	(698)	-	-	-
Fair value of plan assets at end of year	$ 50,324	$ 56,435	$ 58,316	$ -	$ -	$ -
Change in projected benefit obligation						
Projected benefit obligation at beginning of year	$ 63,740	$ 57,326	$ 51,817	$ 1,850	$ 1,028	$ 415
Actuarial loss (gain)	(691)	5,381	(215)	(766)	156	125
Current service cost	2,491	2,233	2,483	675	578	429
Interest cost	4,338	3,907	3,640	146	95	59
Benefits paid	(1,437)	(1,120)	(399)	(54)	(7)	-
Transfers to other plans	-	(3,987)	-	-	-	-
Projected benefit obligation at end of year	$ 68,441	$ 63,740	$ 57,326	$ 1,851	$ 1,850	$ 1,028
Funded status						
Plan (deficit) surplus	$ (18,117)	$ (7,305)	$ 990	$ (1,851)	$ (1,850)	$ (1,028)
Unamortized initial transition asset	(2,364)	(2,758)	(3,389)	-	-	-
Unamortized actuarial net loss (gain)	22,403	12,557	5,314	(395)	385	239
Accrued benefit asset (liability)	$ 1,922	$ 2,494	$ 2,915	$ (2,246)	$ (1,465)	$ (789)
Annual benefit expense						
Service cost, net of employee contributions	$ 1,556	$ 1,329	$ 1,506	$ 675	$ 578	$ 429
Interest cost	4,338	3,907	3,640	146	95	59
Expected return on plan assets	(4,303)	(4,305)	(4,609)	-	-	-
Amortization of initial transition asset	(394)	(394)	(424)	-	-	
Amortization of unrecognized experience losses	625	-	-	14	10	-
Loss on transfers to other plans	-	832	-	-	-	-
Net pension benefit expense	$ 1,822	$ 1,369	$ 113	$ 835	$ 683	$ 488
Actuarial assumptions used in actuarial valuations						
Discount rate at beginning of year(1)	6.75%	7.25%	7.00%	6.75%	7.25%	7.00%
Discount rate at end of year	7.00%	6.75%	7.25%	7.00%	6.75%	7.25%
Return on plan assets	7.50%	8.00%	9.00%	-	-	-
Rate of inflation(2)	3.00%	2.75%	2.50%	3.00%	2.75%	2.50%
Rate of increase in future compensation (3)	4.75%	4.50%	4.00%	5.00%	4.75%	4.75%

(1) A decrease of one percentage point in discount rate would have increased the 2003 net pension benefit expense of the registered plan by $1,815 and of the supplemental plan by $220.

(2) An increase of one percentage point in inflation rate would have increased the 2003 net pension benefit expense of the registered plan by $1,365 and of the supplemental plan by $204.

(3) The assumed compensation increase trend for the registered plan was based on an estimated increase of 5.00% per annum for four years and 3.50% thereafter, and for the supplemental plan on an estimated increase of 5.00% per annum. An increase of one percentage point in compensation trends would have increased the 2003 net pension benefit expense of the registered plan by $530 and of the supplemental plan by $133.

NOTE 14 DISCLOSURE OF SALARIES AND BENEFITS

ATB is an Agent of the Crown in right of Alberta, and as such, is required to disclose the following information as per the Salary and Benefits Disclosure Directive made by the Treasury Board, pursuant to sections 5, 6 and 7 of the Financial Administration Act. This directive applies to all departments, regulated funds, provincial agencies and Crown-controlled organizations. The amounts disclosed in the following table are the amounts earned in the year.

						2003	2002
	Base salary	Variable pay (1)	Deferred variable pay (2)	Total salary	Benefits and allowances	Total	Total
Chairman of Board	$ 48	$ -	$ -	$ 48	-	$ 48	$ 58
Board Members (11)	394	-	-	394	-	394	358
President and Chief Executive Officer	263	159	170	592	139	731	464
Chief Operating Officer (3)	210	113	123	446	58	504	172
Executive Vice-President Marketing	175	58	68	301	65	366	331
Executive Vice-President Credit	167	56	65	288	67	355	321
Chief Financial Officer	193	51	60	304	57	361	286
Vice President Human Resources	139	46	53	238	52	290	250

(1) Variable pay is determined based on goal attainment in the fiscal year and will be paid in June 2003.

(2) Deferred variable pay is reported as earned in the year. Payment is deferred for up to 2.9 years and is dependent upon the employee's continued employment with ATB. The actual amount the employee will receive will appreciate or depreciate from the amount shown based on a specified methodology to reflect ATB's actual financial performance in the next two fiscal years.

(3) The position was established effective November, 2001 as a result of reorganization.

Total salary includes all earned regular base pay, variable pay, deferred variable pay, bonuses, lump sum payments, retainers, fees, retroactive pay adjustments and any other direct cash remuneration. Accumulated vacation was paid out to the President and Chief Executive Officer (2003: $0; 2002: $4), the Executive Vice-President credit (2003: $0; 2002: $6) and the Chief Financial Officer (2003: $38; 2002: $0). These amounts are included in the salary figure.

Benefits and allowances consist of the employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, medical benefits, group life insurance, accidental disability and dismemberment insurance, long-term disability plans, and employer's statutory contributions. The benefits and allowances figure also includes the cost of additional benefits such as perquisite allowances.

NOTE 15 RELATED PARTY TRANSACTIONS

In the ordinary course of business, ATB provides normal banking services to various Province of Alberta departments and agencies on terms similar to those offered to non-related parties (Note 10).

On June 30, 2002 a subordinated debenture issue was privately placed with the Crown in right of Alberta (Note 12).

ATB provides banking services to its directors, officers, and employees at various terms and rates. Directors do not receive preferential rates. As at March 31, 2003, the total outstanding balances of loans and residential mortgages to these parties were $164,321 (2002: $150,187; 2001: $164,534).

NOTE 16 COMMITMENTS & CONTINGENT LIABILITIES

- Credit instruments

In the normal course of business, ATB enters into various commitments to provide customers with sources of credit. These include credit commitments, letters of credit, letters of guarantee and loan guarantees.

Guarantees and standby letters of credit represent an irrevocable obligation to make payments to a third party in the event that the customer is unable to meet its financial or performance contractual obligations. In the event of a call on such commitments, ATB has recourse against the customers. Documentary and commercial letters of credit require ATB to honour drafts presented by third parties upon completion of specific activities.

Commitments to extend credit represent undertakings to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions, and include recently authorized credit not yet drawn down, and credit facilities available on a revolving basis.

These credit arrangements are subject to ATB's normal credit standards, and collateral may be obtained where appropriate. The contract amounts represent the maximum credit risk exposure to ATB should the contracts be fully drawn, and any collateral held proves to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent the future cash requirements.

Contractual amounts as at March 31 were:

	2003	2002	2001
Guarantees	$ 91,710	$ 440,744	$ 410,579
Letters of credit	9,501	3,026	4,904
Commitments to extend credit	2,764,923	2,245,554	2,098,536
	$ 2,866,134	$ 2,689,324	$ 2,514,019

- Lease commitments

ATB has obligations under long-term non-cancellable operating leases for buildings and equipment. The future minimum lease payments for each of the next five years and thereafter are:

2004	$ 18,502
2005	17,527
2006	16,858
2007	15,880
2008	14,616
2009 and thereafter	35,173
	$ 118,556

The total lease expense charged to the Consolidated Statement of Income for the year ended March 31, 2003, is $18,246 (2002: $16,016; 2001: $16,599).

- Litigation

Various actions and legal proceedings arising from the normal course of business are pending against ATB. Management does not consider the aggregate liability, if any, of these actions and proceedings to be material.

- Pledged Assets

  In the ordinary course of business, ATB pledges securities to the Bank of Canada in order to participate in clearing and payment systems and to have access to its facilities. Amounts pledged at March 31 are provided in Note 5.

- West Edmonton Mall loan guarantee

  During the year, ATB reached an out-of-court resolution of its legal dispute with the owners of the West Edmonton Mall. The parties have exchanged formal releases as part of the settlement and have agreed to the discontinuance of the actions commenced against each other without costs. As a result $45,000 of previously reported credit losses on this account was reversed and recognized in income.

NOTE 17 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative products used by ATB include interest rate swaps, interest rate caps, interest rate floors, foreign exchange forward contracts, equity-linked call options, commodity-linked call options, and equity-linked option contracts. ATB enters into derivative transactions for risk management purposes, and does not act as an intermediary in this market, except for the foreign exchange forward contracts, which ATB provides to its customers for the purposes of meeting their day to day business needs and which are fully hedged to eliminate foreign exchange exposure.

The interest rate contracts are used to manage exposures to fluctuations in interest rates in ATB's overall portfolio or in specific financial instruments. The equity and commodity linked contracts are used to manage exposures to fluctuations in underlying equity and commodity prices and indices, arising from specific financial instruments.

Income and expense associated with interest rate contracts and equity and commodity linked contracts is accounted for on an accrual basis and recognized over the life of the contract as an adjustment to net interest income. Income from foreign exchange forward contracts is included in other income. Forward contracts are carried at cost. Realized gains and losses are recorded as an adjustment to gains and losses on related hedged instruments. Realized gains and losses from early termination of derivative financial instruments are amortized over the remaining original life of the contract. Deferred gains and losses are recorded in other assets or other liabilities, as appropriate. The total amount of prepaid premiums at March 31, 2003 is $39,825 (2002: $38,652; 2001: $30,650) and is recorded in other assets in the Consolidated Balance Sheet.

The derivative financial instruments are not recorded in the Consolidated Balance Sheet. Notional principal amounts, upon which payments are based, are not indicative of the credit risk associated with derivative financial instruments.

The notional amounts of derivative contracts are summarized as follows:

	Term to maturity		2003	2002	2001
	Within 1 year	1 to 5 years	Total	Total	Total
Interest rate contracts					
Interest rate swaps	$ 750,000	$ 150,000	$ 900,000	$ 2,140,000	$ 1,555,000
Interest rate caps	30,000	531,250	561,250	35,000	35,000
Interest rate floors	-	-	-	100,000	-
Interest rate collars	800,000	-	800,000	-	-
Interest rate swap options	-	14,888	14,888	-	-
	1,580,000	696,138	2,276,138	2,275,000	1,590,000
Equity and commodity linked contracts	126,700	330,500	457,200	455,050	330,650
Foreign exchange forward contracts	4,247	366	4,613	2,152	5,141
Forward contracts	8,960	-	8,960	-	-
	$ 1,719,907	$ 1,027,004	$ 2,746,911	$ 2,732,202	$ 1,925,791

The current replacement cost and fair value of derivative contracts are summarized as follows:

			Current Replacement Cost	
2003	Notional amount	Net fair value	Favourable position	Unfavourable position
Interest rate contracts				
Interest rate swaps	$ 900,000	$ (6,880)	$ 1,901	$ (8,781)
Interest rate caps	561,250	3,633	3,633	-
Interest rate floors	800,000	(544)	46	(590)
Interest rate collars	14,888	385	385	-
Interest rate swap options				
Equity linked contracts	457,200	10,805	11,091	(286)
Forward contracts	8,960	290	290	-
Foreign exchange forward contracts	4,613	8	132	(124)
Total	$ 2,746,911	$ 7,697	$ 17,478	$ (9,781)
2002 Total	$ 2,732,202	$ 24,391	$ 39,042	$ (14,651)
2001 Total	$ 1,925,791	$ 49,942	$ 53,903	$ 3,961

Fair values are determined using pricing models which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions. Fair values have been segregated between those contracts which are in a favourable position (positive fair value) and those contracts which are in an unfavourable position (negative fair value).

Current credit exposure is limited to the amount of loss that ATB would suffer if every counterparty to which ATB was exposed were to default at once, which is represented by the current replacement cost of all outstanding contracts in a favourable position. ATB limits its credit exposure by dealing with counterparties believed to be credit worthy.

NOTE 18 ESTIMATED FAIR VALUE OF BALANCE SHEET FINANCIAL INSTRUMENTS

The estimated fair values approximate values at which ATB's financial instruments could be exchanged in a transaction between willing parties who are under no compulsion to act. Since many of ATB's financial instruments lack an available trading market, the fair values presented represent estimates of the current market value of instruments, taking into account changes in market rates that have occurred since their origination. Fair values are determined using various valuation methods and assumptions. For items which are short-term in nature, the estimated fair value is equal to carrying value. These include cash resources, debt securities, other assets and other liabilities.

For equity securities, fair value is equal to the quoted market price at March 31, 2003. For floating rate financial instruments, fair value is equal to carrying value as the interest rates automatically reprice to market. For fixed rate loans, fair value is determined by discounting the expected future cash flows at market rates. For fixed rate deposits, fair value is determined by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms.

Due to the use of subjective assumptions and uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The estimated fair values disclosed do not reflect the value of items that are not considered financial instruments, such as premises and equipment.

Estimated fair values of balance sheet financial instruments are summarized as follows:

	2003			2002			2001		
	Carrying value	Fair value	Fair value over carrying value	Carrying value	Fair value	Fair value over carrying value	Carrying value	Fair value	Fair value over carrying value
Assets									
Cash resources	$ 670,102	$ 670,102	$ -	$ 872,330	$ 872,330	$ -	$ 899,069	$ 899,069	$ -
Securities	578,850	578,400	(450)	807,793	807,793	-	926,180	926,180	-
Loans	11,691,482	12,001,997	310,515	10,400,563	10,661,762	261,199	9,554,252	9,720,444	166,192
Other	179,984	179,984	-	198,463	198,463	-	205,502	205,502	-
Liabilities									
Deposits	12,096,911	12,114,362	17,451	11,425,210	11,446,659	21,449	10,918,863	11,066,983	148,120
Other	313,892	313,892	-	336,567	336,567	-	306,216	306,216	-

NOTE 19 INTEREST RATE RISK

Interest rate risk is the risk that net interest income will decrease because of an adverse movement in interest rates. The following table details the gap between interest sensitive assets and interest sensitive liabilities, based on the earlier of the repricing or maturity date of both on-and off-balance sheet assets and liabilities.

	Term to maturity/repricing							
2003	Within 3 months	3 - 6 months	6 - 12 months	Total within 1 year	1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets								
Cash	$ 90,495	$ -	$ -	$ 90,495	$ -	$ -	$ -	$ 90,495
Effective interest rate	3.13%	-	-	3.13%	-	-	-	3.13%
Securities and interest bearing deposits with banks	1,055,851	51,569	51,037	1,158,457	-	-	-	1,158,457
Effective interest rate	2.84%	3.15%	3.12%	2.87%	-	-	-	2.87%
Loans	6,375,956	397,026	1,080,408	7,853,390	3,882,060	37,381	(81,349)	11,691,482
Effective interest rate	5.63%	6.62%	6.42%	5.79%	6.30%	7.38%	-	6.01%
Other	-	-	-	-	-	-	261,306	261,306
	7,522,302	448,595	1,131,445	9,102,342	3,882,060	37,381	179,957	13,201,740
Liabilities and Equity								
Deposits	6,718,440	618,603	1,495,255	8,832,298	3,262,852	1,543	218	12,096,911
Effective interest rate	1.38%	3.79%	3.46%	1.90%	4.52%	8.95%	-	2.61%
Other liabilities and equity	-	-	-	-	-	-	1,059,413	1,059,413
Subordinated debentures	-	-	-	-	-	-	45,416	45,416
Effective interest rate	-	-	-	-	-	-	5.81%	5.81%
	6,718,440	618,603	1,495,255	8,832,298	3,262,852	1,543	1,105,047	13,201,740
On-balance sheet gap	803,862	(170,008)	(363,810)	270,044	619,208	35,838	(925,090)	-
Derivatives used for asset/liability gap management (notional amounts)								
Pay side swaps	(500,000)	(50,000)	(200,000)	(750,000)	(150,000)	-	-	(900,000)
Effective interest rate	3.03%	5.40%	5.25%	3.78%	5.49%	-	-	-
Receive side swaps	850,000	50,000	-	900,000	-	-	-	900,000
Effective interest rate	3.19%	3.43%	-	3.20%	-	-	-	-
Off-balance sheet gap	350,000	-	(200,000)	150,000	(150,000)	-	-	-
Net gap	$ 1,153,862	$ (170,008)	$ (563,810)	$ 420,044	$ 469,208	$35,838	$ (925,090)	$ -
% of assets	8.74%	(1.29%)	(4.27%)	3.18%	3.55%	0.27%	(7.01%)	-
2002								
Net gap	$ (590,366)	$ (50,724)	$ 454,270	$ (186,820)	$ 865,320	$41,169	$ (719,669)	$ -
% of assets	(4.78%)	(0.41%)	3.68%	(1.52%)	7.00%	0.33%	(5.82%)	-
2001								
Net gap	$ (589,081)	$ 259,170	$ 72,190	$ (257,721)	$ 753,121	$22,712	$ (518,112)	$ -
% of assets	5.05%	2.22%	0.62%	2.21%	6.46%	0.19%	(4.44%)	-

The gap position is presented as of the close of the business day (March 31). It represents the position of ATB for that day only and may change significantly due to customer preferences and risk management policies.

NOTE 20 CREDIT RISK

Credit risk is the risk of loss due to borrowers failing to meet their financial obligations. Credit risk arises from both on- and off-balance sheet transactions. ATB's credit risk is significantly influenced by movements in the Alberta economy which in recent years has shown strong growth and occasional sharp declines. The credit risk is managed to ensure diversification by limiting concentrations to single borrowers and industries. The West Edmonton Mall financing (Note 16) is an exception. The total credit exposure as at March 31, 2003 was $321,779 in loans and commitments to extend credit (2002: $345,951 in guarantees; 2001: $345,951 in guarantees). Further, policies and procedures are established to promote sound lending practices and ensure prompt attention to problem loans.

NOTE 21 MARKET SEGMENT INFORMATION

ATB conducts its business through market segments that offer different products and services: individual agricultural and independent and commercial business. Results for these market segments presented in the following tables are based on ATB's internal financial reporting systems, and are consistent with the accounting policies followed in the presentation of ATB's Consolidated Financial Statements. The net interest income is determined based on the nature and term of the assets and liabilities for each segment. Other income and provision for credit losses are captured for each group. Non-interest expenses are allocated to the market segments based on management's estimates.

SEGMENTED INCOME STATEMENTS
FOR THE TWELVE MONTHS ENDED
($in thousands)

	Individual	Agricultural	Independent business and commercial	Other *	Total
March 31, 2003					
Net interest income	$ 177,958	$ 36,168	$ 138,820	$ 11,214	$ 364,160
Other income	53,371	3,490	39,852	10,729	107,442
Total revenue	231,329	39,658	178,672	21,943	471,602
Provision for credit losses	6,085	1,495	9,035	(59,826)	(43,211)
Net interest and other income	225,244	38,163	169,637	81,769	514,813
Non-interest expenses	159,487	25,880	95,886	34,656	315,909
Net income	$ 65,757	$ 12,283	$ 73,751	$ 47,113	$ 198,904
Average loans	$ 6,425,282	$ 1,299,224	$ 3,363,645	$ (135,768)	$ 10,952,383
Average deposits	6,524,668	388,248	4,094,542	788,671	11,796,129
Total assets	6,708,597	1,298,332	3,684,552	1,510,259	13,201,740

SEGMENTED INCOME STATEMENTS
FOR THE TWELVE MONTHS ENDED
($in thousands)

	Individual	Agricultural	Independent business and commercial	Other *	Total
March 31, 2002					
Net interest income	$ 176,220	$ 33,767	$ 143,057	$ 12,539	$ 365,583
Other income	49,480	3,108	37,678	10,943	101,209
Total revenue	225,700	36,875	180,735	23,482	466,792
Provision for credit losses	5,140	329	8,202	7,424	21,095
Net interest and other income	220,560	36,546	172,533	16,058	445,697
Non-interest expenses	143,036	24,114	89,417	31,204	287,771
Net income (loss)	$ 77,524	$ 12,432	$ 83,116	$ (15,146)	$ 157,926
Average loans	$ 5,752,463	$ 1,244,882	$ 3,096,683	$ (132,859)	$ 9,961,169
Average deposits	5,995,905	343,286	3,892,345	1,133,501	11,365,037
Total assets	6,001,380	1,258,428	3,140,773	1,953,229	12,353,810

* Comprised of business of a corporate nature such as investment, risk management, asset liability management and treasury operations, as well as expenses and general allowances and recoveries for credit losses not expressly attributed to the market segments.

NOTE 22 SUBSIDIARIES

At March 31, 2003 ATB wholly owns the following subsidiaries for the purpose of offering investor services to its customers. These subsidiaries are incorporated under the Business Corporation Act (Alberta).

- ATB Investment Services Inc. - Established October 3, 1997
- ATB Investment Management Inc. - Established August 21, 2002
- ATB Securities Inc. - Established February 6, 2003

ATB INVESTMENT MANAGEMENT INC.
FINANCIAL STATEMENTS
MARCH 31, 2003

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Board of Directors of ATB Investment Management Inc.

I have audited the balance sheet of ATB Investment Management Inc. as at March 31, 2003, and the statements of operations, changes in shareholder's deficiency and cash flows for the period then ended. These financial statements are the responsibility of ATB Investment Management Inc.'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 ATB Investment Management Inc. as at March 31, 2003 and the results of its operations and cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 2, 2003

ATB INVESTMENT MANAGEMENT INC.
BALANCE SHEET
AS AT MARCH 31, 2003

ASSETS	
Current assets	
Cash	$ 250,000
Client funds held in trust	27,254
	277,254
Non-current assets	
Deferred charges	63,885
Total assets	$ 341,139
LIABILITIES AND SHAREHOLDER'S DEFICIENCY	
Current liabilities	
Due to ATB (Note 3)	$ 322,229
Trust liabilities	27,254
	349,483
Non-current liabilities	
Subordinated notes (Note 4)	445,000
	794,483
Shareholder's deficiency	
Share capital (Note 5)	5,000
Deficiency	(458,344)
	(453,344)
Total liabilities and shareholder's deficiency	$ 341,139

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors:

B. Normand
Chairman of the Board and Chief Executive Officer

C. Warnock
Director and Chief Financial Officer

ATB INVESTMENT MANAGEMENT INC.
STATEMENT OF OPERATIONS
FOR THE EIGHT MONTHS ENDED MARCH 31, 2003

Revenue	
Investment management fees	$ 81,493
Administrative and selling expenses	
Professional fees (Note 6)	270,261
Fund subsidy	215,540
Other expenses (Note 6)	46,884
	532,685
Interest expense (Note 6)	7,152
Total expenses	539,837
Loss for the period	$ 458,344

ATB INVESTMENT MANAGEMENT INC.
STATEMENT OF CHANGES IN SHAREHOLDER'S DEFICIENCY
FOR THE EIGHT MONTHS ENDED MARCH 31, 2003

Share capital	$ 5,000
Deficiency, beginning of period	-
Loss for the period	458,344
Deficiency, end of period	458,344
Total shareholder's deficiency	$ 453,344

ATB INVESTMENT MANAGEMENT INC.
STATEMENT OF CASH FLOWS
FOR THE EIGHT MONTHS ENDED MARCH 31, 2003

Cash flows used in operating activities	
Loss for the period	$ (458,344)
Adjustments to determine net cash flows	
Increase in deferred charges	(63,885)
	(522,229)
Cash flows used in financing activities	
Increase in Due to ATB	322,229
Issue of subordinated notes	445,000
Issue of share capital	5000
	772,229
Net change in cash	250,000
Cash, beginning of period	-
Cash, end of period	$ 250,000
Supplementary cash flow information	
Amount of interest paid during the year	$ nil

ATB INVESTMENT MANAGEMENT INC.
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2003

NOTE 1 INCORPORATION

ATB Investment Management Inc. (ATBIM) is a wholly owned subsidiary of Alberta Treasury Branches (ATB) established for the purpose of managing a family of ATB mutual fund portfolios. ATBIM was incorporated in Alberta under the *Business Corporations Act* (Alberta) on August 21, 2002. As a provincial corporation, ATBIM is exempt from income tax.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized below:

- Measurement Uncertainty

  In preparing the financial statements, management makes estimates and assumptions considering values of certain assets, liabilities, revenues, expenses and related disclosures reported in these financial statements, such as deferred charges, accrued liabilities and costs allocated from ATB. Actual results could differ from these estimates.

- Revenue Recognition

  ATBIM receives its revenue from third party clients for providing investment management services. Revenues are recognized on a monthly basis as earned.

- Cash and Client Funds Held in Trust

  Cash includes cash and short-term investments with original maturities of less than three months.

  Client funds held in trust represent amounts deposited in trust accounts with Royal Bank of Canada, principally for the settlement of purchase transactions. A small portion of funds represent amounts in transit from the sale of mutual funds or those awaiting client instructions. The corresponding liabilities are included in trust liabilities.

- Deferred Charges

  Deferred charges represent the unamortized cost of the implementation fees for setting up the registrar and the transfer agent for the mutual fund portfolios. Amortization is calculated on a straight-line basis, over the four-year term of the related contract. The amortization expense is charged to the mutual fund portfolios over the same contract term, as set out in the management agreement.

NOTE 3 DUE TO ATB

In the normal course of operations, ATB pays expenses and collects revenues on behalf of ATBIM. These amounts are duly recorded on both ATB's and ATBIM's accounts. ATB management has agreed to defer the settlement of these amounts until such time when ATBIM generates adequate revenues to enable it to pay its obligations to ATB. From time to time, the net amount due to ATB is converted into a subordinated note. The amounts due to (from) ATB at March 31 are as follows:

	2003
Due to ATB	$ 405,892
Due from ATB	(83,663)
Total	$ 322,229

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at Match 31, 2003 was 4.75%.

NOTE 4 SUBORDINATED NOTE

The subordinated notes held by ATB, are secured by a floating charge on all the assets of ATBIM and bear interest at the prime lending rate of ATB. The subordinated notes have no specified maturity dates and are repayable upon demand by ATB subject to the prior approval of the Alberta Securities Commission.

Date of Issue	2003
Aug. 30, 2002	245,000
Feb. 25, 2003	200,000
Total	$ 445,000

NOTE 5 SHARE CAPITAL

Authorized:

- An unlimited number of Class A voting common shares without nominal or par value.
- An unlimited number of Class B non-voting common shares without nominal or par value.
- An unlimited number of 10% non-cumulative redeemable non-voting preferred shares without nominal or par value, redeemable at $100 per share.

Issued:

100 Class A voting common shares	$5,000

NOTE 6 RELATED PARTY TRANSACTIONS

ATB charges ATBIM for certain administrative and selling services. Where determinable, ATB allocates costs for employees of ATB providing services to ATBIM. These expenses are recorded at the exchange amount which is the value agreed upon by the two parties. For the period ended March 31, 2003, amounts incurred in respect of employee services was $54,950 and are included in professional fees.

ATBIM also incurred interest expense for the period ended March 31, 2003 on amounts due to ATB in the amount of $642 and the subordinated notes in the amount of $6,510.

Alberta Treasury Branch Investment Services (ATBIS), another wholly owned subsidiary of ATB, receives trailer fees from ATBIM on the sale of ATB Mutual Funds. For the period ended March 31, 2003, the amount incurred with respect to trailer fees to ATBIS was $23,784 and is included in other expenses.

NOTE 7 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair value of financial instruments, excluding amounts due to ATB, approximates the carrying value due to the short term nature of these instruments. The fair value of amounts due to ATB, including subordinated notes, is not readily determinable as there are no fixed terms of repayment.

ATB INVESTMENT SERVICES INC.

Financial Statements

March 31, 2003

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Board of Directors of ATB Investment Services Inc.

I have audited the balance sheet of ATB Investment Services Inc. as at March 31, 2003, and the statements of operations, changes in shareholder's deficiency and cash flows for the year then ended. These financial statements are the responsibility of ATB Investment Services Inc.'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 amount 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 ATB Investment Services Inc. as at March 31, 2003 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 2, 2003

ATB INVESTMENT SERVICES INC.
BALANCE SHEET
AS AT MARCH 31

	2003	2002
ASSETS		
Current assets		
Cash	$ 300,000	$ 300,000
Prepaid expenses	52,865	100,493
Client funds held in trust	3,571,511	348,913
	3,924,376	749,406
Non-current assets		
Property and equipment (Note 3)	-	136,734
Total assets	$ 3,924,376	$ 886,140
LIABILITIES AND SHAREHOLDER'S DEFICIENCY		
Current liabilities		
Due to ATB (Note 4)	$ 91,809	$ 464,734
Trust liabilities	3,571,511	348,913
	3,663,320	813,647
Non-current liabilities		
Subordinated notes (Note 5)	4,399,000	1,910,196
	8,062,320	2,723,843
Shareholder’s deficiency		
Share capital (Note 6)	1,000	1,000
Deficiency	(4,138,944)	(1,838,703)
	(4,137,944)	(1,837,703)
Total liabilities and shareholder's deficiency	$ 3,924,376	$ 886,140

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors:

B. Normand
Chairman of the Board and Chief Executive Officer

C. Warnock
Director and Chief Financial Officer

ATB INVESTMENT SERVICES INC.
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31

	2003	2002
Revenue		
Commission	$ 1,607,441	$ 1,252,966
Other	132,864	11,579
	1,740,305	1,264,545
Administrative and selling expenses		
Salaries and employee benefits	1,887,106	724,677
Processing, selling and premises rental (Note 7)	865,590	341,102
Professional and training (Note 7)	775,952	312,535
Other expenses (Note 7)	401,236	192,136
	3,929,884	1,570,450
Interest expense (Note 7)	110,662	105,378
Total expenses	4,040,546	1,675,828
Loss for the year	$ (2,300,241)	$ (411,283)

ATB INVESTMENT SERVICES INC.
STATEMENT OF CHANGES IN SHAREHOLDER'S DEFICIENCY
FOR THE YEAR ENDED MARCH 31

	2003	2002
Share capital	$ 1,000	$ 1,000
Deficiency		
Deficiency, beginning of year	1,838,703	1,427,420
Loss for the year	2,300,241	411,283
Deficiency, end of year	4,138,944	1,838,703
Total shareholder's deficiency	$ 4,137,944	$ 1,837,703

ATB INVESTMENT SERVICES INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31

	2003	2002
Cash flows used in operating activities		
Loss for the year	$ (2,300,241)	$ (411,283)
Adjustments to determine net cash flows:		
Decrease (increase) in prepaid expenses	47,628	(11,539)
Writedown of property and equipment	71,199	-
Amortization expense	20,515	39,929
	(2,160,899)	(382,893)
Cash flows from investing activities:		
Net sales (purchases) of capital asssets	45,020	(81,841)
Cash flows used in financing activities:		
Issue of subordinate note	2,488,804	793,016
Decrease in Due to ATB	(372,925)	(328,282)
	2,115,879	464,734
Net change in cash		
Cash, beginning of year	300,000	300,000
Cash, end of year	$ 300,000	$ 300,000
Supplementary cash flow information		
Amount of interest paid during the year	$ nil	$ nil

ATB INVESTMENT SERVICES INC.
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2003

NOTE 1 INCORPORATION

ATB Investment Services Inc. (ATBIS) is a wholly owned subsidiary of Alberta Treasury Branches (ATB), established for the purpose of distributing mutual funds to customers of ATB. ATBIS was incorporated under the *Business Corporations Act* (Alberta) on October 3, 1997. As a provincial corporation, ATBIS is exempt from income tax. ATBIS is a member of the Mutual Fund Dealers Association of Canada.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized below:

- Measurement Uncertainty

  In preparing the financial statements, management makes estimates and assumptions considering values of certain assets, liabilities, revenues, expenses and related disclosures reported in these financial statements, such as amortization, accrued liabilities and costs allocated from ATB. Actual results could differ from these estimates.

- Revenue Recognition

  ATBIS receives its revenue from third party clients and affiliates (Note 7) for providing services to act as a distributor of mutual funds and other investment products. Revenues are recognized on a monthly basis as earned.

- Cash and Client Funds Held in Trust

  Cash includes cash and short-term investments with original maturities of less than three months.

  Client funds held in trust represent amounts in trust accounts with ATB, principally for the settlement of purchase transactions. A small portion of funds represent amounts in transit from the sale of mutual funds or those awaiting client instructions. The corresponding liabilities are included in trust liabilities.

- Property and Equipment

  Equipment and software are reported at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful life of the related assets. The maximum life limits for equipment and software are up to 5 years.

  Gains and losses on the disposal of property and equipment are recorded in the Statement of Operations in the year of disposal. Losses due to write-downs of the net carrying value of property and equipment are recorded in the Statement of Operations in the year the asset is impaired.

NOTE 3 PROPERTY AND EQUIPMENT

			2003	2002
	Cost	Accumulated amortization	Net carrying value	Net carrying value
Software	$ -	$ -	$ -	$ 129,160
Computer equipment	-	-	-	7,574
	$ -	$ -	$ -	$ 136,734

All property and equipment was sold to ATB in the year (Note 7).

Amortization charged to the Statement of Operations with respect to property and equipment was $20,515 (2002 - $39,929).

NOTE 4 DUE TO ATB

In the normal course of operations, ATB pays expenses and collects revenues on behalf of ATBIS. These amounts are duly recorded on both ATB's and ATBIS's accounts. ATB management has agreed to defer the settlement of these amounts until such time when ATBIS generates adequate revenues to enable it to pay its obligations to ATB. From time to time, the net amount due to ATB is converted into a subordinated note. The amounts due to (from) ATB at March 31 are as follows:

	2003	2002
Due to ATB	$ 137,804	$ 1,729,279
Due from ATB	(45,995)	(1,264,545)
Total	$ 91,809	$ 464,734

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at Match 31, 2003 was 4.75%.

NOTE 5 SUBORDINATED NOTE

The subordinated notes held by ATB are secured by a floating charge on all the assets of ATBIS and bear interest at the prime lending rate of ATB. The subordinated notes have no specified maturity dates, and are repayable upon demand of ATB, subject to the prior approval of the Alberta Securities Commission and the Mutual Fund Dealers Association of Canada.

Date of Issue	2003	2002
Oct. 31, 1997	$ 99,000	$ 99,000
May 31, 2000	1,018,180	1,018,180
June 18, 2001	793,016	793,016
Aug. 13, 2002	386,332	-
Nov. 27, 2002	31,937	-
Dec. 31, 2002	336,085	-
Feb. 28, 2003	655,413	-
Mar. 31, 2003	1,079,037	-
Total	$ 4,399,000	$ 1,910,196

NOTE 6 SHARE CAPITAL

Authorized:

- An unlimited number of Class A voting common shares without nominal or par value.
- An unlimited number of Class B non-voting common shares without nominal or par value.
- An unlimited number of 10% non-cumulative redeemable non-voting preferred shares without nominal or par value.

Issued:

100 Class A voting common shares	$1,000

NOTE 7 RELATED PARTY TRANSACTIONS

ATB charges ATBIS for certain administrative and selling services. Where determinable, ATB allocates costs for employees of ATB providing services to ATBIS, for information technology services, and for allocation of self contained office space. These expenses are recorded at the exchange amount which is the value agreed upon by the two parties. For the year ended March 31, 2003, amounts incurred in respect of employee services was $1,136,071 (2002 - $197,725); for premises rental was $45,873 (2002 - $143,377); and for information technology was $84,800 (2002 - $nil). These allocated costs have been included in processing, selling and premises rental expenses in professional and training expenses and in other expenses.

ATBIS also incurred interest expense for the year ended March 31, 2003 on amounts due to ATB in the amount of $9,170 (2002 - $19,521) and the subordinated notes in the amount of $101,492 (2002 - $85,857).

ATBIS also receives from Alberta Treasury Branch Investment Management Inc. (ATBIM), another wholly owned subsidiary of ATB, trailer fees on the sale of ATB Mutual Funds. For the year ended March 31, 2003 revenue earned with respect to trailer fees from ATBIM was $23,784 (2002 - $nil).

During the year, ATBIS sold all its property and equipment to ATB at the net carrying amount and entered into a rental agreement with ATB. The net carrying amount of assets at the time of sale was $49,526. This agreement enables ATBIS to rent computer equipment and software on a short term basis as required.

NOTE 8 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair value of financial instruments, excluding amounts due to ATB, approximates the carrying value due to the short term nature of these instruments. The fair value of amounts due to ATB, including subordinated notes, is not readily determinable as there are no fixed terms of repayment.

NOTE 9 COMPARATIVE AMOUNTS

Comparative amounts have been reclassified where necessary to conform to the current year's presentation.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION FINANCIAL STATEMENTS DECEMBER 31, 2002

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Directors of the

Credit Union Deposit Guarantee Corporation

I have audited the balance sheet of the Credit Union Deposit Guarantee Corporation as at December 31, 2002 and the statements of income and equity and cash flows 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, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
February 12, 2003

CREDIT UNION DEPOSIT GUARANTEE CORPORATION
BALANCE SHEET
DECEMBER 31, 2002
(thousands of dollars)

	2002	2001
ASSETS		
Cash	$ 11,414	$ 8,253
Investments (Note 3)	81,850	78,485
Accrued interest receivable	863	635
Due from credit unions	2,299	2,096
Other assets (Note 4)	828	769
Capital assets (Note 5)	196	250
	$ 97,450	$ 90,488
LIABILITIES		
Accounts payable and accrued liabilities	$ 724	$ 539
Income taxes payable	28	134
Accrual for financial assistance (Note 6)	1,700	1,715
Deferred revenue	986	921
Special contribution payable (Note 7)	8,354	7,637
Long-term unclaimed credit union balances payable	459	438
	12,251	11,384
Commitments and contingencies (Note 8)		
EQUITY		
Deposit Guarantee Fund	$ 83,105	$ 76,820
Master Bond Fund	2,094	2,284
	85,199	79,104
	$ 97,450	$ 90,488

The accompanying notes and schedule are part of these financial statements.

On behalf of the Board

R. A. Splane, Director

Mary C. Arnold, FCA, Director

CREDIT UNION DEPOSIT GUARANTEE CORPORATION
STATEMENTS OF INCOME AND EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2002
(thousands of dollars)

	2002		2001
	Budget	Actual	Actual
DEPOSIT GUARANTEE FUND			
Revenues:			
Deposit guarantee assessments	$ 12,321	$ 12,544	$ 11,340
Investment income	4,588	5,844	5,054
	16,909	18,388	16,394
Expenses:			
Interest and bank charges	46	3	34
Recovery of financial assistance (Note 6)	-	(26)	(2,034)
Special contribution (Note 7)	8,159	8,354	7,637
Administration (Schedule 1)	3,592	3,192	3,092
	11,797	11,523	8,729
Income before income taxes	5,112	6,865	7,665
Income taxes (Note 9)	290	580	519
Net income for the year	4,822	6,285	7,146
Equity at beginning of year	75,903	76,820	69,674
Equity at end of year	$ 80,725	$ 83,105	$ 76,820
MASTER BOND FUND			
Revenues:			
Insurance assessments	$ 827	$ 855	$ 748
Interest	109	66	114
	936	921	862
Expenses:			
Insurance premium	706	693	628
Administration (Schedule 1)	120	120	120
Insurance claims	210	298	172
	1,036	1,111	920
Net loss for the year	(100)	(190)	(58)
Equity at beginning of year	2,300	2,284	2,342
Equity at end of year	$ 2,200	$ 2,094	$ 2,284

The accompanying notes and schedule are part of these financial statements.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2002
(thousands of dollars)

	2002		2001
	Budget	Actual	Actual
Operating activities:			
Assessments received	$ 12,921	$ 13,328	$ 11,996
Investment income received	4,741	5,661	5,129
Loan principal and interest recovered	-	29	86
Financial assistance recoveries (paid)	(500)	11	49
Interest and bank charges paid	(46)	(3)	(34)
Insurance claims paid	(210)	(156)	(172)
Income taxes paid	(385)	(689)	(439)
Paid to suppliers and employees	(4,311)	(3,967)	(3,579)
Special contribution paid	(7,565)	(7,637)	(6,747)
Cash flows from operating activities	4,645	6,577	6,289
Investing activities:			
Purchase of investments, net	(4,525)	(3,365)	(282)
Purchase of capital assets	(120)	(51)	(153)
Cash flows from investing activities	(4,645)	(3,416)	(435)
Cash inflow	-	3,161	5,854
Cash at beginning of year	1,501	8,253	2,399
Cash at end of year	$ 1,501	$ 11,414	$ 8,253

The accompanying notes and schedule are part of these financial statements.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 1 AUTHORITY AND PURPOSE

The Credit Union Deposit Guarantee Corporation (the "Corporation") operates under the authority of the Credit Union Act, Chapter C-32, Revised Statutes of Alberta, 2000. The Corporation guarantees the repayment of all deposits with Alberta credit unions including accrued interest. The Credit Union Act provides that the Province of Alberta (Province) will ensure that this obligation of the Corporation is carried out. As at December 31, 2002, credit unions in Alberta held deposits including accrued interest totalling $7,583,130,000. Supervised credit unions receive assistance, support and direction in planning, policy and operational matters from the Corporation.

In 1986, S C Financial Ltd. was incorporated under the Alberta Business Corporations Act for the purpose of providing $335,000,000 of deficit financing assistance to credit unions under supervision. The Corporation guarantees the interest on the S C Financial Ltd. Debentures issued in exchange for Stabilization Preferred Shares of the credit unions and the interest was funded by the Province pursuant to its indemnification. As of October 31, 2002, the Debentures have been repaid and the Stabilization Preferred Shares have been cancelled or redeemed. S C Financial Ltd. operations ceased effective October 31, 2002. The Corporation's investment in S C Financial Ltd. will be liquidated upon dissolution (Note 2(c) and 4).

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

These financial statements reflect separate funds: a Deposit Guarantee Fund and a Master Bond Fund.

The primary objective of the Deposit Guarantee Fund is to enable the Corporation to guarantee the repayment of all deposits, including accrued interest, held by Alberta credit unions. The Deposit Guarantee Fund's statement of income includes assessments received from credit unions, assistance payments recorded on behalf of credit unions, as well as all other revenues and expenses related to the primary objective.

The Master Bond Fund provides insurance coverage to Alberta credit unions under a policy administered by the Corporation. A credit union may claim a maximum of $100,000 for directors liability claims and $85,000 for other claims, less its deductible, which is payable out of the Master Bond Fund; and a third party reinsurance policy insures the amount of the claim that exceeds $100,000 or $85,000 respectively. The Master Bond Fund's statement of income includes insurance assessments received from credit unions, interest income, insurance premiums paid for the reinsurance policy, an administration fee, and insurance claims paid.

(b) Use of estimates

The Corporation's financial statements are prepared in accordance with Canadian generally accepted accounting principles and necessarily include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas requiring the use of estimates are the accrual for financial assistance, provision for (recovery of) financial assistance, allowance for loan impairment and Master Bond Fund insurance claims (expected and unreported). The Corporation reviews these estimates annually. Actual amounts may differ significantly from those estimates depending upon certain future events and uncertainties.

(c) Non-consolidation of S C Financial Ltd.

S C Financial Ltd. has not been consolidated in these financial statements since the Corporation was not exposed to related obligations and did not have the right and ability to obtain future economic benefits from S C Financial Ltd.

(d) Cash

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund, which is managed by Alberta Finance to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital.

(e) Investments

Investments are carried at cost or amortized cost, with any discount or premium amortized on a straight-line basis over the life of the investments. Investments are written down when there is a decline in value that is other than temporary. Gains and losses on disposal of investments are included with investment income in the year of disposal. Substantially all securities held are purchased with the intention to hold them to maturity.

(f) Capital assets

The following rates are designed to amortize the cost of capital assets over their estimated useful lives:

Furniture and equipment	five year straight-line
Computer equipment	30 per cent declining-balance
Leasehold improvements	straight-line over lease term
Computer software	one year straight-line

(g) Income taxes

The Corporation records income taxes based on the tax liability method. Therefore, future income taxes are recognized based on the tax effects that will arise if an asset is realized or a liability is settled for its carrying amount.

(h) Insurance claims

The Corporation estimates and accrues the Master Bond Fund's share of losses from any reported insurance claims. It makes an additional accrual of the estimated losses from unreported insurance claims based on the last three years' average actual loss experience.

(i) Accrual for financial assistance

The Corporation recognizes financial assistance to specific credit unions as an expense when the need for assistance becomes likely and the amount can reasonably be estimated.

Additionally, an accrual for financial assistance is established by assessing the aggregate risk in the Alberta credit union system based on existing capital available in individual credit unions, current and anticipated market and economic conditions, the likelihood of losses, and the application of historic loss experience. It reflects management's best estimate of the losses arising from the inherent risk in the Alberta credit union system. Future economic conditions are not predictable with certainty and actual losses may vary significantly from management's estimate.

(j) Fair value of financial instruments

Most financial instruments are valued at their carrying amounts included on the balance sheet, which are reasonable estimates of fair value. This approach applies to cash, accrued interest receivable, due from credit unions, loans receivable, accounts payable and accrued liabilities, accrual for financial assistance, investment in S C Financial Ltd., special contribution payable and long-term unclaimed credit union balances payable. The fair values of investments are disclosed in Note 3.

NOTE 3 INVESTMENTS

	2002		2001	
	Cost	Market Value [2]	Cost	Market Value [2]
	(thousands of dollars)		(thousands of dollars)	
Securities issued or guaranteed by:				
Canada	$ 41,449	$ 43,349	$ 38,742	$ 39,888
Provinces	16,447	17,363	13,546	13,794
Other	23,954 [1]	24,524	26,197 [1]	27,136
Total	$ 81,850	$ 85,236	$ 78,485	$ 80,818

1 These securities include shares of Credit Union Central Alberta Limited ($100,000) and Co-operative Trust Company of Canada ($15,000), which approximate market value and have no specific term to maturity.

2 Market value is calculated using independent pricing sources and Canadian investment dealers.

The investment portfolio is managed by external managers with the objective of providing investment returns higher than the total return of the applicable Scotia Capital Markets All-Government indices over a four year period. The portfolio is comprised of high quality Canadian fixed income and debt related instruments. Competitive investment returns are achieved through management of the portfolio duration and holdings.

As at December 31, 2002, securities held have an average effective yield of 5.20% per annum based on cost (2001 – 5.67%); 4.30% per annum based on market (2001 – 4.78%). These securities have the following term structure based on par: under one year - 0% (2001 – 3%); over one year and under five years - 56% (2001 – 54%); over five years and under ten years - 44% (2001 – 43%).

The market value of the investments is subject to fluctuation as a result of normal market risk. The principle factor influencing the market value is the prevailing rate of interest. An increase of 1 per cent in interest rates will result in a decrease of approximately $852,000 (2001 - $805,000) in the market value of the total investments; and conversely, a decrease of 1 percent in interest rates will result in an increase in the market value of the same amount.

NOTE 4 OTHER ASSETS

	2002	2001
	(thousands of dollars)	
Prepaid expenses	$ 785	$ 691
Future income taxes recoverable (Note 9)	42	69
Loans receivable	-	8
Investment in S C Financial Ltd.	1	1
Total	$ 828	$ 769

NOTE 5 CAPITAL ASSETS

	2002	2001
	(thousands of dollars)	
Furniture and equipment	$ 391	$ 388
Computer equipment	171	288
Leasehold improvements	126	126
Computer software	94	73
	782	875
Less accumulated amortization	(586)	(625)
Net book value	$ 196	$ 250

NOTE 6 ACCRUAL FOR FINANCIAL ASSISTANCE

To fulfill the mandate described in Note 1, the Corporation assists Alberta credit unions experiencing financial difficulties when and as required. The Corporation monitors credit unions experiencing financial difficulty and has a contingent responsibility to provide further financial assistance, the amount of which, if any, is undeterminable at this time.

The book value of the accrual for financial assistance approximates its fair value as it represents the Corporation's best estimate of the future amounts to be paid.

	2002	2001
	(thousands of dollars)	
Accrual for financial assistance:		
Balance at beginning of year	$ 1,715	$ 3,700
Recovery of financial assistance	(15)	(1,985)
Balance at end of year	$ 1,700	$ 1,715
Recovery of financial assistance:		
Recovery of financial assistance	$ (15)	$ (1,985)
Loan loss recoveries	(11)	(49)
Recovery for the year	$ (26)	$ (2,034)

NOTE 7 SPECIAL CONTRIBUTION PAYABLE

	2002	2001
	(thousands of dollars)	
Balance at beginning of year	$ 7,637	$ 6,747
Payment of previous year's special contribution	(7,637)	(6,747)
Special contribution for the year	8,354	7,637
Balance at end of year	$ 8,354	$ 7,637

A special contribution is an annual amount payable by the Corporation under the Credit Union Restructuring Agreement. It is equal to 0.11 per cent of Alberta credit union deposits and borrowings and was payable to S C Financial Ltd., up until the year ended December 31, 2001. The Credit Union Restructuring Agreement was amended during 2002 requiring the Corporation to make the annual special contribution payment directly to the Province from 2002 to 2010.

NOTE 8 COMMITMENTS AND CONTINGENCIES

(a) Lease commitments

The Corporation is committed to a non-cancellable operating lease for business premises totalling $437,000.

The following amounts represent minimum payments over the next four years:

2003	$ 138,000
2004	138,000
2005	138,000
2006	23,000

(b) Litigation

There are legal proceedings pending against the Corporation that arose from normal business activities. Management of the Corporation believes that the financial cost of resolution of these proceedings will not be material to the financial position of the Corporation.

NOTE 9 INCOME TAXES

The Corporation is a deposit insurance corporation for income tax purposes. Its taxable income excludes assessments and financial assistance recoveries and no deduction may be made for financial assistance, insurance premiums, claims, or special contributions paid on behalf of member credit unions.

The Corporation's statutory income tax rate is 22.5% (2001 – 26.5%). Income taxes differ from the expected result that would have been obtained by applying the combined federal and provincial tax rate to income before income taxes, for the following reasons:

	2002	2001
	(thousands of dollars)	
Expected income tax expense on pre-tax income at the statutory rate	$ 1,505	$ 2,016
Add (deduct) tax effect of:		
Non-taxable assessments received	(3,012)	(3,203)
Non-deductible special contribution paid	1,878	2,024
Non-taxable financial assistance recoveries	(6)	(539)
Non-deductible insurance premiums paid	156	166
Non-deductible insurance claims paid	67	46
Other	(8)	9
Income taxes	$ 580	$ 519

At December 31, 2002 the Corporation had undepreciated capital costs for income tax purposes in excess of related book values of approximately $220,000 (2001 - $265,000). The resulting future income taxes recoverable are reflected in Note 4. The Corporation's future effective income tax rate is 20%.

	2002	2001
	(thousands of dollars)	
Current income taxes	$ 553	$ 519
Future income taxes	27	-
Income taxes	$ 580	$ 519

NOTE 10 DIRECTORS' AND MANAGEMENT REMUNERATION

	Director Fees or Salary [1]	Benefits [2] and Allowances	2002 Total	2001 Total
	(thousands of dollars)			
Chair [3]	$ 37	$ -	$ 37	$ 31
Board Members [3]	65	-	65	67
Current senior management:				
President and Chief Executive Officer[4]	$ 178	$ 26	$ 204	$ 180
Vice President, Finance and Administration[4]	118	20	138	134
Vice President, Credit[4,5]	87	12	99	103
Vice President, Operations[4]	90	11	101	95

1 Salary includes regular base pay and bonuses.

2 Employer's share of all employee benefits and contributions made on behalf of employees including Canada Pension Plan, Employment Insurance, group Registered Retirement Savings Plan, dental coverage, vision coverage, medical benefits including out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, professional memberships, staff fund, automobile allowances and tuitions.

3 The Chair and Board Members are paid on a per diem basis for preparation and meeting time. The Deputy Minister of Finance is a Board Member but receives no remuneration from the Corporation.

4 The titles for senior management changed during the year.

5 The position was occupied by two individuals during the year. The previous incumbent retired July 31, 2002. The new incumbent started September 1, 2002.

NOTE 11 2002 BUDGET

The 2002 budget was approved by the Board of Directors on September 25, 2001.

NOTE 12 COMPARATIVE FIGURES

The 2001 figures have been restated where necessary to conform to 2002 presentation.

Schedule 1

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

SCHEDULE OF ADMINISTRATION EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2002

(thousands of dollars)

	2002		2001
	Budget	Actual	Actual
Deposit Guarantee Fund			
Salaries and benefits	$ 2,494	$ 2,408	$ 2,388
Professional fees	300	177	113
Staff travel	243	153	150
Rental charges	171	148	159
Other	101	104	93
Office	100	103	127
Board and committee fees	129	102	98
Amortization	140	96	66
Board and committee expenses	34	21	18
	3,712	3,312	3,212
Allocation to Master Bond Fund	(120)	(120)	(120)
	$ 3,592	$ 3,192	$ 3,092

N.A. PROPERTIES (1994) LTD.
FINANCIAL STATEMENTS
MARCH 31, 2003

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Shareholder of N.A. Properties (1994) Ltd.

I have audited the balance sheet of N.A. Properties (1994) Ltd. as at March 31, 2003 and the statement of operations and deficit for the year then ended. These financial statements are the responsibility of the Company'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 Company as at March 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
April 24, 2003

N.A. PROPERTIES (1994) LTD.
BALANCE SHEET
AS AT MARCH 31, 2003
(thousands of dollars)

	2003	2002
ASSETS		
Cash (Note 4)	$ 2,474	$ 2,421
Accounts receivable	6	6
Note receivable (Note 5)	10	8
	2,490	2,435
Restricted assets (Note 6)	-	141,106
	$ 2,490	$ 143,541
LIABILITIES		
Obligations under indemnities and commitments (Note 7)	$ 502	$ 793
Obligation to repay debentures (Note 6)	-	141,106
	502	141,899
SHAREHOLDER'S EQUITY		
Share capital (Note 8)	5,769	5,769
Deficit	(3,781)	(4,127)
	1,988	1,642
	$ 2,490	$ 143,541

The accompanying notes are part of these financial statements

On behalf of the Board:

Sole Director - Rod Matheson

N.A. PROPERTIES (1994) LTD.
STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED MARCH 31, 2003
(thousands of dollars)

	2003	2002
Revenue		
Interest and other	$ 71	$ 114
Rental	-	18
	71	132
Expenses		
Indemnity (Note 7)	-	144
General and administrative	16	27
Rental operating expense	-	15
	16	186
Operating income (loss) before provision	55	(54)
Recovery of provision (Note 7)	291	371
Excess of revenue over expenses for the year	346	317
Deficit, beginning of year	(4,127)	(4,444)
Deficit, end of year	$ (3,781)	$ (4,127)

N.A. PROPERTIES (1994) LTD.
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2003
(thousands of dollars)

NOTE 1 AUTHORITY

N. A. Properties (1994) Ltd. (the "Company") was continued on March 31, 1994 as an amalgamated corporation under the Business Corporation Act, Statutes of Alberta 2000, Chapter B-9, as amended. The Province of Alberta owns all issued shares of the Company and accordingly the Company is exempt from income tax.

NOTE 2 NATURE OF OPERATIONS

The Company's mandate is to dispose of remaining assets. The Province of Alberta has indemnified the Company for assets net losses, expenses or liabilities existing or subsequently incurred by the Company. There were no recoveries from the Province of Alberta in satisfaction of this indemnity in the past two years.

The Company also manages indemnities described in Note 7, and had an obligation to the credit union system described in Note 6.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

(a) Financial Statement Presentation

A cash flow statement is not provided, as disclosure in the financial statements is considered adequate.

(b) Fair Value

The carrying value of cash and accounts receivable approximate their fair value due to the relatively short periods to maturity of the instruments. The fair value of other financial assets and liabilities are provided in the applicable notes to the financial statements.

NOTE 4 CASH

Cash is deposited in the Consolidated Cash Investment Trust Fund, which is managed by Alberta Finance to provide competitive interest income while at the same time maintaining maximum security and liquidity of depositors' capital.

NOTE 5 NOTE RECEIVABLE

The non-interest bearing note receivable in the amount of $933 was issued in November 1987 and matures in the year 2027. The carrying value of the note receivable as at March 31, 2003 is $10 (2002 - $8). The note receivable is discounted by 20% based on the yield in effect at the time of issuance and adjusting the rate for a risk premium. The fair market value of the note at March 31, 2003 is estimated to be $26 (2002 – $21) using the current interest rate in effect and adjusting the rate for a risk premium.

NOTE 6 RESTRICTED ASSETS/OBLIGATION TO REPAY DEBENTURES

On October 11, 2001, the Company entered into the Credit Union Deficit Financing Termination Agreement with the Province of Alberta, Credit Union Central Alberta Limited, the Credit Union Deposit Guarantee Corporation (CUDG) and SC Financial Ltd. The Company agreed to repay the outstanding debentures, based on the funding arrangements as determined in the Agreement. The debentures were originally issued to credit unions under the terms of the 1986 Credit Union Deficit Financing Agreement.

The obligation to repay debentures, in the amount of $141,106, was settled during the year as follows:

Received from the province	$ 77,510
Received from Credit Union Deposit Guarantee Corporation	1,804
Paid by the Company	61,792
Total	$ 141,106

NOTE 7 INDEMNITIES AND COMMITMENTS

In the past, the Company provided indemnities of principal and interest on mortgages sold to a Canadian chartered bank. The principal and interest on these mortgages totaled $3,053 at March 31, 2003 (2002 - $7,348). The Company's indemnities expire in part in 2003, 2015 and in full in 2017.

NOTE 8 SHARE CAPITAL

Authorized

- Unlimited number of Class "A" voting shares
- Unlimited number of Class "B" voting shares
- Unlimited number of Class "C" non-voting shares
- Unlimited number of Class "D" non-voting shares
- Unlimited number of Class "E" voting shares
- Unlimited number of Class "F" non-voting shares

		2003	2002
Issued			
1	Class "A" share	$ 5,768	$ 5,768
1,000	Class "B" shares	1	1
		$ 5,769	$ 5,769

NOTE 9 CONTINGENCIES

The Company had lawsuits filed by plaintiffs in two separate actions. Management considers the chance of liability under these legal proceedings not to be determinable and accordingly an estimate of any contingent loss cannot be made.

NOTE 10 RELATED PARTY TRANSACTIONS

There were no related party transactions in the year ended March 31, 2003, except as disclosed in Note 6.

NOTE 11 FEES AND SALARIES

There were no directors' fees or salaries paid during the year. The Company had no employees in 2003 and 2002.

NOTE 12 BUDGET

The Company's annual budget appears in the 2002–03 Government and Lottery Fund Estimates. The budget projected a net excess of revenue over expenses for the year of $100. Since the Company has liquidated almost all of its assets, a detailed budget was not prepared.

S C FINANCIAL LTD.
FINANCIAL STATEMENTS
DECEMBER 31, 2002

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Shareholder of
S C Financial Ltd.

I have audited the balance sheet of S C Financial Ltd. as at December 31, 2002 and the statement of income for the year then ended. These financial statements are the responsibility of the Company'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 Company as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, CA
Auditor General

Edmonton, Alberta
January 31, 2003

S C FINANCIAL LTD.
BALANCE SHEET
DECEMBER 31, 2002
(thousands of dollars)

	2002	2001
ASSETS		
Cash	$ 1	$ 1
Stabilization Preferred Shares (Note 3)	-	-
	$ 1	$ 1
SHAREHOLDER'S EQUITY		
Share Capital		
Authorized - Unlimited number of Class A shares		
Issued - 10 Class A shares	$ 1	$ 1
	$ 1	$ 1

The accompanying notes are part of these financial statements.

Approved on behalf of the Board:

J. Laitner, Director R.A. Splane, Director

S C FINANCIAL LTD.

S C FINANCIAL LTD.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2002
(thousands of dollars)

	2002		2001
	Budget	Actual	Actual
Revenue:			
Recovery (repayment) on indemnity from the Province of Alberta (Note 3)	$ (1,673)	$ 4,863	$ 9,779
Special contribution from Credit Union Deposit Guarantee Corporation (Note 1 and 4)	8,159	-	7,637
	6,486	4,863	17,416
Expense:			
Interest on debentures (Note 3)	6,486	4,863	17,416
Total Expenses	6,486	4,863	17,416
Net income for the year	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 1 AUTHORITY AND PURPOSE

S C Financial Ltd. (the Company) was incorporated on May 29, 1986 under the Alberta Business Corporations Act, as a wholly-owned entity of the Credit Union Deposit Guarantee Corporation (CUDGC), a Provincial corporation. The Company is a deposit insurance corporation by virtue of it being a wholly-owned entity of a deposit insurance corporation. Accordingly, it is treated as such for income tax purposes. The Company ceased operations on October 31, 2002 (Note 6).

Pursuant to the Credit Union Deficit Financing Agreement, the Company provided deficit financing assistance to supervised credit unions. In 1986, Stabilization Preferred Shares Series B were issued by credit unions to the Company in exchange for debentures totalling $335,000,000. CUDGC provided funds to the Company to purchase investments which were to accumulate to $335,000,000 at October 31, 2010 in order to repay debentures outstanding and the balance to the Province of Alberta (Province) at that date. Pursuant to an agreement, the Company transferred the investments to N.A. Properties (1994) Ltd. (wholly-owned by the Province). In exchange, N.A. Properties (1994) Ltd. assumed the Company's obligation totalling $335,000,000. In 1989, CUDGC contributed $12,524,000 to the Company to provide cash deficit financing assistance to credit unions in exchange for Stabilization Preferred Shares Series B.

Under the Credit Union Deficit Financing Termination Agreement dated October 11, 2001, the Company agreed to cancel the obligation for credit unions to redeem issued and outstanding Stabilization Preferred Shares Series B over and above a total amount of $15,000,000. Under this Agreement, N. A. Properties (1994) Ltd. agreed to repay the remaining outstanding debentures totalling $297,239,000 to the credit unions by October 31, 2002 (Note 3).

The Credit Union Restructuring Agreement requires CUDGC to make an annual special contribution equal to 0.11% of credit union deposits and borrowings (loans payable) to the Company as directed by the Province. The Credit Union Restructuring Amendment Agreement requires CUDGC to make the special contribution payments directly to the Province, for 2002 and each year through to 2010.

NOTE 2 FINANCIAL STATEMENT PRESENTATION

A cash flow statement is not provided as disclosure in these financial statements is considered to be adequate. Operating or administrative costs of the Company are not significant and are paid by CUDGC.

NOTE 3 STABILIZATION PREFERRED SHARES AND DEBENTURES

During the year, $4,629,000 (2001 - $10,371,000) of Stabilization Preferred Shares Series B were redeemed by credit unions. Pursuant to the Credit Union Deficit Financing Termination Agreement dated October 11, 2001, the funds received in respect of redemption of the outstanding Shares were paid to Credit Union Central Alberta Limited.

Also, a debenture repayment of $141,106,000 (2001 - $156,133,000) was made during the year by N. A. Properties (1994) Ltd. to the credit unions, which fully repaid the outstanding debentures.

On a quarterly basis, the Company paid interest on the outstanding debentures at the lesser of 14% or prime. CUDGC, with an indemnity from the Province, guaranteed payment of the interest.

NOTE 4 DUE TO RELATED PARTIES

Transactions with related parties are undertaken to meet funding commitments under the Credit Union Deficit Financing Agreement, Credit Union Restructuring Agreement, and the Credit Union Deficit Financing Termination Agreement. Balances have been disclosed on a net basis in these financial statements to reflect the flow-through nature of the transactions. The Credit Union Restructuring Amendment Agreement requires CUDGC to make special contribution payments directly to the Province.

	2002	2001
	(thousands of dollars)	
Interest on debentures:		
Due to credit unions	$ -	$ (1,061)
Due to Province to fund interest	-	(6,576)
Due from Credit Union Deposit Guarantee Corporation - special contribution	-	7,637
	-	-
	$ -	$ -

NOTE 5 2002 BUDGET

The 2002 budget was approved by the Board of Directors on October 10, 2001.

NOTE 6 DISSOLUTION OF COMPANY

The Company ceased operations on October 31, 2002. The Board passed a resolution of intent to dissolve the Company. On dissolution the outstanding shares will be redeemed and cancelled.

GAINERS INC.
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

AUDITORS' REPORT

To the Shareholder of Gainers Inc.

We have audited the consolidated balance sheet of Gainers Inc. as at September 30, 2002 and the consolidated statements of operations and deficit, and cash flow for the year then ended. These financial statements are the responsibility of the company'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 consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2002 and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants

Edmonton, Alberta
December 6, 2002

GAINERS INC.
CONSOLIDATED BALANCE SHEET
AS AT SEPTEMBER 30, 2002
(in thousands of dollars)

	2002	2001
ASSETS		
Cash	$ 2	$ 2
LIABILITIES		
Accounts payable and accrued liabilities	234	262
Principal and interest on prior years' income taxes (Note 3)	8,607	8,006
Long-term debt (Note 4)	192,798	192,756
	201,639	201,024
Contingencies (Note 5)		
DEFICIT, LESS SHARE CAPITAL		
Deficit	(216,640)	(216,025)
Share capital (Note 6)	1	1
Contributed surplus	15,002	15,002
	(201,637)	(201,022)
	$ 2	$ 2

Approved by the Board of Directors

D. Harrington, Director

GAINERS INC.
CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(in thousands of dollars)

	2002	2001
Revenue		
Recovery of legal fees	$ 2	$ 3
Reduction of long-term debt (Note 4)	-	6,154
Proceeds from the demutualization of an insurance company	-	1,288
Interest income from trust account	-	29
	2	7,474
Expenses		
Interest on prior years' income taxes	601	694
General and administrative	16	65
	617	759
Net (loss) earnings for the year	(615)	6,715
Deficit - Beginning of year	(216,025)	(222,740)
Deficit - End of year	$ (216,640)	$ (216,025)

GAINERS INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(in thousands of dollars)

	2002	2001
Cash provided by (used in)		
Operating activities		
Net (loss) earnings for the year	$ (615)	$ 6,715
Item not affecting cash		
Reduction of long-term debt	-	(6,154)
	(615)	561
Net change in non-cash working capital items	573	685
	(42)	1,246
Financing activities		
Repayment of long-term debt	-	(1,316)
Proceeds from long-term debt	42	66
	42	(1,250)
Decrease in cash	-	(4)
Cash - Beginning of year	2	6
Cash - End of year	$ 2	$ 2

GAINERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2002
(in thousands of dollars)

NOTE 1 BASIS OF PRESENTATION

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Because the precise determination of many assets, liabilities, revenues and expenses are dependent on future events, the preparation of financial statements for a period necessarily includes the use of estimates and approximations which have been made using careful judgement. Actual results could differ from those estimates. These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

The consolidated financial statements of the company include the accounts of Gainers Inc. and its wholly owned subsidiary companies: Gainers Properties Inc. ("GPI") and MPF Note Inc., collectively the "company".

Through September 25, 1993, the company operated on a going-concern basis, which contemplated the realization of assets and discharge of liabilities in the normal course of business. Events since that date have resulted in the discontinuance of all ongoing business. The company has disposed of its non-monetary assets, with the exception of its investment in Pocklington Corp. Inc. described below. The company is waiting for the determination or settlement of remaining lawsuits before its dissolution.

Any repayment of the long-term debt by the company is expected by management to be immaterial.

NOTE 2 INVESTMENT IN AND AMOUNTS DUE FROM FORMER AFFILIATES

The investment, which is recorded at $nil value, is comprised of 77,500 Class A preferred shares of Pocklington Corp. Inc. with a par value of, and which are redeemable at, U.S. $100 per share and which carry annual non-cumulative dividends of U.S. $11 per share. In November 1989, a demand for redemption of the shares was made by Gainers Inc. and an action was commenced against Mr. Pocklington arising from this investment, seeking by way of damages the monies invested together with interest thereon. Mr. Pocklington has counterclaimed seeking statutory indemnification as a director for his actions. Management believes that this counterclaim is without merit. The investment in Pocklington Corp. Inc. has been written down to $nil on the balance sheet.

Advances to the former affiliate, which are recorded at $Nil value, Pocklington Financial Corporation (formerly Pocklington Holdings Inc.) are non-interest bearing and have no specific terms of repayment. In January 1990, Gainers Inc. made demand on and brought an action against Pocklington Financial Corporation to recover the advances. In December 1995, a judgement was rendered and collected in favour of Gainers Inc. in the amount of $770. This amount has been recovered by the company from Pocklington Financial Corporation. This amount was subject to the secured claim of the Province as described in note 4 and was subsequently remitted to the Province of Alberta ("Alberta"). The company appealed this decision, as the company believes that the amount of the judgement should have been higher. The company won the appeal. It is unlikely that the company can recover any further monies from Pocklington Financial Corporation, which is bankrupt.

On August 8, 1989, Gainers Inc. acquired the shares of 350151 Alberta Ltd. ("350151") for $100 cash. On October 4, 1989, Gainers Inc., at the direction of the former owner, sold the shares of 350151 to Pocklington Holdings Inc. for $100 cash. Alberta filed a claim to have the sale reversed. The accounts of 350151 are not included in these financial statements. In December 1995, a judgement as to the ownership of the shares was rendered in favour of Pocklington Financial Corporation. Alberta appealed this decision, and on November 21, 2000 the Alberta Court of Appeal reversed the 1995 judgement. The Court of Appeal has held that the purported sale of the shares of 350151 to Pocklington Holdings Inc. on October 4, 1998 was a breach of the Master Agreement (Note 4) and awarded $4,700 in damages plus trial and appeal costs to the Province against Mr. Pocklington.

On August 8, 1989, 350151 guaranteed payment of a $5,000 loan (which was repaid by GPI in 1998), and granted a collateral land mortgage to Alberta of a property called the Carma 362 Lands. On November 30, 2000, the Province realized the sum of $5,606 (inclusive of interest) from the mortgage security on the Carma 362 Lands. The Court of Appeal directed that any recovery by Alberta from the Carma 362 Lands was to be set off against the judgement against Mr. Pocklington, and vice versa. Thus, the recovery from the mortgage security by Alberta has satisfied the judgement against Mr. Pocklington.

NOTE 3 INCOME TAXES

The prior years' liability for income taxes plus accrued interest is an unsecured debt. The long-term debt owed to Alberta is a secured debt and thus ranks in priority. It is considered unlikely that the company will be able to settle this liability for income taxes and interest as the amount owing to Alberta exceeds the amount, which is reasonably expected to be recovered from the remaining assets of the company.

The Company has capital and non-capital income tax losses available for carry forward to reduce taxable income of future years. The amount of capital losses available for carry forward is $9,711. The amount of non-capital losses available for carry forward is $3,231. These non-capital losses expire as follows:

	(in thousands of dollars)
2004	$ 1,102
2005	1,983
2007	100
2008	32
2009	14
	$ 3,231

NOTE 4 LONG-TERM DEBT

	2002	2001
	(in thousands of dollars)	
Province of Alberta		
Term loan	$ 6,000	$ 6,000
Assignment of prior operating loans from previous banker		
Term bank loan (US $8,749)	11,567	11,567
Operating loan	20,979	20,979
Advances under guarantee for principal and interest payments	31,947	31,947
Promissory note	42,846	42,846
Advance to facilitate sale	13,000	13,000
Advances under guarantee and indemnity for operating line	18,469	18,469
Default costs and guarantee fees	13,499	13,457
Accrued interest	34,491	34,491
	$ 192,798	$ 192,756

The fair value of the long-term debt is dependent on outcomes from claims filed by or against Gainers Inc. Due to the uncertainty of these items, the fair value as at September 30, 2002 is estimated to be $nil.

Province of Alberta

On September 25, 1987, Gainers Inc. and GPI entered into the Master Agreement with Alberta, which provided for a term loan facility and a loan guarantee. Pursuant to the Master Agreement, Gainers Inc. and GPI granted securities to 369413 Alberta Ltd. (“Nominee”) which holds the securities and loans, as later described in this Note, in trust for Alberta. A number of events of default, which still continue, occurred during 1989, resulting in the long-term debt and liability to Alberta becoming due and payable. Alberta acted on its security and, on October 6, 1989, took control of Gainers Inc.’s issued and outstanding shares, which previous to this, were controlled by Mr. Pocklington.

As at October 6, 1989, operating loans of $20,979 and a term loan of U.S. $8,749 were purchased, transferred and assigned to the Nominee. In addition, Alberta has made payments since October 6, 1989 under the guarantee to cover principal and interest payments due, including the purchase in December 1993 of the balance due under the promissory note made by GPI to Yasuda Mutual Life Assurance Company.

Reduction of long-term debt

As described in note 2, Alberta realized $5,606 from a collateral security agreement with 350151. In addition, Alberta received $547 from a judgement obtained by Alberta against Mr. Pocklington. As a result of receiving funds on these two actions, on September 30, 2001, Alberta acknowledged a reduction of $6,154 in advances under guarantee for principal and interest payments owing by GPI.

Interest

The interest on the loans and other indebtedness owing to Alberta has not been paid in accordance with the terms of the indebtedness. Effective February 5, 1994, Alberta declared all indebtedness owing by the company to Alberta to be non-interest bearing from the later of February 5, 1994 and the date the indebtedness to the Province of Alberta was incurred.

Security

Collateral security for the indebtedness to Alberta includes a general assignment of book debts, general security agreements over all real and personal property of the company, a pledge of inventory, and fixed and floating charge debentures amounting to $70,000 covering all of the assets of the company. The company continues to be in default and in breach of certain covenants of this indebtedness.

Master Agreement

The Master Agreement provided for Alberta to advance a term loan to GPI in the aggregate amount of $12,000. As at September 30, 1989, $6,000 of the term loan had been advanced. An interest payment due on October 1, 1989 was not made and Alberta, acting on its security, seized control of the company. Since default has occurred under the Master Agreement, the entire amount of the monies advanced for the term loan are due and owing by GPI to Alberta. The term loan which has been advanced, and interest thereon, and the performance and observance of the other covenants of GPI under the Master Agreement, including the obligations of GPI to Alberta in respect to the promissory note, is collaterally secured by a demand debenture made by GPI to the Nominee in the principal sum of $67,000 dated September 25, 1987 and constituting a fixed mortgage and charge over all of the real property, equipment and chattels of GPI and a floating charge over all of the undertaking and other property and assets of GPI, and by a pledge by GPI of preferred shares held by GPI in Gainers Inc.

NOTE 5 CONTINGENCIES

(a) The company and Alberta have filed claims against Mr. Pocklington and companies controlled by him for recovery of certain loans, payments and other transactions prior to October 6, 1989. The claim aggregates approximately $38,000 plus interest. Ultimate recovery of this claim cannot be determined at this time.

(b) Under the terms of the Master Agreement, the company and Mr. Pocklington are liable for all losses, expenses, costs and claims incurred by Alberta as a consequence of a default by the company, as defined in note 1, or by Mr. Pocklington. As a result, since the date of default the company has incurred approximately $14,072 (net of repayments) in the consolidated financial statements for these costs and expenses. It is expected that further costs and expenses will be incurred in the future as a result of continuing default. Ultimate recovery of this claim cannot be determined at this time.

(c) Alberta has brought a claim against Mr. Pocklington for damages arising out of breaches by him of the Master Agreement, alternatively negligent misrepresentations made by him in certificates sworn by him in 1988 and 1989, which caused the Crown to make advances under the Term Loan.

Mr Pocklington has bought a counter claim against the company in which Mr. Pocklington claims indemnification for the entire amount of the main claim.

Alberta obtained summary judgement in the amount of $7,257 in respect of the certificates sworn by Mr. Pocklington in 1988. The judgement has been appealed by Mr. Pocklington. The outcome of this action is not presently determinable.

NOTE 6 SHARE CAPITAL

Authorized
- Unlimited number of Class A common shares
- Unlimited number of Class B preferred shares redeemable/retractable at $ 1 per share with non-cumulative annual dividends at a rate not exceeding 16% of the redemption value
- 12,000,000 Class C preferred shares redeemable at $1per share with cumulative annual dividend compounded semi-annually at 9.6% of the redemption price

Issued

	2002	2001
	(in thousands of dollars)	
101 Class A common shares	$ 1	$ 1
6,000,000 Class C preferred shares	6,000	6,000
	6,001	6,001
Less: 6,000,000 Class C preferred shares held by GPI	6,000	6,000
	$ 1	$ 1

SUPPLEMENTARY INFORMATION REQUIRED BY LEGISLATION

STATEMENT OF REMISSIONS, COMPROMISES AND WRITE-OFFS

For the Year Ended March 31, 2003

The following statement has been prepared pursuant to section 23 of the Financial Administration Act. The statement includes all write-offs of the Ministry of Finance made or approved during the fiscal year. There were no remissions or compromises.

Department of Finance	
Implemented guarantees and indemnities	
Gainers Inc. and subsidiaries	$ 31,497
Rural utilities loans	4,482
	35,979
Alberta Treasury Branches	
Loans and accounts receivable	26,988,162
	$ 27,024,141

SUPPLEMENTARY INFORMATION REQUIRED BY LEGISLATION

STATEMENT OF BORROWINGS MADE UNDER SECTION 56(1) OF THE FINANCIAL ADMINISTRATION ACT

For the Year Ended March 31, 2003

The following statement has been prepared pursuant to section 56(2) of the Financial Administration Act.

	Issue Principal	Proceeds
Payable in Canadian dollars:		
Promissory notes	$ 9,734,500,000	$ 9,723,905,000
Debentures	25,000,000	26,370,000
	$ 9,759,500,000	$ 9,750,275,000

STATEMENT OF THE AMOUNT OF THE DEBT OF THE CROWN FOR WHICH SECURITIES WERE PLEDGED

The following statement has been prepared pursuant to section 66(2) of the Financial Administration Act.

The amount of the debt of the Crown outstanding at the end of the 2002-03 fiscal year for which securities were pledged under Part 6 of the Financial Administration Act was $Nil.

SUPPLEMENTARY INFORMATION REQUIRED BY LEGISLATION

STATEMENT OF BORROWINGS MADE UNDER SECTION 56(1) OF THE FINANCIAL ADMINISTRATION ACT

For the Year Ended March 31, 2003

The following statement has been prepared pursuant to section 56(2) of the Financial Administration Act.

	Issue Principal	Proceeds
Payable in Canadian dollars:		
Promissory notes	$ 9,734,500,000	$ 9,723,905,000
Debentures	25,000,000	26,370,000
	$ 9,759,500,000	$ 9,750,275,000

STATEMENT OF THE AMOUNT OF THE DEBT OF THE CROWN FOR WHICH SECURITIES WERE PLEDGED

The following statement has been prepared pursuant to section 66(2) of the Financial Administration Act.

The amount of the debt of the Crown outstanding at the end of the 2002-03 fiscal year for which securities were pledged under Part 6 of the Financial Administration Act was $Nil.

SUPPLEMENTARY INFORMATION REQUIRED BY LEGISLATION

STATEMENT OF GUARANTEES AND INDEMNITIES

For the Year Ended March 31, 2003

The following statement has been prepared pursuant to section 75 of the Financial Administration Act. The statement summarizes the amounts of all guarantees and indemnities given by the Ministry of Finance on behalf of the Crown and Provincial corporations for the year ended March 31, 2003, the amounts paid as a result of liability under guarantees and indemnities, and the amounts recovered on debts owing as a result of payments under guarantees and indemnities.

Program/Borrower	Amount of Guarantee or Indemnity	Payments	Recoveries
CROWN GUARANTEES			
Gainers Inc. and subsidiaries	$ -	$ 31,497	$ -
Rural utilities loans	-	4,482	-
	-	35,979	-
CROWN INDEMNITIES			
Native residential school litigation indemnity payments recoverable from Department of Learning	-	274,892	274,892
	$ -	$ 310,871	$ 274,892

LOCAL AUTHORITIES PENSION PLAN
FINANCIAL STATEMENTS
DECEMBER 31, 2002

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Local Authorities Pension Plan Board of Trustees

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Local Authorities Pension Plan (the Plan) as at December 31, 2002 and the Statements of Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Actuarial Deficiency for the year then ended. These financial statements are the responsibility of the Plan'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 Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2002 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Actuarial Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
February 28, 2003

LOCAL AUTHORITIES PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS AS AT DECEMBER 31, 2002
($ thousands)

	2002	2001
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 8,419,003	$ 8,938,625
Contributions receivable (Note 6)	14,419	13,455
Accrued investment income	1,811	1,425
	8,435,233	8,953,505
Liabilities		
Accounts payable (Note 7)	3,913	2,345
Net assets available for benefits	8,431,320	8,951,160
Actuarial adjustment for fluctuation in fair value of net assets (Note 2 (c))	1,160,600	791,700
Actuarial value of net assets available for benefits	9,591,920	9,742,860
Accrued Benefits		
Actuarial value of accrued benefits	10,036,900	9,107,900
Actuarial (deficiency) surplus	$ (444,980)	$ 634,960

See accompanying notes and schedules.

LOCAL AUTHORITIES PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED DECEMBER 31, 2002
($ thousands)

	2002	2001
Increase in assets		
Contributions (Note 8)	$ 388,717	$ 349,807
Decrease in assets		
Net investment loss (Note 9)	522,566	383,453
Pension benefits	325,761	308,330
Refunds to members	44,095	43,981
Transfers to other plans	1,515	4,291
Transfer to ENMAX Corporation	-	1,629
Plan expenses (Note 10)	14,620	10,486
	908,557	752,170
Decrease in net assets	(519,840)	(402,363)
Net assets available for benefits at beginning of year	8,951,160	9,353,523
Net assets available for benefits at end of year	$ 8,431,320	$ 8,951,160

See accompanying notes and schedules.

LOCAL AUTHORITIES PENSION PLAN
STATEMENT OF CHANGES IN ACCRUED BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2002
($ thousands)

	2002	2001
Increase in accrued benefits		
Interest accrued on benefits	$ 691,900	$ 628,700
Benefits earned	426,200	367,800
Net experience losses (Note 11 (a))	193,700	55,900
	1,311,800	1,052,400
Decrease in accrued benefits		
Benefits paid including interest	382,800	355,400
Net increase in accrued benefits	929,000	697,000
Accrued benefits at beginning of year	9,107,900	8,410,900
Accrued benefits at end of year (Note 11)	$ 10,036,900	$ 9,107,900

See accompanying notes and schedules.

LOCAL AUTHORITIES PENSION PLAN
STATEMENT OF CHANGE IN ACTUARIAL DEFICIENCY
FOR THE YEAR ENDED DECEMBER 31, 2002
($ thousands)

	2002	2001
Actuarial surplus at beginning of year	$ 634,960	$ 883,823
Decrease in net assets available for benefits	(519,840)	(402,363)
Net change in actuarial adjustment for fluctuation in fair value of net assets	368,900	850,500
Net increase in accrued benefits	(929,000)	(697,000)
Actuarial (deficiency) surplus at end of year (Note 12)	$ (444,980)	$ 634,960

See accompanying notes and schedules

LOCAL AUTHORITIES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2002

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Local Authorities Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the Public Sector Pension Plans Act, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 366/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, regional health authorities, school divisions, districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies.

(b) Funding Policy

Current and optional service costs are funded by employers and employees at rates which are expected to provide for all benefits payable under the Plan. The contribution rates for employers are 1.0% more than the rates for employees. There were no changes in rates in 2002. The rates in effect at December 31, 2002 were 4.025% of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 5.90% of the excess for employees, and 5.025% of pensionable earnings up to the YMPE and 6.90% of the excess for employers. The rates are to be reviewed at least once every three years by the board based on recommendations of the Plan's actuary.

(c) Retirement Benefits

The Plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the YMPE and 2.0% on the excess. The maximum service allowable under the Plan is 35 years. Unreduced pensions are payable to members who retire with at least two years of membership and have either attained age 65, or age 55 and the sum of their age and years of service equals 85. Reduced pensions are payable to members retiring early.

(d) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least two years of membership. Reduced pensions are payable to members who become partially disabled and retire early with at least two years of membership.

(e) Death Benefits

Death benefits are payable on the death of a member. If the member has at least two years of service, a surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner, or where service is less than two years, a lump sum payment must be chosen.

(f) Termination Benefits

Members who terminate with at least two years of membership and who are not immediately entitled to a pension may transfer out the commuted value for all earned service, contributions paid in respect of optional service with interest, plus excess contributions if applicable, which is subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with fewer than two years of membership receive a refund of their contributions and interest.

(g) Optional Service and Reciprocal Transfers

All optional service purchases are to be cost-neutral to the Plan.

Transferred-in service will be on an actuarial reserve basis and transfers out will receive the greater of the termination benefits or commuted value for all service.

(h) Cost-of-Living Adjustments

Pensions payable are increased each year by an amount equal to 60% of the increase in the Alberta Consumer Price Index (CPI). The increase is an average based on the increase in the twelve-month period ending on October 31 in the previous year. This calculation method has been set out in the Plan regulations since 1993.

(i) Income Taxes

The Plan is a registered pension plan as defined in the Income Tax Act. The Plan's registration number is 0216556.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

Except for real rate of return bonds which are held directly by the Plan, Plan investments are held in pooled investment funds administered by Alberta Revenue. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

The Plan's percentage ownership in pooled investment funds at December 31 was as follows:

	% Ownership	
	2002	2001
Internally Managed Pooled Investment Funds		
Canadian Dollar Public Bond Pool	24.9	25.5
Canadian Pooled Equities Fund	14.9	18.7
Domestic Passive Equity Pooled Fund	22.7	22.7
EAFE Structured Equity Pooled Fund	44.2	49.2
Private Equity Pool	53.5	53.5
Private Mortgage Pool	29.4	30.6
Private Real Estate Pool	27.4	33.0
US Passive Equity Pooled Fund	42.9	49.5
United States Pooled Equities Fund	40.8	40.8
Externally Managed Pooled Investment Funds		
Canadian Large Cap Equity Pool	46.8	60.8
Canadian Small Cap Equity Pool	51.0	48.0
EAFE Core Equity Pool	28.7	30.1
EAFE Passive Equity Pool	19.5	21.6
EAFE Plus Equity Pool	30.4	29.7
US Large Cap Equity Pool	28.8	30.7
US Mid/Small Cap Equity Pool	42.4	33.8
US Passive Equity Pool	3.7	13.4

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held by pooled investment funds are explained in the following paragraphs:

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Revenue.

The fair value of private equities is estimated by Alberta Revenue.

Real estate investments are reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Actuarial Value of Net Assets Available for Benefits

To reduce the impact of market volatility on the Plan's funded status, asset values are adjusted for fluctuations in fair value. Assets for the previous two years are projected to increase at the rate of return assumed in the actuarial valuation. The actuarial value of assets is determined by averaging three years' values, consisting of current market value and asset values projected from the year-end market values for the two previous years.

(d) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(e) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment loss.

(f) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

Income and expense from derivative contracts are accrued as earned and included in net investment loss. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

NOTE 3 INVESTMENTS (SCHEDULES A TO D)

	2002		2001	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash				
Investment Trust Fund [(a)]	$ 65,449	0.8	$ 109,955	1.2
Canadian Dollar Public Bond Pool [(b)]	2,094,921	24.9	2,153,806	24.1
Real rate of return bonds [(c)]	425,674	5.1	414,636	4.6
Private Mortgage Pool [(d)]	281,934	3.3	281,819	3.2
Total fixed income securities	2,867,978	34.1	2,960,216	33.1
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool [(e)]	1,149,571	13.6	1,060,406	11.9
Canadian Small Cap Equity Pool [(e)]	231,773	2.7	203,207	2.3
Domestic Passive Equity Pooled Fund [(f)]	517,839	6.2	612,328	6.8
Canadian Pooled Equities Fund [(g)]	199,693	2.4	407,134	4.6
Private Equity Pool [(h)]	18,603	0.2	32,733	0.4
Public equities, direct	-	-	18	-
	2,117,479	25.1	2,315,826	26.0
United States Equities (Schedule C)				
External Managers				
US Large Cap Equity Pool [(i)]	552,055	6.6	686,197	7.7
US Mid/Small Cap Equity Pool [(i)]	183,515	2.2	109,020	1.2
US Passive Equity Pool [(j)]	44,940	0.5	188,626	2.1
US Passive Equity Pooled Fund [(j)]	624,541	7.4	596,218	6.7
United States Pooled Equities Fund	303	-	1,363	-
	1,405,354	16.7	1,581,424	17.7
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool [(k)]	742,193	8.8	771,002	8.6
EAFE Plus Equity Pool [(k)]	408,117	4.9	388,073	4.3
EAFE Passive Equity Pool [(l)]	128,212	1.5	189,222	2.1
Emerging Markets Equity Pool	-	-	3	-
EAFE Structured Equity Pooled Fund [(l)]	212,157	2.5	192,946	2.2
	1,490,679	17.7	1,541,246	17.2
Real Estate				
Private Real Estate Pool [(m)]	537,513	6.4	539,913	6.0
Total equities and real estate	5,551,025	65.9	5,978,409	66.9
Total investments	$ 8,419,003	100.0	$ 8,938,625	100.0

(a) The Consolidated Cash Investment Trust Fund 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.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

(d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. In order to reduce risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(e) The External Managers Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Small Cap Pool is restricted to invest in publicly traded Canadian equities with a market capitalization of up to 0.15% of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(f) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(g) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

(h) The Private Equity Pool is in the process of orderly liquidation.

(i) The External Managers US Large Cap Equity Pool consists of multiple portfolios and the External Managers US Mid/Small Cap Equity Pool consists of a single portfolio of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US large cap or mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Standard & Poor's S&P 500 Index for the US Large Cap Pool and the Russell 2500 Index for the US Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(j) The External Managers US Passive Equity Pool and the US Passive Equity Pooled Fund consist of a single portfolio of publicly traded United States equities similar in weights to the S&P 500 Index. The External Managers US Passive Equity Pool is managed passively by an external manager with expertise in the US equity market and the US Passive Equity Pooled Fund is managed internally. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. To enhance investment returns with no substantial increase in risks, the US Passive Equity Pooled Fund also invests in futures, swaps and other structured investments.

(k) The External Managers EAFE (Europe, Australia and Far East) Core and Plus Equity Pools consist of multiple portfolios of publicly traded Non-North American equities. Each Core portfolio is actively managed by an external manager and has constraints on foreign currency management and deviations from the Morgan Stanley Capital International (MSCI) EAFE Index asset mix by country. The Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the MSCI EAFE Index over a four-year period while reducing return volatility through multiple manager investment style and market diversification.

(l) The External Managers EAFE Passive Equity Pool and the EAFE Structured Equity Pooled Fund's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The External Managers EAFE Passive Equity Pool consists of a single portfolio of Non-North American publicly traded equities similar in weights to the MSCI EAFE index. The EAFE Structured Equity Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(m) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Russell Canadian Property Index over the long term. Real estate is held through intermediate companies, which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The pool is intended to provide diversification from the securities market.

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return on investments. In order to earn the best possible return at an acceptable level of risk, the Board of Trustees established a policy asset mix of 35% fixed income instruments, 60% equities and 5% real estate. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts are used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31:

	2002					2001	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
	%			($ thousands)			
Equity index swap contracts	69	31	-	$ 1,090,633	$ 9,836	$ 1,007,777	$ 36,051
Bond index swap contracts	100	-	-	38,109	329	59,931	29
Interest rate swap contracts	41	49	10	401,195	(23,206)	272,469	(11,752)
Forward foreign exchange contracts	100	-	-	276,015	1,291	288,645	548
Equity index futures contracts	-	-	-	-	-	35,853	1,262
				1,805,952	$ (11,750)	1,664,675	$ 26,138
Cross-currency interest rate swap contracts (b)	38	29	33	515,102		677,136	
				$ 2,321,054		$ 2,341,811	

(a) The method of determining fair value of derivative contracts is described in Note 2 (f).

(b) Cross-currency interest rate swap contracts are valued as a package, which includes underlying securities. As at December 31, 2002, the combined values of cross-currency interest rate swap contracts and underlying securities amounted to $518,675,000 (2001 $680,665,000).

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

NOTE 6 CONTRIBUTIONS RECEIVABLE

	2002	2001
	($ thousands)	
Employers	$ 7,854	$ 7,278
Employees	6,565	6,177
	$ 14,419	$ 13,455

NOTE 7 ACCOUNTS PAYABLE

	2002	2001
	($ thousands)	
Benefits	$ 43	$ 65
Refunds and transfers	5,880	3,395
Plan expenses	(2,010)	(1,115)
	$ 3,913	$ 2,345

NOTE 8 CONTRIBUTIONS

	2002	2001
	($ thousands)	
Current and optional service		
Employers	$ 208,662	$ 187,601
Employees [(a)]	178,090	159,437
Transfers from other plans	1,965	2,769
	$ 388,717	$ 349,807

(a) Includes $8,375,000 (2001 $7,052,000) of optional service contributions.

NOTE 9 NET INVESTMENT LOSS

The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

	2002	2001
	($ thousands)	
Deposits and Fixed Income Securities	$ 282,875	$ 201,543
Canadian Equities	(243,921)	(224,757)
Foreign Equities		
United States	(357,004)	(113,009)
Non-North American	(236,900)	(288,591)
Real Estate	32,384	41,361
	$ (522,566)	$ (383,453)

Net investment loss is comprised of the following:

	2002	2001
	($ thousands)	
Net realized and unrealized losses on investments, including those arising from derivative transactions	$ (823,250)	$ (724,204)
Interest income	208,095	226,783
Dividend income	74,545	93,888
Real estate income	28,257	28,989
Securities lending income	1,855	1,844
Pooled funds management and associated custodial fees (Note 10)	(12,068)	(10,753)
	$ (522,566)	$ (383,453)

NOTE 10 PLAN EXPENSES

	2002	2001
	($ thousands)	
General administration costs	$ 9,026	$ 7,237
APEX project costs	3,502	1,485
Investment management costs	1,329	907
LAPP Corporation costs	512	693
Actuarial fees	251	164
	$ 14,620	$ 10,486

General administration costs and business process reengineering costs (APEX project), including Plan board costs (see Note 13) were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Revenue on a cost recovery basis to manage the Plan's investment portfolio. Pooled funds management and associated custodial fees totalling $12,068,000 (2001 $10,753,000) (see Note 9), which have been included in calculating net investment loss, are excluded from plan expenses.

LAPP Corporation costs include remuneration to senior officials of Local Authorities Pension Plan Corporation as follows:

	2002	2001
	($ thousands)	
Chief Executive Officer		
Salary and bonus	$ 174.5	$ 166.3
Benefits	7.9	7.8
Director, Pension Policy		
Salary and bonus	100.3	90.5
Benefits	6.5	5.9
	$ 289.2	$ 270.5

Total Plan expenses, including pooled funds management and associated custodial fees amounted to $192 per member (2001 $164 per member).

The $28 per member cost increase is attributed to the following factors: increase in APEX project cost $13, increase in operating cost $9, increase in investment and pooled funds management cost $7, and decrease in LAPP corporation cost $1.

Pooled funds management and associated custodial fees amounted to $87 per member (2001 $83 per member). These expenses, which have been deducted in arriving at net investment loss of the pools, are included in the determination of investment returns for the Plan (see Note 9).

Total plan expenses including pooled funds management and associated custodial fees amounted to 0.32% (2001: 0.24%) of assets under administration.

NOTE 11 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2001 by William M. Mercer Limited and was then extrapolated to December 31, 2002. The 2001 valuation was completed after the financial statements of the Plan for 2001 were released. As a result, the differences between the actuarial valuation results and extrapolation results for 2001 are accounted for as net experience losses in 2002.

The net experience losses as revealed in the December 31, 2001 actuarial valuation and reported in 2002 were mainly attributed to the following factors:

- Salary and Yearly Maximum Pensionable Earnings increases were other than assumed,
- Current service contributions were less than normal actuarial cost, and
- Retirement and mortality experiences were less favourable than assumed.

The experience gains due to lower than expected cost-of-living adjustments and more favourable termination experience have been completely offset by the losses.

The 2001 valuation was determined using the projected benefit method based on service. The assumptions used in the actuarial valuation and extrapolation were developed as the best estimate of expected market conditions and other future events. These estimates were, after consultation with the Plan's actuary, adopted by the Local Authorities Pension Plan Board of Trustees.

The major assumptions used were:

	December 31	
	2002 Extrapolation	2001 Valuation
	%	%
Investment return	7.25	7.25
Inflation rate	3.5	3.5
Salary escalation rate*	4.25	4.25

* In addition to merit and promotion.

The Board of Trustees has authorized a policy to have an actuarial valuation of the Plan to be carried out every year. As a result, an actuarial valuation of the Plan as at December 31, 2002 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2003.

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future estimates or valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2002:

	Sensitivities		
	Changes in Assumptions %	Increase in Plan Deficiency ($ million)	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 667	0.7%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	429	0.7%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	1,604	2.3%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2001 valuation was 11.0 %.

NOTE 12 ACTUARIAL DEFICIENCY

The Plan's actuarial deficiency is determined on the going concern basis, taking into account the actuarial adjustment for fluctuations in fair value of net assets (see Note 2 (c)), which has the effect of increasing the fair value of net assets available for benefits by $1,160,600,000 (2001 $791,700,000) at December 31, 2002. The actuarial deficiency reported on this basis provides information about future funding levels required by the Plan. It is not indicative of the true solvency position of the Plan.

NOTE 13 REMUNERATION OF BOARD MEMBERS

Remuneration paid with respect to a total of 14 board members during the year amounted to $106,000 (2001 $92,000).

NOTE 14 BUDGET INFORMATION

The accrued benefits are based on the Local Authorities Pension Plan Board of Trustees' best estimates of future events after consultation with the Plan's actuary. Differences between actual results and the board's expectations are disclosed as experience gains and losses in the statement of changes in accrued benefits. Accordingly, a budget is not included in these financial statements.

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2002 presentation

Schedule A

LOCAL AUTHORITIES PENSION PLAN
SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES
DECEMBER 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 76,312	$ 129,937
Fixed Income Securities (a)		
Public		
Government of Canada, direct and guaranteed	936,157	970,602
Provincial		
Alberta, direct and guaranteed	4,937	7,532
Other, direct and guaranteed	418,202	499,902
Municipal	40,858	37,155
Corporate	883,759	744,386
Private		
Corporate	484,176	546,832
	2,768,089	2,806,409
Receivable from sale of investments and accrued investment income	24,406	26,015
Liabilities for investment purchases	(829)	(2,145)
	23,577	23,870
	$ 2,867,978	$ 2,960,216

(a) Fixed income securities held as at December 31, 2002 had an average effective market yield of 4.82% per annum (2001: 5.22% per annum). The following term structure of these securities as at December 31, 2002 was based on principal amount.

	2002	2001
	%	
under 1 year	2	5
1 to 5 years	29	28
6 to 10 years	28	25
11 to 20 years	16	17
over 20 years	25	25
	100	100

Schedule B

LOCAL AUTHORITIES PENSION PLAN
SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES
DECEMBER 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 27,111	$ 43,424
Public Equities (a) (b)		
Consumer discretionary	182,064	202,395
Consumer staples	90,706	79,537
Energy	312,418	261,120
Financials	595,176	606,235
Health care	73,711	108,652
Industrials	198,297	249,947
Information technology	106,028	255,472
Materials	337,552	296,831
Telecommunication services	98,165	104,167
Utilities	53,942	56,175
	2,048,059	2,220,531
Passive index	11,652	16,099
	2,059,711	2,236,630
Private Equities	16,338	22,887
Receivable from sale of investments and accrued investment income	19,720	22,450
Liabilities for investment purchases	(5,401)	(9,565)
	14,319	12,885
	$ 2,117,479	$ 2,315,826

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $254,579,000 (2001 $270,594,000), which were used as underlying securities to support the notional amount of Canadian equity index swap contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

Schedule C

LOCAL AUTHORITIES PENSION PLAN
SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES
DECEMBER 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 11,225	$ 7,416
Public Equities (a) (b)		
Consumer discretionary	191,034	207,733
Consumer staples	120,071	113,252
Energy	84,048	98,125
Financials	293,573	285,912
Health care	209,620	225,282
Industrials	174,048	190,404
Information technology	198,553	272,176
Materials	43,169	44,883
Telecommunication services	48,179	73,821
Utilities	38,820	46,279
	1,401,115	1,557,867
Receivable from sale of investments and accrued investment income	8,056	19,492
Liabilities for investment purchases	(15,042)	(3,351)
	(6,986)	16,141
	$ 1,405,354	$ 1,581,424

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $626,945,000 (2001 $577,707,000), which were used as underlying securities to support the notional amount of US equity index swaps and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

Schedule D

LOCAL AUTHORITIES PENSION PLAN
SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES
DECEMBER 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 37,355	$ 39,378
Public Equities (a)		
Country		
United Kingdom	396,070	376,351
Japan	225,157	249,008
Switzerland	132,591	107,898
France	127,191	169,902
Netherlands	95,034	110,779
Germany	83,684	103,617
Australia	68,556	57,141
Italy	58,838	52,924
Hong Kong	41,365	55,918
Spain	30,739	45,906
Finland	28,874	27,429
Sweden	26,077	28,573
Other	144,958	106,539
	1,459,134	1,491,985
Receivable from sale of investments and accrued investment income	8,767	22,175
Liabilities for investment purchases	(14,577)	(12,292)
	(5,810)	9,883
	$ 1,490,679	$1,541,246

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $209,109,000 (2001 $184,590,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps and futures contracts.

MANAGEMENT EMPLOYEES PENSION PLAN FINANCIAL STATEMENTS DECEMBER 31, 2002

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Management Employees Pension Plan (the Plan) as at December 31, 2002 and the Statements of Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Deficiency for the year then ended. These financial statements are the responsibility of the Plan'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 Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2002 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 11, 2003

MANAGEMENT EMPLOYEES PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS AS AT DECEMBER 31, 2002
($ thousands)

	2002	2001
Net Assets Available For Benefits		
Assets		
Investments (Note 3)	$ 1,386,573	$ 1,475,297
Accrued investment income and accounts receivable	375	285
Contributions receivable (Note 6)	4,341	4,484
	1,391,289	1,480,066
Liabilities		
Accounts payable	708	25
Net assets available for benefits	1,390,581	1,480,041
Accrued Benefits (Note 9)		
Actuarial value of accrued benefits	1,692,549	1,474,703
(Deficiency) surplus	$ (301,968)	$ 5,338

See accompanying notes and schedules.

MANAGEMENT EMPLOYEES PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED DECEMBER 31, 2002
($ thousands)

	2002	2001
Increase in assets		
Contributions (Note 1(b))		
Current and optional service		
Employees	$ 20,241	$ 17,946
Employers	25,989	24,415
Transfers from other plans	243	781
	46,473	43,142
Decrease in assets		
Net investment loss (Note 7)	77,732	66,405
Pension benefits	54,714	48,476
Refunds to members	1,603	1,247
Transfers to other plans	536	1,464
Plan expenses (Note 8)	1,348	912
	135,933	118,504
Decrease in net assets	(89,460)	(75,362)
Net assets available for benefits at beginning of year	1,480,041	1,555,403
Net assets available for benefits at end of year	$ 1,390,581	$ 1,480,041

See accompanying notes and schedules.

MANAGEMENT EMPLOYEES PENSION PLAN
STATEMENT OF CHANGES IN ACCRUED BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2002
($ thousands)

	2002	2001
Increase in accrued benefits		
Interest accrued on benefits	$ 112,587	$ 100,023
Changes in actuarial assumptions (Note 9)	71,896	-
Benefits earned	47,500	40,541
Net experience losses (Note 9)	42,716	-
	274,699	140,564
Decrease in accrued benefits		
Benefits paid and transfers	56,853	50,406
Net increase in accrued benefits	217,846	90,158
Accrued benefits at beginning of year	1,474,703	1,384,545
Accrued benefits at end of year (Note 9)	$ 1,692,549	$ 1,474,703

See accompanying notes and schedules.

MANAGEMENT EMPLOYEES PENSION PLAN
STATEMENT OF CHANGES IN DEFICIENCY
FOR THE YEAR ENDED DECEMBER 31, 2002
($ thousands)

	2002	2001
Surplus at beginning of year	$ 5,338	$ 170,858
Decrease in net assets available for benefits	(89,460)	(75,362)
Net increase in accrued benefits	(217,846)	(90,158)
(Deficiency) surplus at end of year	$ (301,968)	$ 5,338

See accompanying notes and schedules.

MANAGEMENT EMPLOYEES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2002

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Management Employees Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the Public Sector Pension Plans Act, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 367/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992 and have not withdrawn from the Plan since that date continue as members of this Plan.

(b) Funding Policy

Current service costs are funded by employee and employer contributions at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. There were no changes in contribution rates in 2002. The rates in effect in 2002 were 7.75% of pensionable salary for employees and 10.75% for employers. The rates were reviewed in 2002 by the Minister of Finance and are to be reviewed again at least once every three years based on recommendations of the Plan's actuary. As a result of this review, effective April 1, 2003, the rates will be increased to 9.5% of pensionable salary for employees and 13.1% for employers.

(c) Retirement Benefits

The Plan provides a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. Pensionable earnings after December 31, 1991 are capped at $86,111 per year by the federal Income Tax Act. The maximum service allowable under the Plan is 35 years.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of service.

Members are entitled to an unreduced pension on service after 1991 if they retire with at least five years of service and have either attained age 60 or age 55 and the sum of their age and years of service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 and the 80 factor is not attained.

(d) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

(e) Death Benefits

Death benefits are payable on the death of a member. If the member has at least five years of service, a surviving pension partner may choose to receive a survivor pension, or a lump sum payment. For a beneficiary other than a pension partner, or where service is less than five years, the benefits take the form of a lump sum payment.

(f) Termination Benefits

Members who terminate with fewer than five years of service receive a refund of their contributions plus interest.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a refund or a deferred pension. A refund is based on contributions and interest in relation to service before 1992 and commuted value for service after 1991. Refunds are subject to the Plan's lock-in provisions.

(g) Guarantee

The Province of Alberta guarantees payment of all benefits arising from service before 1994.

(h) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers out receive the greater of the termination benefits or commuted value for all service.

(i) Cost-of-Living Adjustments

Pensions payable are increased each year by an amount equal to at least 60% of the increase in the Alberta Consumer Price Index.

(j) Income Taxes

The Plan is a registered pension plan as defined in the Income Tax Act. The Plan's registration number is 0570887.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

Except for real rate of return bonds which are held directly by the Plan, Plan investments are held in pooled investment funds administered by Alberta Revenue. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

The Plan's percentage ownership in pooled investment funds at December 31 was as follows:

	% Ownership	
	2002	2001
Internally Managed Pooled Investment Funds		
Canadian Dollar Public Bond Pool	4.8	5.0
Canadian Pooled Equities Fund	6.9	8.4
Domestic Passive Equity Pooled Fund	4.7	7.2
EAFE Structured Equity Pooled Fund	4.8	2.3
Private Equity Pool	7.6	7.6
Private Equity Pool 2002	17.5	-
Private Mortgage Pool	5.7	6.0
Private Real Estate Pool	3.6	-
US Passive Equity Pooled Fund	3.6	4.5
United States Pooled Equities Fund	6.3	6.3
Externally Managed Pooled Investment Funds		
Canadian Large Cap Equity Pool	5.4	3.4
Canadian Small Cap Equity Pool	4.5	3.8
EAFE Core Equity Pool	3.9	4.3
EAFE Passive Equity Pool	5.4	4.9
EAFE Plus Equity Pool	3.8	4.2
US Large Cap Equity Pool	4.9	4.3
US Mid/Small Cap Equity Pool	3.2	4.7
US Passive Equity Pool	4.4	4.6

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the Plan or by pooled investment funds are explained in the following paragraphs:

(i) Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

(ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Revenue.

(iii) The fair value of private equities is estimated by Alberta Revenue.

(iv) Real estate investments are reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.

(v) The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment loss.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

(ii) Interest rate swaps are valued based on discounted cash flows using current market yields.

(iii) Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

(iv) The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

Income and expense from derivative contracts are accrued as earned and included in net investment loss. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

NOTE 3 INVESTMENTS (SCHEDULES A TO D)

	2002		2001	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash				
Investment Trust Fund (a)	$ 9,889	0.7	$ 27,737	1.9
Canadian Dollar Public Bond Pool (b)	405,698	29.3	421,228	28.6
Real rate of return bonds (c)	69,627	5.0	68,160	4.6
Private Mortgage Pool (d)	54,599	3.9	55,129	3.7
Total fixed income securities	539,813	38.9	572,254	38.8
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (e)	132,203	9.6	59,806	4.0
Canadian Small Cap Equity Pool (e)	20,503	1.5	16,061	1.1
Domestic Passive Equity Pooled Fund (f)	106,634	7.7	194,028	13.2
Canadian Pooled Equities Fund (g)	91,714	6.6	182,588	12.4
Private Equity Pool (h)	2,632	0.2	4,630	0.3
Private Equity Pool 2002	522	-	-	-
	354,208	25.6	457,113	31.0
United States Equities (Schedule C)				
External Managers				
US Large Cap Equity Pool (i)	93,373	6.7	95,511	6.5
US Passive Equity Pool (j)	52,573	3.8	65,141	4.4
US Mid/Small Cap Equity Pool (i)	13,839	1.0	15,071	1.0
US Passive Equity Pooled Fund (j)	52,361	3.8	53,734	3.6
United States Pooled Equities Fund	47	-	210	-
	212,193	15.3	229,667	15.5
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool (k)	101,308	7.3	110,027	7.5
EAFE Plus Equity Pool (k)	50,460	3.6	54,254	3.7
EAFE Passive Equity Pool (l)	35,825	2.6	42,876	2.9
EAFE Structured Equity Pooled Fund (l)	22,986	1.7	9,106	0.6
	210,579	15.2	216,263	14.7
Equities in Real Estate				
Private Real Estate Pool (m)	69,780	5.0	-	-
Total equities	846,760	61.1	903,043	61.2
Total investments	$ 1,386,573	100.0	$ 1,475,297	100.0

(a) The Consolidated Investment Trust Fund 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.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

(d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. In order to reduce risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(e) The External Managers Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Small Cap Pool is restricted to investing in publicly traded Canadian equities with a market capitalization of up to 0.15% of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(f) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(g) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

(h) The Private Equity Pool is in the process of orderly liquidation.

(i) The External Managers US Large Cap Equity Pool consists of multiple portfolios and the External Managers US Mid/Small Cap Equity Pool consists of a single portfolio of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US large cap or mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Standard & Poor's S&P 500 Index for the US Large Cap Pool and the Russell 2500 Index for the US Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(j) The External Managers US Passive Equity Pool and the US Passive Equity Pooled Fund consist of single portfolios of publicly traded United States equities similar in weights to the S&P 500 Index. The External Managers US Passive Equity Pool is managed passively by an external manager with expertise in the US equity market and the US Passive Equity Pooled Fund is managed internally. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index over a four-year period. To enhance investment returns with no substantial increase in risks, the US Passive Equity Pooled Fund also invests in futures, swaps and other structured investments.

(k) The External Managers EAFE (Europe, Australia and Far East) Core and Plus Equity Pools consist of multiple portfolios of publicly traded Non-North American equities. Each Core portfolio is actively managed by an external manager and has constraints on foreign currency management and deviations from the Morgan Stanley Capital International (MSCI) EAFE Index asset mix by country. The Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the MSCI EAFE Index over a four-year period while reducing return volatility through multiple manager investment style and market diversification.

(l) The External Managers EAFE Passive Equity Pool and the EAFE Structured Equity Pooled Fund's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The External Managers EAFE Passive Equity Pool consists of a single portfolio of Non-North American publicly traded equities similar in weights to the MSCI EAFE index. The EAFE Structured Equity Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(m) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Russell Canadian Property Index over the long term. Real estate is held through intermediate companies, which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The pool is intended to provide diversification from the securities market.

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established a benchmark policy asset mix of 40% fixed income instruments and 60% equities. Risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts are used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2002:

	2002					2001	
	Maturity				Net		Net
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value [(a)]	Notional Amount	Fair Value [(a)]
	%			($ thousands)			
Equity index swap contracts	74	26	-	$ 127,642	$ 2,330	$ 144,256	$ 5,553
Bond index swap contracts	100	-	-	7,380	64	11,721	6
Interest rate swap contracts	42	51	7	53,492	(2,845)	41,647	(1,834)
Forward foreign exchange contracts	100	-	-	39,817	184	38,597	81
Equity index futures contracts	-	-	-	-	-	3,764	123
				228,331	$ (267)	239,985	$ 3,929
Cross-currency interest rate swap contracts [(b)]	32	24	44	62,568		100,544	
				$ 290,899		$ 340,529	

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

(b) Cross-currency interest rate swap contracts are valued as a package, which includes underlying securities. As at December 31, 2002, the combined value of cross-currency interest rate swap contracts and underlying securities amounted to $63,333,000 (2001 $101,151,000).

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

NOTE 6 CONTRIBUTIONS RECEIVABLE

	2002	2001
	($ thousands)	
Employees	$ 1,818	$ 1,856
Employers	2,523	2,628
	$ 4,341	$ 4,484

NOTE 7 NET INVESTMENT LOSS

Net investment loss is comprised of the following:

	2002	2001
	($ thousands)	
Interest income	$ 38,275	$ 39,431
Dividend income	12,019	17,739
Real Estate income	2,836	-
Net realized and unrealized losses on investments, including those arising from derivative transactions	(129,533)	(122,340)
Securities lending income	296	287
Pooled funds management and associated custodial fees	(1,625)	(1,522)
	$ (77,732)	$ (66,405)

The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

	2002	2001
	($ thousands)	
Deposits and Fixed Income Securities	$ 53,479	$ 38,722
Canadian Equities	(50,173)	(48,029)
Foreign Equities		
United States	(51,085)	(15,171)
Non-North American	(32,841)	(41,927)
Real Estate	2,888	-
	$ (77,732)	$ (66,405)

The following is a summary of the investment performance results attained by the Plan:

	One-Year Return		Four-Year Compound Annualised Return
	2002	2001	
Timed-weighted rates of return			
Overall Plan	-5.3%	-4.4%	3.3%
Policy Benchmark	-5.6%	-4.1%	2.4%

NOTE 8 PLAN EXPENSES

	2002	2001
	($ thousands)	
General administration costs	$ 1,105	$ 686
Investment management costs	243	226
	$ 1,348	$ 912

General administration costs increased in 2002 as a result of increases in operating, Plan specific, business process re-engineering, and Board costs. General administration costs include operating cost $593,000 (2001 $437,000), Plan specific cost $213,000 (2001 $135,000), business process re-engineering cost (APEX) $248,000 (2001 $103,000), and Board cost $51,000 (2001 $11,000).

General administration and investment management costs were charged to the Plan on a cost-recovery basis.

Pooled funds management and associated custodial fees totalling $1,625,000 (2001 $1,522,000) (see Note 7), which have been included in the calculation of net investment loss of the pooled funds, are excluded from plan expenses.

Total expenses, including pooled funds management and associated custodial fees, amounted to $494 per member (2001 $429 per member) and 0.214% (2001: 0.164%) of assets under administration.

NOTE 9 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2001 by Aon Consulting Inc. and was extrapolated to December 31, 2002. The 2001 valuation was completed after the financial statements of the Plan for 2001 were released. As a result, the differences between the actuarial valuation and extrapolation results for 2001 are accounted for as changes in actuarial assumptions and net experience losses in 2002.

The 2001 valuation was determined using the projected benefit method prorated on service. The assumptions used in the valuation and extrapolation were developed as the best estimate of expected short-term and long-term market conditions and other future events. After consultation with the Plan's actuary, the Management Employees Pension Board approved this best estimate.

The major assumptions used were:

	2002 Extrapolation %	2001 Valuation %
Asset real rate of return	4.25	4.25
Inflation rate	2.75	2.75
Investment rate of return	7.0	7.0
Salary escalation rate*	3.25	3.25

* In addition to merit and promotion.

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2002:

	Sensitivities		
	Changes in Assumptions %	Increase in Plan Deficiency ($ millions)	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 126	1.5%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	31	1.0%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	251	4.1%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2001 valuation was 20.5%.

NOTE 10 BUDGET INFORMATION

The accrued benefits are based on the Management Employees Pension Board's best estimates of future events. Differences between actual results and the Board's expectations are disclosed as net experience losses in the Statement of Changes in Accrued Benefits. Accordingly, a budget is not included in these financial statements.

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with the 2002 presentation.

NOTE 12 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were prepared by management and approved by the Management Employees Pension Board.

Schedule A

MANAGEMENT EMPLOYEES PENSION PLAN
SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES
DECEMBER 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 11,992	$ 31,645
Fixed Income Securities (a)		
Public		
Government of Canada, direct and guaranteed	168,486	176,892
Provincial		
Alberta, direct and guaranteed	956	1,473
Other, direct and guaranteed	80,988	97,768
Municipal	7,912	7,267
Corporate	171,147	145,583
Private		
Corporate	93,767	106,958
	523,256	535,941
Receivable from sale of investments and accrued investment income	4,726	5,088
Liabilities for investment purchases	(161)	(420)
	4,565	4,668
	$ 539,813	$ 572,254

(a) Fixed income securities held as at December 31, 2002 had an average effective market yield of 4.86% per annum (2001: 5.26% per annum). The following term structure of these securities as at December 31, 2002 was based on principal amount:

	2002	2001
	%	
under 1 year	2	5
1 to 5 years	30	29
6 to 10 years	28	26
11 to 20 years	16	16
over 20 years	24	24
	100	100

Schedule B

MANAGEMENT EMPLOYEES PENSION PLAN
SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES
DECEMBER 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 3,864	$ 7,393
Public Equities (a) (b)		
Consumer discretionary	28,416	37,249
Consumer staples	14,457	14,751
Energy	52,365	51,564
Financials	104,344	125,487
Health care	10,687	19,292
Industrials	29,745	44,838
Information technology	17,182	49,572
Materials	56,451	58,443
Telecommunication services	17,539	21,939
Utilities	11,099	13,711
	342,285	436,846
Passive index	2,308	6,320
	344,593	443,166
Private Equities	2,785	3,238
Receivable from sale of investments and accrued investment income	4,026	6,034
Liabilities for investment purchases	(1,060)	(2,718)
	2,966	3,316
	$ 354,208	$ 457,113

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $52,423,000 (2001 $85,743,000), which were used as underlying securities to support Canadian equity index swaps contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

Schedule C

MANAGEMENT EMPLOYEES PENSION PLAN
SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES
DECEMBER 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 1,380	$ 1,005
Public Equities (a) (b)		
Consumer discretionary	27,883	29,298
Consumer staples	19,091	17,572
Energy	12,881	14,532
Financials	43,951	41,346
Health care	32,300	33,592
Industrials	26,194	27,710
Information technology	29,712	39,448
Materials	6,238	6,253
Telecommunication services	7,642	11,172
Utilities	5,505	6,374
	211,397	227,297
Receivable from sale of investments and accrued investment income	913	1,830
Liabilities for investment purchases	(1,497)	(465)
	(584)	1,365
	$ 212,193	$ 229,667

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $52,563,000 (2001 $52,065,000), which were used as underlying securities to support US equity index swaps contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

Schedule D

MANAGEMENT EMPLOYEES PENSION PLAN
SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES
DECEMBER 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 5,019	$ 5,574
Public Equities (a)		
Country		
United Kingdom	56,042	52,965
Japan	32,551	35,019
Switzerland	18,719	15,200
France	17,976	23,914
Netherlands	13,324	15,631
Germany	11,927	14,572
Australia	9,743	8,049
Italy	8,336	7,449
Hong Kong	5,741	7,911
Spain	4,475	6,449
Finland	4,071	3,849
Sweden	3,809	4,032
Other	19,674	14,989
	206,388	210,029
Receivable from sale of investments and accrued investment income	1,080	2,508
Liabilities for investment purchases	(1,908)	(1,848)
	(828)	660
	$ 210,579	$ 216,263

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $22,656,000 (2001 $8,711,000), which were used as underlying securities to support Non-North American equity index swaps contracts.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN FINANCIAL STATEMENTS MARCH 31, 2003

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Provincial Judges and Masters in Chambers (Registered) Pension Plan (the Plan) as at March 31, 2003 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. 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 Net Assets Available for Benefits and Accrued Benefits of the Plan as at March 31, 2003 and the Changes in its Net Assets Available for Benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
August 1, 2003

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS AS AT MARCH 31, 2003
($ thousands)

	2003	2002
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 64,496	$ 72,133
Receivable from investments	48	72
Receivable from the Unregistered Plan	-	384
Contributions receivable	121	107
	64,665	72,696
Liabilities		
Accounts payable	29	108
Net assets available for benefits	64,636	72,588
Accrued Benefits		
Accrued benefits (Note 7)	75,652	69,079
Actuarial (Deficiency) Surplus (Note 8)	$ (11,016)	$ 3,509

See accompanying notes and schedules.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED MARCH 31, 2003
($ thousands)

	2003	2002
Increase in assets		
Net investment income (Note 9)	$ -	$ 2,250
Contributions		
Provincial Judges and Masters in Chambers	603	637
Province of Alberta	791	841
	1,394	1,478
	1,394	3,728
Decrease in assets		
Pension benefits		
Administration costs (Note 10)	3,140	3,027
Net investment loss (Note 9)	103	154
	6,103	-
	9,346	3,181
(Decrease) Increase in net assets	(7,952)	547
Net assets available for benefits at beginning of year	72,588	72,041
Net assets available for benefits at end of year	$ 64,636	$ 72,588

See accompanying notes and schedules.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2003

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Provincial Judges and Masters in Chambers (Registered) Pension Plan (Registered Plan) is a summary only. For a complete description of the Registered Plan, reference should be made to the *Provincial Court Act,* Chapter P-31, Revised Statutes of Alberta 2000, *Court of Queen's Bench Act,* Chapter C-31, Revised Statutes of Alberta 2000, *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and *Alberta Regulation* 196/2001.

(a) General

Effective April 1, 1998, the Registered Plan is a contributory defined benefit pension plan for Provincial Judges and Masters in Chambers of the Province of Alberta. The *yearly maximum pensionable earnings limit* allowed by the *Income Tax Act* after December 31, 1991 are capped at $86,111 for 2002 and 2003.

(b) Funding Policy

Current service costs are funded by the Province of Alberta and plan members at rates which are expected to provide for all benefits payable under the Registered Plan. The rates in effect at March 31, 2003 were unchanged at 7.0% of capped earnings for plan members and 9.22% of capped earnings for the Province. The rates are to be reviewed at least once every three years by the Province based on recommendations of the Registered Plan's actuary. Based on an actuarial valuation of the Registered Plan as at March 31, 2003, the Registered Plan's actuary has recommended that the Province's contribution rate increase to 14.03% of capped earnings.

The unfunded liability, if any, as of any particular valuation date is funded by additional contributions from the Province over a period not exceeding 15 years.

(c) Retirement Benefits

The Registered Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. The maximum pensionable service allowable under the Registered Plan is 35 years. The normal pensionable age is 70 years of age.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of service.

Members are entitled to an unreduced pension on service after 1991 and before April 1, 1998 if they retire with at least five years of service and have either attained age 60 or age 55 and the sum of their age and service equals 80. Pensions are reduced if the member is under age 60 and the 80 factor is not attained at age 55.

Members are entitled to an unreduced pension on service after March 31, 1998 if they retire with at least five years of service and have attained age 60 and the sum of their age and service equals 80. Pensions are reduced if the member is under age 60 or if the 80 factor is not attained at age 60. The 80-factor requirement does not apply to members who have attained age 70.

(d) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

(e) Death Benefits

Death benefits are payable on the death of a member. If the member has at least five years of service, a surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where service is less than five years, a lump sum payment must be chosen.

(f) Termination Benefits

Members who terminate with fewer than five years of service receive a refund of their own contributions plus interest.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a deferred pension.

(g) Province's Liability for Benefits

Benefits are payable by the Province of Alberta if assets are insufficient to pay for all benefits under the Registered Plan.

(h) Cost-of-Living Adjustments

Pensions payable are increased each year by an amount equal to at least 60% of the increase in the Alberta Consumer Price Index.

(i) Income Taxes

The Registered Plan is a registered pension plan as defined in the *Income Tax Act* and is not subject to income taxes. The Registered Plan's registration number is 0927764.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Registered Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Registered Plan for the year.

Plan investments are held in pooled investment funds administered by Alberta Revenue. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

The Registered Plan's respective percentage ownership in pooled investment funds at March 31 was as follows:

	% Ownership	
	2003	2002
Internally Managed Pooled Investment Funds		
Canadian Dollar Public Bond Pool	0.30	0.29
Canadian Pooled Equities Fund	0.32	0.28
Domestic Passive Equity Pooled Fund	0.24	0.24
EAFE Structured Equity Pooled Fund	0.22	0.18
Private Equity Pool	0.56	0.56
Private Mortgage Pool	0.36	0.34
Private Real Estate Pool	0.21	0.25
US Passive Equity Pooled Fund	0.20	0.20
United States Pooled Equities Fund	0.40	0.40
Externally Managed Pooled Investment Funds		
Canadian Large Cap Equity Pool	0.14	0.08
Canadian Small Cap Equity Pool	0.14	0.14
EAFE Core Equity Pool	0.20	0.20
EAFE Passive Equity Pool	0.24	0.21
EAFE Plus Equity Pool	0.19	0.19
US Large Cap Equity Pool	0.20	0.19
US Passive Equity Pool	0.40	0.20
US Mid/Small Cap Equity Pool	0.14	0.18

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the Registered Plan or by pooled investment funds are explained in the following paragraphs:

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by management of Alberta Revenue.

The fair value of private equities is estimated by management of Alberta Revenue.

Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts. At the year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of investment income or loss.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

Income and expense from derivative contracts are accrued as earned and included in investment income or losses. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

NOTE 3 INVESTMENTS (SCHEDULES B TO E)

	2003		2002	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule B)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 1,058	1.6	$ 3,516	4.9
Canadian Dollar Public Bond Pool (b)	23,446	36.4	25,543	35.4
Private Mortgage Pool (c)	3,638	5.6	3,023	4.2
Total fixed income securities	28,142	43.6	32,082	44.5
Canadian Equities (Schedule C)				
Domestic Passive Equity Pooled Fund (d)	5,271	8.2	6,360	8.8
Canadian Pooled Equities Fund (e)	3,438	5.3	5,534	7.7
External Managers				
Canadian Large Cap Equity Pool (f)	3,457	5.4	1,746	2.4
Canadian Small Cap Equity Pool (f)	601	0.9	654	0.9
Private Equity Pool (g)	188	0.3	295	0.4
	12,955	20.1	14,589	20.2
United States Equities (Schedule D)				
External Managers				
US Large Cap Equity Pool (h)	3,686	5.7	4,541	6.3
US Passive Equity Pool (i)	2,511	3.9	2,963	4.1
US Mid/Small Cap Equity Pool (h)	563	0.9	737	1.0
US Passive Equity Pooled Fund (i)	2,800	4.3	2,378	3.3
United States Pooled Equities Fund	2	0.0	14	0.0
	9,562	14.8	10,633	14.7
Non-North American Equities (Schedule E)				
External Managers				
EAFE Core Equity Pool (j)	4,820	7.5	5,439	7.5
EAFE Plus Equity Pool (j)	2,268	3.5	2,665	3.7
EAFE Passive Equity Pool (k)	1,365	2.1	1,855	2.6
EAFE Structured Equity Pooled Fund (k)	1,081	1.7	706	1.0
	9,534	14.8	10,665	14.8
Real Estate				
Private Real Estate Pool (l)	4,303	6.7	4,164	5.8
Total equities and real estate	36,354	56.4	40,051	55.5
Total investments	$ 64,496	100.0	$ 72,133	100.0

(a) The Consolidated Cash Investment Trust Fund 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 three years.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. In order to reduce risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(d) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(e) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

(f) The External Managers Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Canadian Small Cap Pool is restricted to invest in publicly traded Canadian equities with a market capitalization of up to 0.15% of the S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(g) The Private Equity Pool is in the process of orderly liquidation.

(h) The External Managers US Large Cap Equity Pool consists of multiple portfolios and the External Managers US Mid/Small Cap Equity Pool consists of a single portfolio of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US large cap or mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Standard & Poor's S&P 500 Index for the US Large Cap Pool and the Russell 2500 Index for the US Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(i) The External Managers US Passive Equity Pool and the US Passive Equity Pooled Fund consist of single portfolios of publicly traded United States equities similar in weights to the S&P 500 Index. The External Managers US Passive Equity Pool is managed passively by an external manager with expertise in the US equity market and the US Passive Equity Pooled Fund is managed internally. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index over a four-year period. To enhance investment returns with no substantial increase in risks, the US Passive Equity Pooled Fund also invests in futures, swaps and other structured investments.

(j) The External Managers EAFE (Europe, Australia and Far East) Core and Plus Equity Pools consist of multiple portfolios of publicly traded Non-North American equities. Each core portfolio is actively managed by an external manager and has constraints on foreign currency management and deviations from the Morgan Stanley Capital International (MSCI) EAFE Index asset mix by country. The EAFE Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the MSCI EAFE Index over a four-year period while reducing return volatility through multiple manager investment style and market diversification.

(k) The External Managers EAFE Passive Equity Pool and the EAFE Structured Equity Pooled Fund's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The External Managers EAFE Passive Equity Pool consists of a single portfolio of Non-North American publicly traded equities similar in weights to the MSCI EAFE index. The EAFE Structured Equity Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(l) The Private Real Estate Pool is managed with the objective of providing investment returns comparable to the Russell Canadian Property Index over the long term. Real estate is held through intermediate companies, which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The pool is intended to provide diversification from the securities market.

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Registered Plan are primarily affected by the long-term real rate of return on investments. In order to earn the best possible return at an acceptable level of risk, management has established a policy asset mix of 45% fixed income instruments and 55% equities. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts are used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Registered Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the Registered Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2003:

	2003					2002	
	Maturity				Net		Net
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
	%			($ thousands)			
Equity index swap contracts	79	21	-	$ 6,706	$ (159)	$ 5,873	$ 102
Bond index swap contracts	100	-	-	408	(1)	431	(4)
Interest rate swap contracts	31	62	7	3,664	(142)	2,131	(78)
Forward foreign exchange contracts	100	-	-	2,128	88	1,617	1
Equity index futures contracts	100	-	-	38	1	100	-
Cross-currency interest rate swap contracts (b)	31	25	44	3,402	(525)	4,136	(b)
				$ 16,346	$ (738)	$ 14,288	$ 21

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

(b) Information is not available.

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

NOTE 6 PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (UNREGISTERED) PENSION PLAN (UNREGISTERED PLAN)

The Unregistered Plan is established with effect from April 1, 1998 to collect contributions and to provide pension benefits to plan members in excess of the maximum benefits allowed by the *Income Tax Act*. The Unregistered Plan is a Retirement Compensation Arrangement (RCA) under the *Income Tax Act* and is administered by the Province as a separate trust. Accordingly, the Unregistered Plan's net assets available for benefits, liabilities for accrued benefits and actuarial surplus referred to below have not been included in these financial statements.

The Unregistered Plan is funded by contributions from plan members and the Province. The contribution rates in effect at March 31, 2003 were unchanged at 7.0% of pensionable salary in excess of $86,111 for plan members and 7.0% of the excess for the Province. The contribution rate for the Province must equal or exceed the rate payable by plan members and is set by the Minister of Finance, taking into account recommendations of the Unregistered Plan's actuary. If assets held in the Unregistered Plan are insufficient to pay for benefits as they become due, the amount due is payable by the Province.

A summary of the net assets available for benefits and accrued benefits for the Unregistered Plan as at

March 31, 2003 and changes in net assets available for benefits for the year then ended is as follows:

	2003	2002
	($ thousands)	
Net Assets Available For Benefits		
Cash and cash equivalents	$ 2,572	$ 2,560
Income tax refundable	2,974	2,360
Accounts receivable (payable), net	6	66
	5,552	4,986
Payable to the Provincial Judges and Masters in Chambers (Registered) Pension Plan	-	384
	5,552	4,602
Amounts owing from the Reserve Fund (a)	26,485	22,211
Net assets available for benefits	32,037	26,813
Accrued Benefits		
Actuarial value of accrued benefits	31,458	23,690
Actuarial surplus	$ 579	$ 3,123

(a) Contributions from the Province of Alberta as determined by the Unregistered Plan's actuary and approved by the Minister of Finance are collected and held in the Provincial Judges and Masters in Chambers Reserve Fund. These contributions are invested by the Province to meet future benefit payments of the Unregistered Plan over the long term.

	2003	2002
	($ thousands)	
Increase in assets		
Current and previous year's contributions		
Provincial Judges and Masters in Chambers	$ 672	$ 625
Province of Alberta	672	625
Investment income	57	82
	1,401	1,332
Decrease in assets		
Pension benefits	389	407
Administration costs	62	52
	451	459
	950	873
Increase in amounts recoverable from the Reserve Fund	4,274	22,211
Increase in net assets	5,224	23,084
Net assets available for benefits at beginning of year	26,813	3,729
Net assets available for benefits at end of year	$ 32,037	$ 26,813

An actuarial valuation for the Unregistered Plan was carried out as at March 31, 2003 by Johnson Incorporated. The 2003 valuation was determined using the projected benefit method prorated on service. The assumptions used in the valuation were developed as the best estimate of expected short-term and long-term market conditions and other future events, taking into account the increase in the yearly maximum pension accruals limit for defined benefit pension plans announced in the February 18, 2003 Federal Budget. This best estimate was, after consultation with the Unregistered Plan's actuary, approved by management.

The major assumptions used in the actuarial valuation were the same as those used in the valuation of the Registered Plan (see Note 7).

The Unregistered Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Unregistered Plan.

NOTE 7 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Registered Plan was carried out as at March 31, 2003 by Johnson Incorporated. The 2003 valuation was determined using the projected benefit method based on service. The assumptions used in the valuation were developed as the best estimate of expected short-term and long-term market conditions and other future events, taking into account the increase in the yearly maximum pension accruals limit for defined benefit pension plans announced in the February 18, 2003 Federal Budget. This best estimate was, after consultation with the Registered Plan's actuary, approved by management.

The major assumptions used were:

	March 31	
	2003 Valuation %	2002 Extrapolation %
Asset real rate of return	3.5	3.5
Inflation rate	3.0	3.5
Investment return	6.5	7.0
Salary escalation rate	4.0	4.0
Pension cost of living increase as a percentage of Alberta Consumer Price Index	60	60

The following statement shows the principal components of the change in the value of accrued pension benefits.

	2003	2002
	($ thousands)	
Accrued pension benefits at beginning of year	$ 69,079	$ 67,602
Interest accrued on benefits	4,835	4,732
Change in actuarial assumptions	36	-
Net experience losses (gains)	1,234	(2,078)
Change to the yearly maximum pension accruals limit	1,580	-
Benefits earned	2,028	1,850
Net benefits paid	(3,140)	(3,027)
Accrued pension benefits at end of year	$ 75,652	$ 69,079

(b) Sensitivity of Changes in Major Assumptions

The Registered Plan's future experience will inevitably differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Registered Plan. The following is a summary of the sensitivities of the Registered Plan's deficiency and current service cost to changes in assumptions used in the actuarial valuation at March 31, 2003:

	Sensitivities		
	Changes in Assumptions %	Decrease in Plan Deficiency ($ millions)	Increase in Current Service Cost as % of Capped Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 4.0	1.2%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	0.5	0.0%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	8.8	3.7%

* The current service cost as % of capped pensionable earnings as determined by the 2003 valuation is 21.03%.

NOTE 8 ACTUARIAL DEFICIENCY

The actuarial deficiency of the Registered Plan as of any particular valuation date is funded by additional contributions from the Province over a period not exceeding 15 years.

Based on actuarial valuation of the Registered Plan as at March 31, 2003, the Registered Plan's actuary has recommended the actuarial deficiency be funded by additional annual contribution of $1,172,000 from the Province over 15 years.

Any assets remaining in the Registered Plan after all benefits are paid on complete wind-up must be returned to the Province of Alberta.

NOTE 9 NET INVESTMENT INCOME (LOSS)

Net investment income (loss) is comprised of the following:

	2003	2002
	($ thousands)	
Interest income	$ 1,994	$ 2,174
Dividend income	539	753
Real estate income	219	222
Securities lending income	14	13
Net realized and unrealized losses on investments including those arising from derivative transactions	(8,797)	(845)
Pooled funds management and associated custodial fees	(72)	(67)
	$ (6,103)	$ 2,250

The following is a summary of the Registered Plan's net investment income (loss) by type of investments:

	2003	2002
	($ thousands)	
Deposits and Fixed Income Securities	$ 2,689	$ 1,791
Canadian Equities	(2,503)	525
Foreign Equities		
United States	(3,433)	188
Non-North American	(3,247)	(542)
Real Estate	391	288
	$ (6,103)	$ 2,250

NOTE 10 ADMINISTRATION EXPENSES

Administration expenses comprise $20,000 (2002 $88,000) investment management and $83,000 (2002 $66,000) in general administration costs. These expenses were paid to Alberta Revenue and Alberta Pensions Administration Corporation respectively on a cost-recovery basis. Pooled funds management and associated custodial fees totalling $72,000 (2002 $67,000), which have been deducted from investment income of the pools, are excluded from administration expenses (see Note 9).

NOTE 11 BUDGET INFORMATION

The accrued benefits are based on management's best estimates of future events after consultation with the Registered Plan's actuary. Differences between actual results and management's expectations are disclosed as experience gains or losses in Note 7. Accordingly, a budget is not included in these financial statements.

NOTE 12 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2003 presentation.

NOTE 13 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Finance.

Schedule A

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

SCHEDULE OF INVESTMENT RETURNS

MARCH 31, 2003

The Plan uses the time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

Investment returns and the relevant benchmarks for the Plan for the one-year and four-year periods ended March 31, 2003 are as follows:

	One Year Return				4 Year Compound Annualized Return
	2003	2002	2001	2000	
Time-weighted rates of return					
Short-term fixed income	2.9	3.9	5.7	5.1	4.4
Scotia Capital 91-Day T-Bill Index	*2.7*	*3.7*	*5.7*	*4.7*	*4.2*
Long-term fixed income	9.6	5.9	9.5	1.5	6.6
Scotia Capital Universe Bond Index	*9.2*	*5.1*	*8.7*	*1.3*	*6.0*
Canadian equities	(17.2)	3.7	(17.1)	43.5	0.5
S&P/TSX Composite Index	*(17.6)*	*4.9*	*(18.6)*	*45.5*	*0.6*
United States equities	(30.4)	2.1	(15.2)	12.6	(9.2)
Standard & Poor's 500 Index	*(30.7)*	*1.6*	*(15.1)*	*13.2*	*(9.3)*
Non-North American equities	(29.0)	(5.7)	(23.1)	39.5	(8.0)
MSCI EAFE Index	*(29.3)*	*(7.3)*	*(19.6)*	*20.1*	*(10.8)*
Real estate	9.8	7.2	9.7	5.8	8.1
Russell Canadian Property Index (modified)	*11.5*	*9.1*	*11.9*	*9.9*	*10.8*
Overall	(8.6)	3.3	(5.4)	19.4	1.6
Policy Benchmark	*(9.3)*	3.1	*(4.9)*	*17.1*	*1.0*

* Russell Canadian Property Index to December 31,2002 and ICREIM/IPD All Property Benchmark Index thereafter.

Schedule B

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

MARCH 31, 2003

($ thousands)

	Plan's Share	
	2003	2002
Deposits and short-term securities	$ 1,124	$ 3,815
Fixed Income Securities (a)		
Public		
Government of Canada, direct and guaranteed	4,813	7,197
Provincial		
Alberta, direct and guaranteed	58	80
Other, direct and guaranteed	4,566	4,587
Municipal	494	379
Corporate, public and private	16,815	15,760
	26,746	28,003
Receivable from sale of investments and accrued investment income	324	612
Liabilities for investment purchases	(52)	(348)
	272	264
	$ 28,142	$ 32,082

(a) Fixed income securities held as at March 31, 2003 had an average effective market yield of 5.55% (2002: 5.93%) per annum. The following term structure of these securities as at March 31, 2003 is based on principal amount:

	2003	2002
	%	
under 1 year	2	7
1 to 5 years	36	32
6 to 10 years	29	30
11 to 20 years	13	12
over 20 years	20	19
	100	100

Schedule C

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

MARCH 31, 2003

($ thousands)

	Plan's Share	
	2003	2002
Deposits and short-term securities	$ 125	$ 180
Public Equities (a) (b)		
Consumer discretionary	944	1,194
Consumer staples	554	566
Energy	1,984	1,850
Financials	4,057	4,170
Health care	464	598
Industrials	951	1,396
Information technology	664	1,189
Materials	1,932	2,076
Telecommunication services	642	513
Utilities	441	382
	12,633	13,934
Passive index	96	187
	12,729	14,121
Private Equities	161	209
Receivable from sale of investments and accrued investment income	36	119
Liabilities for investment purchases	(96)	(40)
	(60)	79
	$ 12,955	$ 14,589

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $2,765,000 (2002 $2,955,000), which were used as underlying securities to support the notional amount of Canadian equity index swap contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

Schedule D

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

MARCH 31, 2003

($ thousands)

	Plan's Share	
	2003	2002
Deposits and short-term securities	$ 147	$ 71
Public Equities (a) (b)		
Consumer discretionary	1,572	1,458
Consumer staples	884	1,019
Energy	610	737
Financial	1,868	1,896
Health care	1,421	1,323
Industrials	1,056	1,189
Information technology	1,306	1,704
Materials	265	369
Telecommunication services	279	381
Utilities	243	403
	9,504	10,479
Passive index	-	2
	9,504	10,481
Receivable from sale of investments and accrued investment income	30	134
Liabilities for investment purchases	(119)	(53)
	(89)	81
	$ 9,562	$ 10,633

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $2,856,000 (2002 $2,347,000), which were used as underlying securities to support the notional amount of US equity index swaps and futures contracts

(b) The sector classification conforms to the Gobal Industry Classification Standard followed by the Toronto Stock Exechange S&P/TSX Composite Index.

Schedule E

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

MARCH 31, 2003

($ thousands)

	Plan's Share	
	2003	2002
Deposits and short-term securities	$ 389	$ 168
Public Equities (a)		
Country		
United Kingdom	2,544	2,620
Japan	1,514	1,805
France	850	1,177
Switzerland	729	849
Netherlands	580	846
Australia	500	427
Germany	454	695
Italy	422	351
Hong Kong	274	301
Spain	258	275
Finland	163	200
Sweden	160	178
Other	852	754
	9,300	10,478
Receivable from sale of investments and accrued investment income	66	205
Liabilities for investment purchases	(221)	(186)
	(155)	19
	$ 9,534	$ 10,665

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $1,123,000 (2002 $671,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps.

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN FINANCIAL STATEMENTS DECEMBER 31, 2002

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance

I have audited the Statement of Accrued Benefits and Net Assets Available for Benefits of the Public Service Management (Closed Membership) Pension Plan (the Plan) as at December 31, 2002 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. 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 Accrued Benefits and Net Assets Available for Benefits of the Plan as at December 31, 2002 and the Changes in Net Assets Available for Benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 11, 2003

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN
STATEMENT OF ACCRUED BENEFITS AND NET ASSETS AVAILABLE FOR BENEFITS AS AT DECEMBER 31, 2002
($ thousands)

	2002	2001
Accrued Benefits		
Actuarial value of accrued pension benefits (Note 5)	$ 622,461	$ 633,268
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 3)	2,449	3,055
Accounts receivable	79	57
	2,528	3,112
Liabilities		
Accounts payable	4	3
Net assets available for benefits	2,524	3,109
Excess of actuarial value of accrued pension benefits over net assets	$ 619,937	$ 630,159

See accompanying notes.

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED DECEMBER 31, 2002
($ thousands)

	2002	2001
Increase in assets		
Contributions from the Province of Alberta (Note 1(b))	$ 56,300	$ 55,902
Investment income	69	120
	56,369	56,022
Decrease in assets		
Pension benefits	56,659	56,100
Administration expenses (Note 4)	295	193
	56,954	56,293
Decrease in net assets	(585)	(271)
Net assets available for benefits at beginning of year	3,109	3,380
Net assets available for benefits at end of year	$ 2,524	$ 3,109

See accompanying notes.

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2002

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Public Service Management (Closed Membership) Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the Public Sector Pension Plans Act, Chapter P-41, Revised Statutes of Alberta 2000.

(a) General

The Plan is a defined benefit pension plan for eligible retired management employees of the Province of Alberta and certain provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were retired or were entitled to receive deferred pensions or had attained 35 years of service before August 1, 1992 continue as members of this Plan.

(b) Funding Policy

The Plan is funded by investment income and money appropriated to the Plan, if any, by the Legislative Assembly of the Province of Alberta.

The Plan's actuary performs an actuarial valuation of the Plan at least once every three years.

(c) Retirement Benefits

The Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. The maximum service allowable under the Plan is 35 years.

Members are entitled to receive a pension if they terminated before August 1, 1992 and attained age 55 with at least five years of service. In addition, those members who had achieved 35 years of service at August 1, 1992 and subsequently terminated are also entitled to a pension.

(d) Guarantee

The Province of Alberta guarantees payment of all benefits arising under the Plan. After all assets in the Plan are exhausted, the Province of Alberta pays all benefits under the Plan and the plan costs.

(e) Cost-of-Living Adjustments

Pensions payable by the Plan are increased each year by an amount equal to at least 60 percent of the increase in the Alberta Consumer Price Index.

(f) Income Taxes

The Plan is a registered pension plan as defined in the Income Tax Act, and is not subject to income taxes. The Plan's registration number is 1006923.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles (see Note 1 (d)). The statements provide information about the net assets available in the Plan to meet future benefit payments, and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

(b) Valuation of Assets and Liabilities

Short-term securities included in cash and cash equivalents are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Investment income is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of deposits in the Consolidated Cash Investment Trust Fund. The Fund is managed with the objectives 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. As at December 31, 2002, securities held by the Fund have an average effective market yield of 2.90% per annum (2001: 2.24% per annum) and an average duration of 80.3 days (2001: 80.3 days).

NOTE 4 ADMINISTRATION EXPENSES

	2002	2001
	($ thousands)	
General administration costs	$ 283	$ 176
Investment management costs	9	15
Actuarial fees	3	2
	$ 295	$ 193

General administration costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Revenue, and do not include custodial fees, which have been deducted in arriving at investment income.

Total administration expenses amounted to $111 per member (2001 $72 per member).

NOTE 5 ACTUARIAL VALUE OF ACCRUED PENSION BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 1999 by Aon Consulting Inc. and was then extrapolated to December 31, 2002. The 1999 valuation was determined using the projected benefit method prorated on service. The assumptions used in the valuation and extrapolation were developed as the best estimate of expected short-term and long-term market conditions and other future events. After consultation with the Plan's actuary, the Management Employees Pension Board approved this best estimate.

The major assumptions used were as follows:

	December 31,	
	2002 Extrapolation	1999 Valuation and 2001 Extrapolation
	%	%
Asset real rate of return	4.25	4.25
Inflation rate	2.75	3.0
Investment rate of return	7.0	7.25

The following statement shows the principal components of the change in the value of accrued benefits.

	2002	2001
	($ thousands)	
Actuarial value of accrued pension benefits at beginning of year	$ 633,268	$ 644,664
Interest accrued on benefits	42,575	44,704
Changes in actuarial assumptions	3,277	-
Net benefits paid	(56,659)	(56,100)
Actuarial value of accrued pension benefits at end of year	$ 622,461	$ 633,268

In accordance with the *Public Sector Pension Plans Act*, an actuarial valuation of the Plan as at December 31, 2002 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and the extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2003.

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains and losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency to changes in assumptions used in the actuarial extrapolation at December 31, 2002:

	Sensitivities	
	Changes in Assumptions %	Increase in Plan Deficiency ($ million)
Inflation rate increase holding the nominal investment return assumption constant	1.0%	$ 36
Investment rate of return decrease holding the inflation rate assumption constant	(1.0%)	61

NOTE 6 BUDGET INFORMATION

The accrued benefits are based on the Management Employees Pension Board's best estimate of future events. Differences between actual results and management's expectations are disclosed as net experience gains and losses in Note 5. Accordingly, a budget is not included in these financial statements.

NOTE 7 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were prepared by management and approved by the Management Employees Pension Board.

PUBLIC SERVICE PENSION PLAN
FINANCIAL STATEMENTS
DECEMBER 31, 2002

AUDITOR GENERAL *Alberta*

AUDITOR'S REPORT

To the Public Service Pension Board

I have audited the Statement of Net Assets Available for Benefits and Liability for Accrued Benefits of the Public Service Pension Plan (the Plan) as at December 31, 2002 and the Statements of Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Actuarial Deficiency for the year then ended. These financial statements are the responsibility of the Plan'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 Net Assets Available for Benefits and Liability for Accrued Benefits of the Plan as at December 31, 2002 and the Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Actuarial Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 13, 2003

PUBLIC SERVICE PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND LIABILITY FOR ACCRUED BENEITS AS AT DECEMBER 31, 2002
($ thousands)

	2002	2001
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 3,553,712	$ 3,826,112
Accounts receivable (Note 6)	9,784	12,777
Accrued investment income	640	693
	3,564,136	3,839,582
Liabilities		
Accounts payable	2,664	3,095
Net assets available for benefits	3,561,472	3,836,487
Actuarial adjustment for fluctuation in fair value of net assets (Notes 2 (c) and 10)	356,000	329,000
Actuarial value of net assets available for benefits	3,917,472	4,165,487
Liability for Accrued Benefits		
Actuarial value of accrued benefits (Note 7)	4,093,000	3,845,000
Actuarial (deficiency) surplus (Note 10)	$ (175,528)	$ 320,487

See accompanying notes and schedules.

PUBLIC SERVICE PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED DECEMBER 31, 2002
($ thousands)

	2002	2001
Increase in assets		
Contributions		
Current and optional service		
Employers	$ 68,956	$ 64,433
Employees	70,777	66,026
Transfers from other plans	1,140	5,553
	140,873	136,012
Decrease in assets		
Net investment loss (Note 8)	236,270	177,681
Pension benefits	155,407	151,031
Refunds to members	16,870	17,608
Transfers to other plans	1,131	1,414
Plan expenses (Note 9)	6,210	4,475
	415,888	352,209
Decrease in net assets	(275,015)	(216,197)
Net assets available for benefits at beginning of year	3,836,487	4,052,684
Net assets available for benefits at end of year	$ 3,561,472	$ 3,836,487

See accompanying notes and schedules.

PUBLIC SERVICE PENSION PLAN
STATEMENT OF CHANGES IN LIABILITY FOR ACCRUED BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2002
($ thousands)

	2002	2001
Increase in liability for accrued benefits		
Interest accrued on benefits	$ 278,000	$ 261,000
Benefits earned	139,000	134,000
Changes in actuarial assumptions	-	137,000
Net experience losses	4,000	136,000
	421,000	668,000
Decrease in liability for accrued benefits		
Benefits paid	173,000	170,000
Net increase in liability for accrued benefits	248,000	498,000
Liability for accrued benefits at beginning of year	3,845,000	3,347,000
Liability for accrued benefits at end of year (Note 7)	$ 4,093,000	$ 3,845,000

See accompanying notes and schedules.

PUBLIC SERVICE PENSION PLAN
STATEMENT OF CHANGES IN ACTUARIAL DEFICIENCY
FOR THE YEAR ENDED DECEMBER 31, 2002
($ thousands)

	2002	2001
Actuarial surplus at beginning of year	$ 320,487	$ 635,084
Decrease in net assets available for benefits	(275,015)	(216,197)
Net change in actuarial adjustment for fluctuation in fair value of net assets	27,000	399,600
Net increase in liability for accrued benefits	(248,000)	(498,000)
Actuarial (deficiency) surplus at end of year	$ (175,528)	$ 320,487

See accompanying notes and schedules

PUBLIC SERVICE PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2002

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Public Service Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the Public Sector Pension Plans Act, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 368/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies.

(b) Funding Policy

Current service costs are funded equally by employers and employees at rates, which are expected to provide for all benefits payable under the Plan. There were no changes in rates for 2002. The rates in effect at December 31, 2002 were 4.675% of pensionable salary up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 6.55% of the excess. The rates are to be reviewed at least once every three years by the Board based on recommendations of the Plan's actuary.

(c) Retirement Benefits

The Plan provides a pension of 1.4% for each year of pensionable service based on average salary of the highest five consecutive years up to the YMPE and 2.0% on the excess. The maximum service allowable under the Plan is 35 years. Pensions are payable to members who retire with at least two years of service and either have attained age 65, or have attained age 55 and the sum of their age and years of service equals 85. Reduced pensions are payable to members at age 55 or older retiring early with a minimum of two years of service.

(d) Termination Benefits

Members who terminate with at least two years of service and are not immediately entitled to a pension may receive the commuted value for all service plus excess contributions if applicable, which is subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than two years of service receive a refund of their contributions and interest.

(e) Disability Benefits

Unreduced pensions are payable to members who become totally disabled and have at least two years of service. Reduced pensions are payable to members who become partially disabled and have at least two years of service.

(f) Death Benefits

Death benefits are payable on the death of a member. If the member has at least two years of service, a surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where service is less than two years, a lump sum payment must be chosen.

(g) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of the termination benefits or commuted value for all service.

(h) Cost-of-Living Adjustments

Pensions payable are increased each year by an amount equal to at least 60% of the increase in the Alberta Consumer Price Index (CPI). An additional increase of 10% of CPI was approved for 2002 only.

(i) Income Taxes

The Plan is a registered pension plan as defined in the Income Tax Act and the Plan is not subject to income taxes. The Plan's registration number is 0208769.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

Except for real rate of return bonds which are held directly by the Plan, Plan investments are held in pooled investment funds administered by Alberta Revenue. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

The Plan's percentage ownership in pooled investment funds at December 31 was as follows:

	% Ownership	
	2002	2001
Internally Managed Pooled Investment Funds		
Canadian Dollar Public Bond Pool	10.2	11.0
Canadian Pooled Equities Fund	15.2	11.6
Domestic Passive Equity Pooled Fund	8.0	10.4
EAFE Structured Equity Pooled Fund	28.0	38.9
Private Equity Pool 2002	12.5	-
Private Mortgage Pool	12.0	12.9
Private Real Estate Pool	11.5	13.0
US Passive Equity Pooled Fund	29.0	28.9
United States Pooled Equities Fund	15.9	15.9
Externally Managed Pooled Investment Funds		
Canadian Large Cap Equity Pool	9.9	8.1
Canadian Small Cap Equity Pool	13.3	15.1
EAFE Core Equity Pool	14.5	15.5
EAFE Passive Equity Pool	0.6	1.7
EAFE Plus Equity Pool	14.8	15.4
US Large Cap Equity Pool	13.0	17.3
US Mid/Small Cap Equity Pool	10.5	15.3
US Passive Equity Pooled Fund	0.1	0.3

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held by pooled investment funds are explained in the following paragraphs:

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Revenue.

The fair value of private equities is estimated by Alberta Revenue.

Real estate investments are reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Actuarial Value of Net Assets Available for Benefits

To reduce the impact of market volatility on the Plan's funded status, asset values are adjusted for fluctuations in fair value. Assets for the previous two years are projected to increase at the rate of return assumed in the actuarial valuation. The actuarial value of net assets available for benefits is determined by averaging three years' values, consisting of current market value and asset values projected from the year-end market values for the two previous years. The Plan's actuary ensures that the Plan's actuarial value of net assets available for benefits does not exceed 110%, or fall below 90%, of net assets available for benefits.

(d) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(e) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment loss.

(f) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Equity and bond index swaps are valued based on changes in the appropriate market index net of accrued floating rate interest.

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index future contracts are based on quoted market prices.

The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

Income and expense from derivative contracts are accrued as earned and included in net investment loss. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

NOTE 3 INVESTMENTS (SCHEDULES A TO D)

	2002		2001	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash				
Investment Trust Fund [(a)]	$ 25,485	0.7	$ 61,481	1.6
Canadian Dollar Public Bond Pool [(b)]	855,770	24.1	926,422	24.2
Real rate of return bonds [(c)]	213,799	6.0	214,264	5.6
Private Mortgage Pool [(d)]	115,169	3.3	118,586	3.1
Total fixed income securities	1,210,223	34.1	1,320,753	34.5
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool [(e)]	242,510	6.8	141,334	3.7
Canadian Small Cap Equity Pool [(e)]	60,286	1.7	63,970	1.7
Canadian Pooled Equities Fund [(f)]	203,248	5.7	253,798	6.6
Domestic Passive Equity Pooled Fund [(g)]	181,641	5.1	280,743	7.3
Private Equity Pool 2002	373	-	-	-
	688,058	19.3	739,845	19.3
United States Equities (Schedule C)				
US Passive Equity Pooled Fund [(h)]	422,478	11.9	347,882	9.1
External Managers				
US Large Cap Equity Pool [(i)]	248,526	7.0	386,603	10.1
US Mid/Small Cap Equity Pool [(i)]	45,304	1.3	49,337	1.3
US Passive Equity Pool [(h)]	797	-	4,258	0.1
United States Pooled Equities Fund	118	-	531	-
	717,223	20.2	788,611	20.6
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool [(j)]	376,516	10.6	395,995	10.4
EAFE Plus Equity Pool [(j)]	198,535	5.6	200,728	5.2
EAFE Passive Equity Pool [(k)]	3,830	0.1	14,921	0.4
Emerging Markets Equity Pool	-	-	2	-
EAFE Structured Equity Pooled Fund [(k)]	134,466	3.8	152,742	4.0
	713,347	20.1	764,388	20.0
Equities in Real Estate				
Private Real Estate Pool [(l)]	224,861	6.3	212,515	5.6
Total equities	2,343,489	65.9	2,505,359	65.5
Total investments	$ 3,553,712	100.0	$ 3,826,112	100.0

(a) The Consolidated Cash Investment Trust Fund 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.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

(d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. In order to reduce risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(e) The External Managers Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Small Cap Pool is restricted to invest in publicly traded Canadian equities with a market capitalization of up to 0.15% of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(f) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

(g) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(h) The External Managers US Passive Equity Pool and the US Passive Equity Pooled Fund consist a single portfolio of publicly traded United States equities similar in weights to the Standard & Poor's S&P 500 Index. The External Managers US Passive Equity Pool is managed passively by an external manager with expertise in the US equity market and the US Passive Equity Pooled Fund is managed internally. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index over a four-year period. To enhance investment returns with no substantial increase in risks, the US Passive Equity Pooled Fund also invests in futures, swaps and other structured investments.

(i) The External Managers US Large Cap Equity Pool consists of multiple portfolios and the External Managers US Mid/Small Cap Equity Pool consists of a single portfolio of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US large cap or mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the S&P 500 Index for the US Large Cap Pool and the Russell 2500 Index for the US Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(j) The External Managers EAFE (Europe, Australia and Far East) Core and Plus Equity Pools consist of multiple portfolios of publicly traded Non-North American equities. Each core portfolio is actively managed by an external manager and has constraints on foreign currency management and deviations from the Morgan Stanley Capital International (MSCI) EAFE Index asset mix by country. The EAFE Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the MSCI EAFE Index over a four-year period while reducing return volatility through multiple manager investment style and market diversification.

(k) The External Managers EAFE Passive Equity Pool and the EAFE Structured Equity Pooled Fund's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The External Managers EAFE Passive Equity Pool consists of a single portfolio of Non-North American publicly traded equities similar in weights to the MSCI EAFE index. The EAFE Structured Equity Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(l) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Russell Canadian Property Index over the long term. Real estate is held through intermediary companies which have issued to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The Pool is intended to provide diversification from the securities market.

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established a target policy asset mix of 35% fixed income instruments and 65% equities. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts are used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the Plan's proportionate share of the notional amount and net fair value of derivative contracts held by pooled funds at December 31:

	2002					2001	
	Maturity				Net		Net
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
	%			($ thousands)			
Equity index swap contracts	67	33	-	$ 645,937	$ 2,670	$ 592,618	$ 21,096
Bond index swap contracts	100	-	-	15,568	134	25,778	12
Interest rate swap contracts	40	48	12	221,264	(13,431)	155,007	(6,586)
Forward foreign exchange contracts	100	-	-	486,087	(1,326)	528,358	(1,609)
Equity index futures contracts	-	-	-	-	-	20,208	724
				1,368,856	$ (11,953)	1,321,969	$ 13,637
Cross-currency interest rate swap contracts (b)	41	31	28	300,474		377,329	
				$ 1,669,330		$ 1,699,298	

(a) The method of determining fair value of derivative contracts is described in Note 2 (f).

(b) Cross-currency interest rate swap contracts are valued as a package, which includes underlying securities. As at December 31, 2002 the combined value of cross-currency interest rate swap contracts and underlying securities amounted to $301,760,000 (2001 $379,211,000).

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

NOTE 6 ACCOUNTS RECEIVABLE

	2002	2001
	($ thousands)	
Contributions receivable		
Employers	$ 4,900	$ 6,454
Employees	4,884	6,038
Other receivables	-	285
	$ 9,784	$ 12,777

NOTE 7 ACTUARIAL VALUE OF ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2000 by Buck Consultants Limited and was then extrapolated to December 31, 2002. The 2000 valuation was determined using the projected benefit method, based on service. The assumptions used in the valuation and extrapolation were developed as the best estimate of expected short-term and long-term market conditions and other future events. This estimate was, after consultation with the Plan's actuary, adopted by the Public Service Pension Board.

The major assumptions used were:

	December 31	
	2002 and 2001 Extrapolations	2000 Valuation
	%	%
Investment return	7.25	7.25
Inflation rate	3.25	3.25
Salary escalation rate*	3.75	3.75
Pension cost of living increase as a percentage of Alberta Consumer Price Index	60	60

* In addition to merit and promotion.

The Board has authorized a policy to have an actuarial valuation of the Plan to be carried out every second year. As a result, an actuarial valuation of the Plan as at December 31, 2002 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2003.

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2002:

	Sensitivities		
	Changes in Assumptions %	Increase in Plan Deficiency ($ millions)	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 281	0.71%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	192	0.96%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	628	2.30%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2000 valuation was 10.12%.

NOTE 8 NET INVESTMENT LOSS

The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

	2002	2001
	($ thousands)	
Deposits and Fixed Income Securities	$ 124,598	$ 92,507
Canadian Equities	(85,690)	(88,562)
Foreign Equities		
United States	(172,765)	(64,582)
Non-North American	(115,751)	(131,311)
Equities in Real Estate	13,338	14,267
	$ (236,270)	$ (177,681)

Net investment loss is comprised of the following:

	2002	2001
	($ thousands)	
Net realized and unrealized losses on investments, including those arising from derivative transactions	$ (367,779)	$ (331,894)
Interest income	94,215	110,708
Dividend income	29,764	36,602
Real estate income	11,664	10,578
Securities lending income	753	820
Pooled funds management and associated custodial fees	(4,887)	(4,495)
	$ (236,270)	$ (177,681)

NOTE 9 PLAN EXPENSES

	2002	2001
	($ thousands)	
General administration costs	$ 5,340	$ 3,696
Investment management costs	534	430
Actuarial fees	150	147
Board costs	140	173
Other professional fees	46	29
	$ 6,210	$ 4,475

General administration and Board costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Revenue and do not include pooled funds management and associated custodial fees, which have been included in the calculation of net investment loss (see Note 8).

In 2002, total Plan expenses of $6,210,000 amounted to $102 per member (2001 $75 per member).

NOTE 10 CHANGE IN ACCOUNTING POLICY

Prior to 2002, in order to moderate the effect of market volatility on investment values, the Plan's actuarial value of net assets available for benefits and actuarial deficiency were determined by providing for an actuarial adjustment for fluctuation in fair value of net assets available for benefits. There was no upper or lower limit to the actuarial adjustment.

For 2002, on the recommendation of the Board in consultation with the Plan's actuary, the actuarial adjustment for fluctuation in fair value of net assets was capped at 10% of the market value of net assets available for benefits.

The effect of this change at December 31, 2002 is that the actuarial deficiency is increased and the actuarial adjustment for fluctuation in fair value of net assets is decreased by $154 million. If the change had not been made, the actuarial deficiency of the Plan would have been $21.5 million

This change has no effect at December 31, 2001 on the actuarial surplus or the actuarial adjustment for fluctuation in fair value of net assets.

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with the 2002 presentation.

NOTE 12 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Public Service Pension Board.

Schedule A

PUBLIC SERVICE PENSION PLAN
SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES
DECEMBER 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 29,922	$ 70,073
Fixed Income Securities (a)		
Public		
Government of Canada, direct and guaranteed	422,330	453,404
Provincial		
Alberta, direct and guaranteed	2,017	3,240
Other, direct and guaranteed	170,835	214,888
Municipal	16,690	15,982
Corporate	361,013	320,185
Private		
Corporate	197,785	232,729
	1,170,670	1,240,428
Receivable from sale of investments and accrued investment income	9,970	11,175
Liabilities for investment purchases	(339)	(923)
	9,631	10,252
	$ 1,210,223	$ 1,320,753

(a) Fixed income securities held as at December 31, 2002 had an average effective market yield of 4.77% per annum (2001: 5.18% per annum). The following term structure of these securities as at December 31, 2002 was based on principal amount:

	2002	2001
	%	%
under 1 year	2	4
1 to 5 years	28	28
6 to 10 years	27	25
11 to 20 years	16	17
over 20 years	27	26
	100	100

Schedule B

PUBLIC SERVICE PENSION PLAN
SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES
DECEMBER 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 7,575	$ 12,648
Public Equities (a) (b)		
Consumer discretionary	57,549	62,910
Consumer staples	29,452	25,333
Energy	102,224	83,967
Financials	200,008	200,516
Health care	20,506	31,074
Industrials	60,069	75,217
Information technology	34,350	81,729
Materials	109,630	94,574
Telecommunication services	33,528	34,989
Utilities	22,264	22,975
	669,580	713,284
Passive Index	5,466	9,013
	675,046	722,297
Private Equities	338	-
Receivable from sale of investments and accrued investment income	7,229	8,989
Liabilities for investment purchases	(2,130)	(4,089)
	5,099	4,900
	$ 688,058	$ 739,845

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $89,298,000 (2001 $124,064,000) which were used as underlying securities to support the notional amount of Canadian equity index swap contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

Schedule C

PUBLIC SERVICE PENSION PLAN
SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES
DECEMBER 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 5,628	$ 4,007
Public Equities (a) (b)		
Consumer discretionary	95,505	101,026
Consumer staples	64,537	59,762
Energy	43,431	49,325
Financials	148,540	140,590
Health care	108,359	113,386
Industrials	87,692	93,346
Information technology	101,133	135,022
Materials	21,007	21,183
Telecommunication services	26,541	38,798
Utilities	19,549	22,705
	716,294	775,143
Receivable from sale of investments and accrued investment income	4,691	11,329
Liabilities for investment purchases	(9,390)	(1,868)
	(4,699)	9,461
	$ 717,223	$ 788,611

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $424,105,000 (2001 $337,081,000), which were used as underlying securities to support the notional amount of US equity index swaps contracts and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

Schedule D

PUBLIC SERVICE PENSION PLAN
SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES
DECEMBER 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 18,427	$ 20,002
Public Equities (a)		
Country		
United Kingdom	189,072	185,898
Japan	105,645	121,918
Switzerland	63,828	53,218
France	60,852	84,209
Netherlands	45,489	55,224
Germany	40,096	50,890
Australia	32,890	28,265
Italy	28,215	25,958
Hong Kong	20,320	28,164
Spain	14,268	22,632
Finland	13,775	13,406
Sweden	12,526	13,945
Other	70,498	53,261
	697,474	736,988
Receivable from sale of investments and accrued investment income	4,731	13,160
Liabilities for investment purchases	(7,285)	(5,762)
	(2,554)	7,398
	$ 713,347	$ 764,388

(a) The Plan’s net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $132,534,000 (2001 $146,127,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps contracts.

SPECIAL FORCES PENSION PLAN
FINANCIAL STATEMENTS
DECEMBER 31, 2002

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Special Forces Pension Board

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Special Forces Pension Plan (the Plan) as at December 31, 2002, and the Statements of Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Actuarial Deficiency for the year then ended. These financial statements are the responsibility of the Plan'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 Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2002 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Actuarial Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 27, 2003

SPECIAL FORCES PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS AS AT DECEMBER 31, 2002
($ thousands)

	2002	2001
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 942,850	$ 1,010,672
Accounts receivable (Note 6)	2,051	1,794
	944,901	1,012,466
Liabilities		
Benefits and refunds	68	10
Net assets available for benefits	944,833	1,012,456
Actuarial adjustment for fluctuation in fair value of net assets (Note 2 (c))	61,431	25,188
Actuarial value of net assets available for benefits	1,006,264	1,037,644
Accrued Benefits		
Actuarial value of accrued benefits (Note 7)		
Plan Fund	1,201,220	1,098,927
Indexing Fund	9,458	7,245
	1,210,678	1,106,172
Actuarial Deficiency (Note 7)		
Plan Fund *	(204,414)	(68,528)
Indexing Fund	-	-
	$ (204,414)	$ (68,528)

* The actuarial deficiency of the Plan Fund is comprised of a pre-1992 deficiency of $149,161,000 (2001 $64,537,000) and a post-1991 deficiency of $55,253,000 (2001 $3,991,000).

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED DECEMBER 31, 2002
($ thousands)

	2002			2001
	Plan Fund	Indexing Fund	Total	Total
Increase in assets				
Contributions (Note 8)	$ 33,233	$ 2,648	$ 35,881	$ 34,782
Decrease in assets				
Net investment loss (Note 9)	58,501	435	58,936	25,851
Pension benefits	42,883	-	42,883	38,865
Refunds and transfers	668	-	668	631
Administration expenses (Note 10)	1,017	-	1,017	797
	103,069	435	103,504	66,144
(Decrease) Increase in net assets	(69,836)	2,213	(67,623)	(31,362)
Net assets available for benefits at beginning of year	1,005,211	7,245	1,012,456	1,043,818
Net assets available for benefits at end of year	$ 935,375	$ 9,458	$ 944,833	$ 1,012,456

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN
STATEMENT OF CHANGES IN ACCRUED BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2002
($ thousands)

	2002			2001
	Pre-1992	Post-1991	Total	Total
Increase in accrued benefits				
Interest accrued on benefits	$ 52,497	$ 26,533	$ 79,030	$ 72,161
Net experience losses	22,687	13,980	36,667	-
Benefits earned	180	29,967	30,147	29,262
Cost-of-living indexing adjustments and interest	-	2,213	2,213	2,482
	75,364	72,693	148,057	103,905
Decrease in accrued benefits				
Benefits, transfers and interest	37,333	6,218	43,551	39,496
Net increase in accrued benefits	38,031	66,475	104,506	64,409
Accrued benefits at beginning of year	745,537	360,635	1,106,172	1,041,763
Accrued benefits at end of year (Note 7)	$ 783,568	$ 427,110	$ 1,210,678	$ 1,106,172

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN
STATEMENT OF CHANGES IN ACTUARIAL DEFICIENCY
FOR THE YEAR ENDED DECEMBER 31, 2002
($ thousands)

	2002			2001
	Pre-1992	Post-1991	Total	Total
Actuarial deficiency at beginning of year	$ (64,537)	$ (3,991)	$ (68,528)	$ (45,145)
(Decrease) Increase in net assets available for benefits	(70,247)	2,624	(67,623)	(31,362)
Net change in actuarial adjustment for fluctuation in fair value of net assets	23,654	12,589	36,243	72,388
Net increase in accrued benefits	(38,031)	(66,475)	(104,506)	(64,409)
Actuarial deficiency at end of year	$ (149,161)	$ (55,253)	$ (204,414)	$ (68,528)

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2002

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Special Forces Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the Public Sector Pension Plans Act, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 369/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for police officers employed by participating local authorities in Alberta.

(b) Funding Policy

Plan Fund

Current service costs are funded by employers and employees at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 2002 were unchanged at 8.30% of pensionable salary for employers and 7.20% for employees. Rates are to be reviewed at least once every three years by the Special Forces Pension Board (the Board) based on recommendations of the Plan's actuary.

The unfunded liability for service prior to December 31, 1991 as determined by actuarial valuation is being financed by additional contributions from the Province of Alberta, employers and employees. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 2002 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

Indexing Fund

Benefit payments are funded by post-1991 cost-of-living adjustment (COLA) (see Note 1(i)) contributions from employers and employees at rates that are expected to meet or exceed the funding or solvency requirements of the Plan. The rates in effect at December 31, 2002 were 0.75% of pensionable salary each for employers and employees. Rates are to be reviewed at least once every three years by the Board based on recommendations of the Plan's actuary.

Subject to the Employment Pension Plans Act, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991.

(c) Retirement Benefits

The Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the five highest consecutive years. The maximum service allowable under the Plan is 35 years. Members are entitled to a pension if they have at least 25 years of service or have at least five years of service and attained age 55. Pensions will be reduced at the age of 65.

(d) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

(e) Death Benefits

Death benefits are payable on the death of a member if the member had at least five years of service. Benefits may take the form of a survivor pension, if the beneficiary is a pension partner or a dependent minor child, or a lump sum payment. A surviving pension partner or the beneficiary of a deceased member with less than five years of service is entitled to receive death benefits in the form of a lump sum payment.

(f) Termination Benefits

Members who terminate with at least five years of service and who are not immediately entitled to a pension may receive a refund of contributions and interest on service prior to 1992 and the commuted value for service after 1991, subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of service receive a refund of contributions and interest.

(g) Guarantee

Payment of all benefits arising from service before 1994, excluding post-1991 COLA benefits on 1992 and 1993 service (see Note 1 (i)), is guaranteed by the Province of Alberta.

(h) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of the termination benefits or commuted value for all service.

(i) Cost-of-Living Adjustments (COLA)

Pensions payable by the Plan Fund are increased each year by 60% of the increase in the Alberta Consumer Price Index for service before 1992. Cost-of-living adjustments for service after 1991 are payable by the Indexing Fund at rates determined by the Board.

(j) Income Taxes

The Plan is a registered pension plan as defined in the Income Tax Act and is not subject to income taxes. The Plan's registration number is 0584375.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

Plan investments are held in pooled investment funds administered by Alberta Revenue. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

The Plan's percentage ownership in pooled investment funds at December 31, 2002 was as follows:

	% Ownership	
	2002	2001
Internally Managed Pooled Investment Funds		
Canadian Dollar Public Bond Pool	3.6	3.7
Canadian Pooled Equities Fund	1.7	4.2
Domestic Passive Equity Pooled Fund	2.9	4.0
EAFE Structured Equity Pooled Fund	6.8	1.7
Private Equity Pool	6.4	6.4
Private Mortgage Pool	4.2	4.4
Private Real Estate Pool	2.6	3.0
US Passive Equity Pooled Fund	7.1	3.6
United States Pooled Equities Fund	4.5	4.5
Externally Managed Pooled Investment Funds		
Canadian Large Cap Equity Pool	3.0	2.2
Canadian Small Cap Equity Pool	5.6	6.3
EAFE Core Equity Pool	3.2	2.8
EAFE Passive Equity Pool	3.5	5.1
EAFE Plus Equity Pool	3.2	2.8
US Large Cap Equity Pool	1.8	2.5
US Mid/Small Cap Equity Pool	5.6	2.6
US Passive Equity Pool	0.8	4.1

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held by pooled investment funds are explained in the following paragraphs:

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Revenue.

The fair value of private equities is estimated by Alberta Revenue.

Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Actuarial Value of Net Assets Available for Benefits

To moderate the effects of market volatility on investment value, annual net realized and unrealized gains and losses excluding those arising from derivative transactions are amortized equally over three years commencing at the beginning of the current year.

(d) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(e) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment loss.

(f) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

Income and expense from derivative contracts are accrued as earned and included in net investment loss. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

NOTE 3 INVESTMENTS (SCHEDULES A TO D)

	2002		2001	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash				
Investment Trust Fund [(a)]	$ 6,110	0.6	$ 12,179	1.2
Canadian Dollar Public Bond Pool [(b)]	300,733	31.9	314,066	31.1
Private Mortgage Pool [(c)]	40,473	4.3	41,079	4.1
Total fixed income securities	347,316	36.8	367,324	36.4
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool [(d)]	74,363	7.9	38,700	3.8
Canadian Small Cap Equity Pool [(d)]	25,552	2.7	26,747	2.6
Domestic Passive Equity Pooled Fund [(e)]	64,962	6.9	106,925	10.6
Canadian Pooled Equities Fund [(f)]	23,487	2.5	92,237	9.1
Private Equity Pool [(g)]	2,213	0.2	3,894	0.4
	190,577	20.2	268,503	26.5
United States Equities (Schedule C)				
US Passive Equity Pooled Fund [(h)]	104,077	11.0	43,085	4.3
External Managers				
US Large Cap Equity Pool [(i)]	34,380	3.7	56,204	5.5
US Mid/Small Cap Equity Pool [(i)]	24,434	2.6	8,296	0.8
US Passive Equity Pool [(h)]	10,035	1.1	57,669	5.7
United States Pooled Equities Fund	33	-	149	-
	172,959	18.4	165,403	16.3
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool [(j)]	82,201	8.7	71,504	7.1
EAFE Plus Equity Pool [(j)]	43,518	4.6	36,333	3.6
EAFE Passive Equity Pool [(k)]	23,417	2.5	45,118	4.5
EAFE Structured Equity Pooled Fund [(k)]	32,660	3.5	6,732	0.7
	181,796	19.3	159,687	15.9
Equities in Real Estate				
Private Real Estate Pool [(l)]	50,202	5.3	49,755	4.9
Total equities	595,534	63.2	643,348	63.6
Total investments	$ 942,850	100.0	$ 1,010,672	100.0

(a) The Consolidated Cash Investment Trust Fund 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.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. In order to reduce risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(d) The External Managers Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Small Cap Pool is restricted to investing in publicly traded Canadian equities with a market capitalization of up to 0.15% of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(e) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(f) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

(g) The Private Equity Pool is in the process of orderly liquidation.

(h) The External Managers US Passive Equity Pool and the US Passive Equity Pooled Fund consist of single portfolios of publicly traded United States equities similar in weights to the S&P 500 Index. The External Managers US Passive Equity Pool is managed passively by an external manager with expertise in the US equity market and the US Passive Equity Pooled Fund is managed internally. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index over a four-year period. To enhance investment returns with no substantial increase in risks, the US Passive Equity Pooled Fund also invests in futures, swaps and other structured investments.

(i) The External Managers US Large Cap Equity Pool consists of multiple portfolios and the External Managers US Mid/Small Cap Equity Pool consists of a single portfolio of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US large cap or mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Standard & Poor's S&P 500 Index for the US Large Cap Pool and the Russell 2500 Index for the US Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(j) The External Managers EAFE (Europe, Australia and Far East) Core and Plus Equity Pools consist of multiple portfolios of publicly traded Non-North American equities. Each core portfolio is actively managed by an external manager and has constraints on foreign currency management and deviations from the Morgan Stanley Capital International (MSCI) EAFE Index asset mix by country. The Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the MSCI EAFE Index over a four-year period while reducing return volatility through multiple manager investment style and market diversification.

(k) The performance objective of the External Managers EAFE Passive Equity Pool and the EAFE Structured Equity Pooled Fund is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The External Managers EAFE Passive Equity Pool consists of a single portfolio of Non-North American publicly traded equities similar in weights to the MSCI EAFE index. The EAFE Structured Equity Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(l) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Russell Canadian Property Index over the long term. Real estate is held through intermediary companies, which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The Pool is intended to provide diversification from the securities market.

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established a benchmark policy asset mix of 37% fixed income instruments and 63% equities. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts are used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2002:

	2002					2001	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value [a]	Notional Amount	Net Fair Value [a]
	%			($ thousands)			
Equity index swap contracts	68	32	-	$ 168,605	$ 1,125	$ 93,625	$ 3,515
Bond index swap contracts	100	-	-	5,471	47	8,739	4
Interest rate swap contracts	40	48	12	59,952	(3,560)	27,472	(1,221)
Forward foreign exchange contracts	100	-	-	33,679	150	26,396	54
Equity index futures contracts	-	-	-	-	-	2,820	96
				267,707	$ (2,238)	159,052	$ 2,448
Cross-currency interest rate swap contracts [b]	39	30	31	80,659		68,626	
				$ 348,366		$ 227,678	

(a) The method of determining fair value of derivative contracts is described in Note 2 (f).

(b) Cross-currency interest rate swap contracts are valued as a package, which includes underlying securities. As at December 31, 2002, the combined value of cross-currency interest rate swap contracts and underlying securities amounted to $81,167,000 (2001 $69,034,000).

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

NOTE 6 ACCOUNTS RECEIVABLE

	2002	2001
	($ thousands)	
Contributions receivable		
Employers	$ 905	$ 851
Employees	830	776
Province of Alberta	173	165
	1,908	1,792
Accrued investment income	61	-
Accounts receivable	82	2
	$ 2,051	$ 1,794

NOTE 7 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2001 by Hewitt and Associates and was then extrapolated to December 31, 2002. The 2001 valuation was completed after the financial statements of the Plan for 2001 were released. As a result, the differences between the actuarial valuation and extrapolation results for 2001 are accounted for as net experience losses in 2002.

The 2001 valuation was determined using the projected benefit method prorated on service. The assumptions used in the valuation and extrapolation were developed as the best estimate of expected short-term and long-term market conditions and other future events. This estimate was, after consultation with the Plan's actuary, adopted by the Board.

The major assumptions used were:

	December 31	
	2002 Extrapolation	2001 Valuation
	%	%
Investment return	7.0	7.0
Inflation rate	3.25	3.25
Salary escalation rate*	3.75	3.75
Pension cost-of-living increase as a percent of Alberta Consumer Price Index	60	60

* In addition to merit and promotion.

In accordance with the requirements of the Public Sector Pension Plans Act, a separate accounting is required of the pension liability with respect to service that was recognized as pensionable as at December 31, 1991. This information is provided in the Statement of Changes in Accrued Benefits, which shows the principal components of the change in the actuarial value of accrued benefits.

Based on the information provided above, the following table summarizes the actuarial value of net assets, accrued benefits, and the resulting actuarial deficiency of the Plan Fund as at December 31, 2002:

	2002			2001
	Pre-1992	Post-1991	Total	Total
		($ thousands)		
Plan Fund net assets available for benefits	$ 594,086	$ 341,289	$ 935,375	$ 1,005,211
Actuarial adjustment for fluctuation in fair value of net assets	40,321	21,110	61,431	25,188
Plan Fund actuarial value of net assets available for benefits	634,407	362,399	996,806	1,030,399
Plan Fund accrued benefits	783,568	417,652	1,201,220	1,098,927
Plan Fund actuarial deficiency	$ (149,161)	$ (55,253)	$ (204,414)	$ (68,528)

As at December 31, 2002, the Indexing Fund held investments of $9,458,000 (2001 $7,245,000) with offsetting accrued benefits of the same amount.

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2002:

	Sensitivities			
	Changes in Assumptions %	Increase in Plan Deficiency	Increase in Current Service Cost as a % of Pensionable Earnings *	
		($ million)		
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 75.0	0.0%	**
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	26.0	1.0%	
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	167.0	2.8%	

* The current service cost as a % of pensionable earnings as determined by the December 31, 2001 valuation was 17.2%.

** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

NOTE 8 CONTRIBUTIONS

	2002	2001
	($ thousands)	
Current and optional service		
Employers	$ 16,033	$ 15,625
Employees	14,934	14,292
Unfunded liability		
Employers	1,324	1,279
Employees	1,324	1,279
Province of Alberta	2,206	2,132
Transfers from other plans	60	175
	$ 35,881	$ 34,782

NOTE 9 NET INVESTMENT LOSS

The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

	2002	2001
	($ thousands)	
Deposits and Fixed Income Securities	$ 32,094	$ 29,527
Canadian Equities	(22,374)	(20,229)
Foreign Equities		
United States	(43,145)	(11,170)
Non-North American	(28,525)	(27,663)
Real Estate	3,014	3,684
	$ (58,936)	$ (25,851)

Net investment loss is comprised of the following:

	2002	2001
	($ thousands)	
Net realized and unrealized losses on investments, including those deriving from derivative transactions	$ (93,967)	$ (65,791)
Interest income	25,905	26,367
Dividend income	7,468	11,816
Real estate income	2,631	2,616
Securities lending income	206	174
Pooled funds management and associated custodial fees	(1,179)	(1,033)
	$ (58,936)	$ (25,851)

NOTE 10 ADMINISTRATION EXPENSES

	2002	2001
	($ thousands)	
General administration costs	$ 804	$ 587
Investment management costs	190	169
Actuarial fees	23	41
	$ 1,017	$ 797

Total administration expenses amounted to $230 per member (2001 $192 per member). Increased business process reengineering (APEX) and operating costs included in general administration costs accounted for the majority of the increase.

General administration costs including plan board costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Revenue and do not include pooled funds management and associated custodial fees, which have been included in the calculation of net investment loss (see Note 9).

NOTE 11 REMUNERATION OF BOARD MEMBERS

Remuneration paid to or on behalf of Board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chairman	Members
Remuneration rates effective April 1, 2002:		
Up to 4 hours	$ 159	$ 118
4 to 8 hours	271	196
Over 8 hours	432	307
	2002	**2001**
During 2002, the following amounts were paid:		
Remuneration		
Chair	$ 3,370	$ 3,364
Members (5)*	16,044	12,368
Travel expenses		
Chair	2,275	2,045
Members (5)	23,635	19,868

* Crown representative nominated by the Government of Alberta receives no remuneration.

NOTE 12 BUDGET INFORMATION

The accrued benefits are based on the Board's best estimates of future events after consultation with the Plan's actuary. Differences between actual results and management's expectations are disclosed as net experience gains and losses in the statement of changes in accrued benefits. Accordingly, a budget is not included in these financial statements.

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with the 2002 presentation.

NOTE 14 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were prepared by management and approved by the Board.

Schedule A

SPECIAL FORCES PENSION PLAN
SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES
DECEMBER 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 7,670	$ 15,093
Fixed Income Securities (a)		
Public		
Government of Canada, direct and guaranteed	73,282	81,071
Provincial		
Alberta, direct and guaranteed	709	1,098
Other, direct and guaranteed	60,034	72,894
Municipal	5,865	5,418
Corporate	126,866	108,546
Private		
Corporate	69,505	79,724
	336,261	348,751
Receivable from sale of investments and accrued investment income	3,504	3,793
Liabilities for investment purchases	(119)	(313)
	3,385	3,480
	$ 347,316	$ 367,324

(a) Fixed income securities held as at December 31, 2002 had an average effective market yield of 5.10% per annum (2001: 5.47% per annum). The following term structure of these securities as at December 31, 2002 was based on principal amount.

	2002	2001
	%	
under 1 year	2	5
1 to 5 years	34	33
6 to 10 years	32	29
11 to 20 years	13	14
over 20 years	19	19
	100	100

Schedule B

SPECIAL FORCES PENSION PLAN
SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES
DECEMBER 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 2,014	$ 4,398
Public Equities (a) (b)		
Consumer discretionary	16,646	23,810
Consumer staples	8,627	9,870
Energy	27,761	29,790
Financials	52,582	68,882
Health care	6,344	12,170
Industrials	17,676	28,704
Information technology	9,643	29,675
Materials	29,736	33,523
Telecommunication services	8,780	11,993
Utilities	5,807	7,838
	183,602	256,255
Passive index	1,325	3,270
	184,927	259,525
Private Equities	1,944	2,723
Receivable from sale of investments and accrued investment income	2,258	3,323
Liabilities for investment purchases	(566)	(1,466)
	1,692	1,857
	$ 190,577	$ 268,503

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $31,936,000 (2001 $47,251,000) which were used as underlying securities to support the notional amount of Canadian equity index swap contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

Schedule C

SPECIAL FORCES PENSION PLAN
SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES
DECEMBER 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 1,307	$ 602
Public Equities (a) (b)		
Consumer discretionary	24,039	22,277
Consumer staples	14,790	11,880
Energy	10,205	10,156
Financials	36,220	30,050
Health care	25,364	23,205
Industrials	20,848	19,418
Information technology	24,765	28,856
Materials	5,370	4,759
Telecommunication services	6,153	7,955
Utilities	5,039	5,100
	172,793	163,656
Receivable from sale of investments and accrued investment income	1,070	1,423
Liabilities for investment purchases	(2,211)	(278)
	(1,141)	1,145
	$ 172,959	$ 165,403

(a) The Plan’s net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $104,478,000 (2001 $41,748,000), which were used as underlying securities to support the notional amount of US equity index swap contracts and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard and Poor’s S&P 500 Index.

Schedule D

SPECIAL FORCES PENSION PLAN
SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES
DECEMBER 31, 2002
($ thousands)

	Plan's Share	
	2002	2001
Deposits and short-term securities	$ 4,136	$ 3,806
Public Equities (a)		
Country		
United Kingdom	48,444	39,238
Japan	28,537	26,516
Switzerland	16,044	11,272
France	15,589	17,570
Netherlands	11,435	11,264
Germany	10,262	10,956
Australia	8,387	5,931
Italy	7,171	5,607
Hong Kong	4,839	5,524
Spain	3,961	4,818
Finland	3,524	2,941
Sweden	3,247	3,052
Other	16,723	10,799
	178,163	155,488
Receivable from sale of investments and accrued investment income	1,112	1,730
Liabilities for investment purchases	(1,615)	(1,337)
	(503)	393
	$ 181,796	$ 159,687

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $32,191,000 (2001 $6,441,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS FINANCIAL STATEMENTS DECEMBER 31, 2002

AUDITOR
GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Supplementary Retirement Plan for Public Service Managers (the Plan) as at December 31, 2002 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. 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 Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2002 and the Changes in Net Assets Available for Benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
June 13, 2003

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS AS AT DECEMBER 31, 2002
($ thousands)

	2002	2001
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 3)	$ 1,724	$ 1,091
Refundable income tax	2,319	1,231
Contributions receivable	5	17
	4,048	2,339
Liabilities		
Income tax payable	119	243
Other payables	86	77
	205	320
	3,843	2,019
Amounts owing from the SRP Reserve Fund (Note 4)	12,912	6,378
Net assets available for benefits	16,755	8,397
Accrued Benefits		
Actuarial value of accrued benefits (Note 5)	10,283	8,796
Actuarial surplus (deficiency)	$ 6,472	$ (399)

The accompanying notes are part of these financial statements.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED DECEMBER 31, 2002
($ thousands)

	2002	2001
Increase in assets		
Contributions		
Employees	$ 1,083	$ 671
Employers	1,083	671
Investment income	34	24
	2,200	1,366
Decrease in assets		
Benefits and refunds	46	9
Administration expenses (Note 6)	330	217
	376	226
	1,824	1,140
Increase in amounts owing from the SRP Reserve Fund (Note 4)	6,534	3,392
Increase in net assets	8,358	4,532
Net assets available for benefits at beginning of year	8,397	3,865
Net assets available for benefits at end of year	$ 16,755	$ 8,397

The accompanying notes are part of these financial statements.

SUPPLEMENTARY RETIREMENT PLAN

FOR PUBLIC SERVICE MANAGERS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2002

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Supplementary Retirement Plan for Public Service Managers (the Plan) is a summary only. For a complete description of the Plan, reference should be made to sections 5, 7 and 98 of the *Financial Administration Act,* Chapter F-12, Revised Statutes of Alberta 2000 and the *Retirement Compensation Arrangement Directive* (Treasury Board Directive 01/99 and 04/99), as amended.

(a) General

The Plan was established on July 1, 1999 to provide additional pension benefits to certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds $86,111, the yearly maximum pensionable earnings limit allowed by the federal *Income Tax Act* for 2002 and 2003. The Plan is supplementary to the MEPP. Services under MEPP are used to determine eligibility for vesting and early retirement. A member's pension commencement date is the same under both Plans and the pension is payable in the same form. Members of MEPP who have attained 35 years of combined pensionable service are not eligible to participate in the Plan.

(b) Funding Policy

Current service costs are funded by employee and employer contributions which together with investment earnings, income tax refunds and transfers from the SRP Reserve Fund (see Note 4), are expected to provide for all benefits payable under the Plan. The contribution rates for designated employers equals or exceeds the rate for eligible employees. The contribution rates in effect in 2002 were unchanged at 7.75% of pensionable salary in excess of $86,111 for eligible employees. Designated employers made matching contributions. The rates were reviewed in 2002 and are to be reviewed at least once every three years by the Minister of Finance based on recommendations of the Plan's actuary. As a result of this review, effective April 1, 2003, the rates will increase to 9.5% of pensionable salary above the yearly maximum pensionable earnings limit for eligible employees. The matching contribution from designated employers will also increase to 9.5% of pensionable salary above the limit.

(c) Benefits

The Plan provides a pension of 2.0% of pensionable earnings that are in excess of the yearly maximum pensionable earnings limit for each year of pensionable service after July 1, 1999, based on the average salary of the highest five consecutive years.

Members are entitled to an unreduced pension on service if they retire with at least five years of combined pensionable service and have either attained age 60, or age 55 and the sum of their age and combined pensionable service equals 80. Pensions are reduced if the member is under age 60 and the 80 factor is not attained.

Disability, death, termination benefits and cost-of-living adjustments under this Plan follow those of MEPP.

(d) Guarantee

Designated employers guarantee payment of all benefits arising under the Plan. If assets held in the Plan are insufficient to pay for benefits as they become due, the amount due is payable by designated employers.

(e) Plan Surplus

The Government has the right to amend or discontinue the Plan in whole or in part at any time. Any assets remaining in the Plan after provision for benefits payable to or in respect of members on the complete wind-up of the Plan accrue to the Government.

(f) Income Taxes

The Plan is a Retirement Compensation Arrangement (RCA) as defined in the *Income Tax Act.* Refundable income tax is remitted on any cash contributions from eligible employees and designated employers at the rate of 50%. Refundable income tax is returned to the Plan at the same rate when pension benefits payments are made to retired plan members, or when administration expenses exceed investment income.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

(b) Valuation of Assets and Liabilities

Short-term securities included in cash and cash equivalents are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Due to uncertainties about the timing of benefits and refunds payments, it is not practicable to estimate the fair value of refundable income tax. Refundable income tax is carried at cost.

The fair values of other receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Investment income is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed with the objectives 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 three years. As at December 31, 2002, securities held by the Fund have an average effective market yield of 2.90% (2001 2.24%) per annum and an average duration of 80 days (2001 80 days).

NOTE 4 SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND (SRP RESERVE FUND)

Designated employers guarantee payment of all benefits arising under the Plan (see Note 1 (d)). To provide for their future obligations to the Plan, designated employers contribute to a Reserve Fund at rates established by the Minister of Finance based upon recommendations of the Plan's actuary. The rate in effect in 2002 was unchanged from 2001 at 42.5% of pensionable salary of eligible employees that was in excess of $86,111. The Plan's actuary has recommended that the rate decreases, effective July 1, 2003, to 6.8% of pensionable salary in excess of the yearly maximum pensionable earnings limit. The actuary has also advised that any impairment of the surplus will result in an increase in the 6.8% employer contribution rate to the Reserve Fund.

The Reserve Fund is a regulated fund established and administered by the Minister of Finance to collect contributions from designated employers and to invest the funds, which are reserved to meet future benefit payments of the Plan.

As at December 31, 2002, the Reserve Fund had assets with fair value totalling $12,912,000 (2001 $6,378,000), comprising $12,402,000 (2001 $5,613,000) in cash and cash equivalents (see Note 3) and $510,000 (2001 $765,000) in contributions receivable. Increase during the year totalling $6,534,000 (2001 $3,392,000) is attributed to contributions from employers $6,284,000 (2001 $3,212,000) and investment income $250,000 (2001 $180,000).

NOTE 5 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2002 by Aon Consulting Inc. The valuation was determined using the projected benefit method prorated on service. The assumptions used in the valuation were developed as the best estimate of expected short-term and long-term market conditions and other future events, taking into account the increase in the yearly maximum pension accruals limit for defined benefit pension plans announced in the February 18, 2003 Federal Budget. After consultation with the Plan's actuary, the Plan's management approved this best estimate.

The major assumptions used were:

	2002 Valuation	2001 Extrapolation
	%	%
Discount rate *	4.50	3.625
Inflation rate	3.00	3.00
Investment rate of return	6.00	7.25
Salary escalation rate **	3.50	4.25
Pension cost-of-living increase as a percentage of Alberta Consumer Price Index	60.0	60.0

* Discount rate is on an after-tax basis.

** The 2002 rate is in addition to merit and promotion which averages 1.5%. The 2001 rate includes merit and promotion.

The following shows the principal components of the change in the value of accrued benefits:

	2002	2001
	($ thousands)	
Actuarial value of accrued pension benefits at beginning of year	$ 8,796	$ 3,685
Interest accrued on benefits	444	428
Benefits earned *	3,153	4,506
Benefits and refunds	(46)	(9)
Changes in actuarial assumptions and experience gains and losses, net	1,744	186
Impact of changes to the *yearly maximum pension accruals limit* on accrued pension benefits at beginning of year	(3,808)	-
Actuarial value of accrued pension benefits at end of year	$ 10,283	$ 8,796

* Benefits earned were reduced in 2002 due to changes in actuarial assumptions, experiences and the *yearly maximum pension accruals limit.*

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's actuarial surplus and current service cost to changes in assumptions used in the actuarial valuation at December 31, 2002:

		Sensitivities	
	Changes in Assumptions %	Decrease in Actuarial Surplus ($ millions)	Increase in Benefits Earned ($ millions)
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ (0.8)	$ 0.2
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	(0.5)	0.2
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant*	(1.0%)	(2.6)	0.8

* Sensitivities includes investment return of assets held by the SRP Reserve Fund (Note 4).

NOTE 6 ADMINISTRATION EXPENSES

Administration expenses, which were paid to the Alberta Pensions Administration Corporation on a cost-recovery basis, amounted to $362 (2001 $389) per member.

NOTE 7 BUDGET INFORMATION

The accrued benefits are based on management's best estimates of future events. Differences, if any, between actual results and management's expectations are disclosed as net experience gains and losses in Note 5(a). Accordingly, a budget is not included in these financial statements.

NOTE 8 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Finance.

ALPHABETICAL LIST OF GOVERNMENT ENTITIES' FINANCIAL STATEMENTS

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Ministry, Department, Fund or Agency	Ministry Annual Report
Agriculture Financial Services Corporation	Agriculture, Food and Rural Development
Alberta Alcohol and Drug Abuse Commission	Health and Wellness
Alberta Energy and Utilities Board	Energy
Alberta Foundation for the Arts	Community Development
Alberta Gaming and Liquor Commission	Gaming
Alberta Government Telephones Commission, The	Finance
Alberta Heritage Foundation for Medical Research Endowment Fund	Revenue
Alberta Heritage Savings Trust Fund	Revenue
Alberta Heritage Scholarship Fund	Revenue
Alberta Heritage Science and Engineering Research Endowment Fund	Revenue
Alberta Historical Resources Foundation, The	Community Development
Alberta Insurance Council	Finance
Alberta Municipal Financing Corporation	Finance
Alberta Pensions Administration Corporation	Finance
Alberta Petroleum Marketing Commission	Energy
Alberta Research Council Inc.	Innovation and Science
Alberta Risk Management Fund	Revenue
Alberta School Foundation Fund	Learning
Alberta Science and Research Authority	Innovation and Science
Alberta Securities Commission	Revenue
Alberta Social Housing Corporation	Seniors
Alberta Sport, Recreation, Parks and Wildlife Foundation	Community Development
Alberta Treasury Branches (ATB Financial)	Finance
ATB Investment Services Inc.	Finance
Child and Family Services Authorities: Awasak Child and Family Services Authority Calgary Rocky View Child and Family Services Authority Child and Family Services Authority Region 13 Child and Family Services Authority Region 14 Diamond Willow Child and Family Services Authority Hearthstone Child and Family Services Authority Keystone Child and Family Services Authority Ma' Mowe Capital Region Child and Family Services Authority Metis Settlements Child and Family Services Authority Neegan Awas'sak Child and Family Services Authority Ribstone Child and Family Services Authority Sakaigun Asky Child and Family Services Authority Sakaw-Askiy Child and Family Services Authority Silver Birch Child and Family Services Authority Southeast Alberta Child and Family Services Authority Sun Country Child and Family Services Authority West Yellowhead Child and Family Services Authority Windsong Child and Family Services Authority	Children's Services

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Ministry, Department, Fund or Agency	Ministry Annual Report
Credit Union Deposit Guarantee Corporation	Finance
Crop Reinsurance Fund of Alberta	Agriculture, Food and Rural Development
Department of Agriculture, Food and Rural Development	Agriculture, Food and Rural Development
Department of Children's Services	Children's Services
Department of Community Development	Community Development
Department of Energy	Energy
Department of Finance	Finance
Department of Gaming	Gaming
Department of Health and Wellness	Health and Wellness
Department of Innovation and Science	Innovation and Science
Department of Learning	Learning
Department of Revenue	Revenue
Department of Seniors	Seniors
Department of Solicitor General	Solicitor General
Department of Sustainable Resource Development	Sustainable Resource Development
Environmental Protection and Enhancement Fund	Sustainable Resource Development
Gainers Inc.	Finance
Government House Foundation, The	Community Development
Historic Resources Fund	Community Development
Human Rights, Citizenship and Multiculturalism Education Fund	Community Development
iCore Inc.	Innovation and Science
Lottery Fund	Gaming
Ministry of Aboriginal Affairs and Northern Development[1]	Aboriginal Affairs and Northern Development
Ministry of Agriculture, Food and Rural Development	Agriculture, Food and Rural Development
Ministry of Children's Services	Children's Services
Ministry of Community Development	Community Development
Ministry of Economic Development[1]	Economic Development
Ministry of Energy	Energy
Ministry of Environment[1]	Environment
Ministry of Finance	Finance
Ministry of Executive Council[1]	Executive Council
Ministry of Gaming	Gaming
Ministry of Government Services[1]	Government Services
Ministry of Health and Wellness	Health and Wellness
Ministry of Human Resources and Employment[1]	Human Resources and Employment
Ministry of Infrastructure[1]	Infrastructure
Ministry of Innovation and Science	Innovation and Science

[1] Ministry includes only the department so separate financial statements are not necessary.

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Ministry, Department, Fund or Agency	Ministry Annual Report
Ministry of International and Intergovernmental Relations[1]	International and Intergovernmental Relations
Ministry of Justice[1]	Justice
Ministry of Learning	Learning
Ministry of Municipal Affairs[1]	Municipal Affairs
Ministry of Revenue	Revenue
Ministry of Seniors	Seniors
Ministry of Solicitor General	Solicitor General
Ministry of Sustainable Resource Development	Sustainable Resource Development
Ministry of Transportation[1]	Transportation
N.A. Properties (1994) Ltd.	Finance
Natural Resources Conservation Board	Sustainable Resource Development
Persons with Developmental Disabilities Community Boards Calgary Region Community Board Central Region Community Board Edmonton Region Community Board Michener Centre Facility Board[2] Northeast Region Community Board Northwest Region Community Board Provincial Board South Region Community Board	Community Development
Provincial Judges and Masters in Chambers Reserve Fund	Finance
Supplementary Retirement Plan Reserve Fund	Finance
Victims of Crime Fund	Solicitor General
Wild Rose Foundation, The	Community Development

[2] Dissolved July 23, 2002.

ENTITIES NOT INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Fund or Agency	Ministry Annual Report
Alberta Cancer Board	Health and Wellness
Alberta Foundation for Health Research	Innovation and Science
Alberta Heritage Foundation for Medical Research	Innovation and Science
Alberta Heritage Foundation for Science and Engineering Research	Innovation and Science
Alberta Mental Health Board	Health and Wellness
Alberta Teachers' Retirement Fund Board	Learning
Improvement Districts' Trust Account	Municipal Affairs
Local Authorities Pension Plan	Finance
Long-Term Disability Income Continuance Plan – Bargaining Unit	Human Resources and Employment
Long-Term Disability Income Continuance Plan – Management, Opted Out and Excluded	Human Resources and Employment
Management Employees Pension Plan	Finance
Provincial Judges and Masters in Chambers Pension Plan	Finance
Public Post Secondary Institutions	Learning
Public Service Management (Closed Membership) Pension Plan	Finance
Public Service Pension Plan	Finance
Regional Health Authorities	Health and Wellness
School Boards	Learning
Special Areas Trust Account, The	Municipal Affairs
Special Forces Pension Plan	Alberta Finance
Supplementary Retirement Plan for Provincial Judges and Masters in Chambers	Finance
Supplementary Retirement Plan for Public Service Managers	Finance
Workers' Compensation Board, The	Human Resources and Employment