Alberta Finance

2003-2004 Annual Report

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Ministry of Finance Annual Report 2003-04

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PREFACE

PUBLIC ACCOUNTS 2003-04

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 29, 2004, 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, and**
- **financial information relating to trust funds.**

MINISTER'S ACCOUNTABILITY STATEMENT

The Ministry's Annual Report for the year ended March 31, 2004, 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 20, 2004 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 20, 2004

MESSAGE FROM THE MINISTER

As I present the 2003-04 Annual Report for the Ministry of Finance, I note another year of both challenges and highlights for our province. Our agricultural sector was hit with such disasters as Bovine Spongiform Encephalopathy (BSE) and severe drought conditions, but strong resource revenues enabled us to maintain our healthy economy.

In our first complete year of the government's new fiscal framework - designed to bring predictability, sustainability and continued discipline to our fiscal planning process - the Province's new Sustainability Fund reached its $2.5 billion target funding level. The budget was also balanced for the tenth straight year and further payments were made to reduce Alberta's accumulated debt, which now effectively sits at $3.7 billion.

Albertans continue to pay the lowest taxes in the country. In 2003, the government cut corporate income tax rates further, saving corporations millions in taxes. We also continued indexation of the personal income tax system and froze school property tax rates. Alberta's low taxes are a solid foundation for our dynamic and vibrant provincial economy.

Alberta's strong fiscal position continues to be recognized by leading credit rating agencies in North America. For the third consecutive year, Moody's Investor Service, Standard and Poor's and DBRS rated our province's credit rating as triple A, making Alberta the only province in Canada to enjoy such a status.

The process to reform automobile insurance, which began in 2002, also continued this year. An automobile insurance implementation team was formed to develop the mechanics of a proposed policy framework approved by Caucus, premiums were frozen to prevent further increases for good drivers, and regulations for the new proposed framework continued to be developed. The implementation of the new automobile insurance system is set for October 2004.

I would like to acknowledge the Finance Ministry staff for their hard work and dedication throughout the past year. Due to their efforts, Alberta Finance continues to demonstrate its commitment to providing excellent service to Albertans.

In the coming year, our focus will be on implementing the new automobile insurance system, building on our past successes, and finding new and innovative ways to address challenges.

Patricia L. Nelson
Minister of Finance

September 20, 2004

MANAGEMENT'S RESPONSIBILITY FOR REPORTING

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.*
- *The Alberta Government Telephones Commission*

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*.

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 20, 2004

Overview

Alberta Finance

2003-2004 Annual Report

OVERVIEW

Alberta Finance's Vision

A province that is innovative and globally competitive with a fiscally sustainable and accountable government.

Mission

Develop and implement the government's fiscal framework and financial policies.

Core Businesses and Goals

Core Business: Fiscal Planning and Financial Management

Goal 1: A Financially Strong, Sustainable and Accountable Government

Goal 2: A Fair and Competitive Provincial Tax System

Goal 3: Effective Management of Financial Assets, Liabilities and Risks

Core Business: Regulation of Provincial Financial Institutions

Goal 4: Confidence in Provincially Regulated Financial Institutions and Insurance Companies

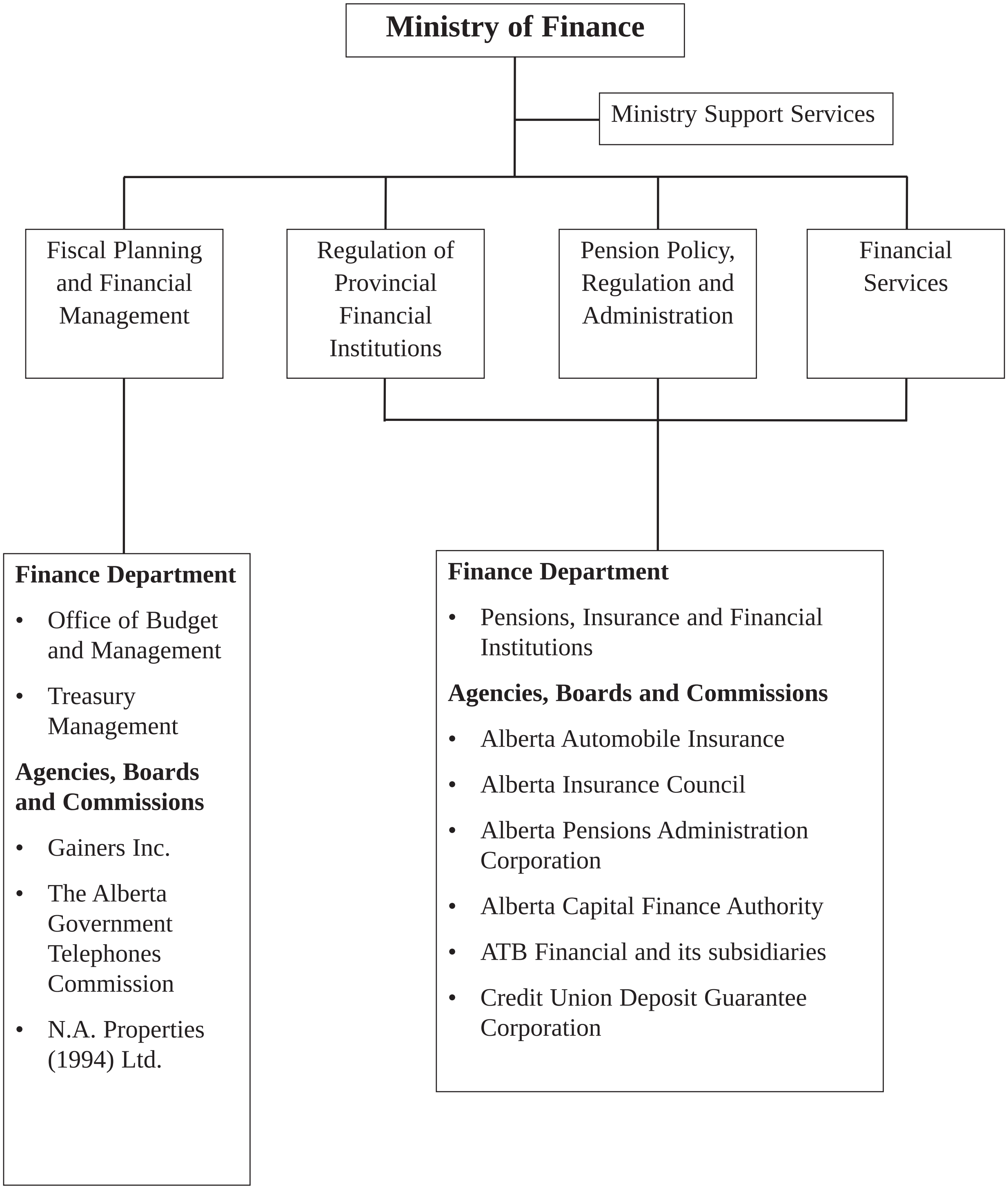
Core Business: Pension Policy, Regulation and Administration

Goal 5: Pensions that Deliver on Promises

Core Business: Financial Services

Goal 6: Financial Services Available to Albertans and Alberta Municipalities

RELATIONSHIP OF FINANCE DEPARTMENT AND REPORTING ENTITIES TO CORE BUSINESSES



ALBERTA FINANCE'S OPERATIONAL STRUCTURE

Department of Finance

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

THE 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 overseeing the 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 DIVISION

The Pensions, Insurance and Financial Institutions Division (PIFI) is responsible for the regulation and, under certain circumstances, administration of credit unions, loan and trust corporations, financial institutions, insurance and private sector pension plans. It provides policy support and analysis to the Minister of Finance in these areas, as well as on Alberta Treasury Branches, 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 (AIB)

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

- The AIB investigates matters regarding automobile insurance in Alberta and approves rates charged by insurers for compulsory automobile coverage under the *Motor Vehicle Administration Act*. A copy of the AIB's annual report can be obtained by either contacting the local Edmonton office or through Alberta Finance's website at *www.finance.gov.ab.ca*.

The Alberta Insurance Council (AIC)

901 TD Tower
10088 - 102 Avenue
Edmonton, Alberta T5J 2Z1

- 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 on their internet site at *www.abcouncil.ab.ca.*

The Credit Union Deposit Guarantee Corporation (CUDGC)

18th Floor
10130 - 103 Street
Edmonton, Alberta T5J 3N9

- CUDGC regulates business practices of Alberta credit unions and guarantees deposits according to legislation. While CUDGC strives to maintain the Deposit Guarantee Fund at a level that will enable the corporation to independently provide the 100% deposit guarantee, the Government of Alberta will ensure that CUDGC can fulfill their guarantee obligation. The corporation provides advice to Alberta credit union boards and management to help improve their skills and help them avoid unsound business practices or other problems. The annual report for CUDGC is available on their internet site at *www.cudgc.ab.ca.*

The Alberta Pensions Administration (APA) Corporation

3rd Floor
10611 - 98 Avenue
Edmonton, Alberta T5K 2P7

- 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 478 employers, approximately 174,000 active and deferred members, and 54,000 pensioners. The combined assets of the pension plans were approximately $16.5 billion at December 31, 2003. APA's annual report is available on their internet site at *www.apaco.ab.ca*.

ATB Financial

9888 Jasper Avenue
Edmonton, Alberta T5J 1P1

- ATB Financial is a $14 billion, full-service financial institution based in Edmonton, Alberta. As a leading financial services provider to individuals, small business and the agri-industry, it serves 600,000 Albertans in 242 communities through various branches and agencies, as well as through a Customer Contact Centre and the internet. Having the largest financial institution representation in the province, it is a preferred choice for many 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 on their internet site at *www.atb.com*.

Alberta Capital Finance Authority (ACFA)

#2450 Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, Alberta T5J 3N6

- The ACFA is a non-profit authority established under the *Alberta Capital Finance Authority Act*. Its mission is to provide local authorities within the Province with flexible funding for capital projects at the lowest possible cost consistent within the viability of the ACFA. ACFA issues debt obligations that are guaranteed by the Province in order to deliver the lowest possible funding cost. ACFA's annual report is available on their internet site at *www.acfa.gov.ab.ca*.

HIGHLIGHTS AND SUMMARY OF KEY ACTIVITIES

- As of March 31, 2004, the accumulated debt, less cash set aside for future payment, was $3.7 billion, significantly better than the original Budget 2003 target of $4.8 billion. Debt-servicing costs were $271 million, which is lower than the budgeted amount of $465 million largely due to a stronger Canadian dollar, higher than anticipated debt retirement, and lower short-term interest rates.

- On July 12, 2004, the Government announced a debt free Alberta. The Province will be setting aside an additional $3 billion to pay off the province's accumulated debt. The government will consult Albertans about their priorities for the post-debt era in the *It's Your Money* survey.

- The budget was balanced for the tenth consecutive year. As reported in the 2003-04 Government of Alberta Annual Report, the Province ended the year with net revenue of $4.1 billion. This was $3 billion higher than the budgeted target of $1.1 billion.

- Despite facing disasters such as BSE and forest fires, 2003 was a very positive year for the Alberta economy. Employment grew by 47,900 new jobs, the highest rate in Canada, at 2.9%. Alberta also registered the second lowest unemployment rate among the provinces, at 5.1%. High energy prices spurred a sharp increase in conventional energy sector investment, and housing construction continued at near-record levels. Albertans also had the highest disposable income per capita in Canada, 15% higher than the national average. Overall, Alberta's economic growth for 2003 is estimated at 3.1%.

- Alberta maintained the highest credit rating, ensuring that Alberta's borrowing costs are the lowest among the provinces. During 2003-04, Dominion Bond Rating Service, Standard and Poor's, and Moody's Investor Services all confirmed Alberta's triple A credit rating.

- Developing a new fiscal framework was a priority for Alberta Finance, with the establishment of the Sustainability Fund in 2003-04. Strong non-renewable resource revenue enabled the government to reach the fund's target of $2.5 billion. The fund also allowed the government to allocate about $1 billion for BSE agriculture assistance, increased forest fire fighting costs and the provision of natural gas rebates.

- The government completed its review of Alberta's automobile insurance system, leading to legislation and regulations that provide for a new premium rate structure, which will reward safe drivers and ensure fair compensation for Albertans injured in automobile accidents. Set for implementation on October 1, 2004, the automobile insurance reforms also include a new process to diagnose and treat minor injuries, a new Automobile Insurance Rate Board and a dispute resolution process for consumers with complaints regarding the calculation of their premium.

- Indexing of Alberta's single-rate personal income tax system continued to benefit Albertans through an income exemption of $14,337, the highest in Canada. A family of four can earn up to $35,700 in 2003-04 without paying provincial income taxes, with the Alberta Family Employment Tax Credit offsetting any taxes paid up to that level. Alberta's total tax load remains competitive in a global economy. At 26.1% of GDP, Alberta's tax load is lower than all the G-7 nations, and 10 percentage points lower than the G-7 average.

- The government continued to reduce corporate income taxes in 2003-04, lowering the general rate to 12.5% on April 1, 2003. The small business rate was also reduced to 4% and the small business threshold continued to be $400,000. The tax cuts continued in 2004, with the general rate reduced to 11.5%, and the small business rate reduced to 3% effective April 1, 2004.

- The government continued to manage its financial assets and liabilities effectively. Returns on the Sustainability Fund and the Consolidated Cash Investment Trust Fund exceeded benchmarks based on Scotia Capital Treasury Bill indices. Return on funds invested from the Debt Retirement Account exceeded the market return on the debt by 5.7 basis points. Lower commission costs negotiated by the government saved the Province and its corporations an estimated $1.2 million on borrowing of $1.05 billion. Most of the borrowing in recent years has been on behalf of provincial corporations.

- Alberta Finance monitors provincially incorporated insurers, credit unions, trust and loan companies, and the Credit Union Central Alberta Ltd. (CUCA). All provincially regulated financial institutions met solvency requirements for 2003-04. No financial failures were recorded for insurance, loan or trust companies, CUCA or credit unions in 2003-04.

- The Minister of Finance is responsible for Alberta's public sector pension plans except for the Teachers' Pension Plans which fall under the Ministry of Learning. These four major plans are: the Local Authorities Pension Plan, the Special Forces Pension Plan, the Public Service Pension Plan, and the Management Employees Pension Plan. After suffering three consecutive years of decline in world capital markets, equity markets rebounded in 2004 and pension fund assets posted positive returns. However, the funding of the public sector pension plans is still a concern. The Pension Boards and the government will continue to monitor the situation closely.

- Alberta Finance 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. During the past fiscal year, a risk assessment system was implemented to support Alberta Finance's shift in regulatory focus from routine compliance monitoring to risk management. Of the pension plans registered in Alberta, 99% met the minimum funding requirements set out in the EPPA.

- ATB Financial's net income for the year was $172 million. ATB Financial continued to build momentum under the banner of ATB Investor Services, adding $355 million in assets under administration. At March 31, 2004, assets under administration stood at $544 million.

- The Alberta Capital Finance Authority (ACFA) aims to offer the lowest cost of borrowing to local authorities in Canada. The ACFA compares Alberta local authorities' cost of borrowing to the Municipal Finance Authority of British Columbia (BCMFA) and the City of Toronto. The target was consistently met for short-term rates, but mid- and long-term rates, 5 through 25 years, were comparable to, or slightly higher than, the lowest rates in Canada.

REPORT OF THE AUDITOR GENERAL ON THE RESULTS OF APPLYING SPECIFIED AUDITING PROCEDURES TO PERFORMANCE MEASURES

TO THE MEMBERS OF THE LEGISLATIVE ASSEMBLY:

In connection with the Ministry of Finance's performance measures included in the *2003-2004 Annual Report of the Ministry of Finance* for the year ended March 31, 2004, I have:

1. Agreed information from an external organization to reports from the organization.
2. Agreed information from reports that originated from organizations included in the consolidated financial statements of the Ministry to source reports. In addition, I tested the procedures used to compile the underlying data into source reports.
3. Checked that the presentation of results is consistent with the stated methodology.
4. Checked that the results presented are comparable to stated targets, and information presented in prior years.
5. Checked that the performance measures, as well as targets, agree to and include results for all of the measures presented in Budget 2003.

As a result of applying the above procedures, I found the following four exceptions:

- For the measure *Percentage of Financial Management Commission accepted recommendations implemented,* management asserts that 11 of the 22 accepted recommendations have been implemented. Management provided the final budget and business plan documents, but not the underlying data to support their assertion that they have implemented the first component of the following recommendation:

  Recommendation No. 15-There should be regular reviews, including benefit-cost assessments, of all major government programs, policies and delivery mechanisms. The number of government departments and agencies should be reviewed.

- Baselines were not established as indicated would be done in Budget 2003 for two measures. Management has explained why baseline data was not available for:
  - *Stakeholder satisfaction with harmonization of financial sector policy and regulation*
  - *Stakeholder satisfaction with Canada-wide harmonization of private pension legislation and regulatory processes*

- There was no survey data available for one measure *Percentage of local authorities satisfied with lending policies and efficiency of ACFA (biennial survey).* Management has explained why survey data was not available.

Therefore, I was not able to complete the relevant procedures for these four measures.

Procedures 1 to 5, however, do not constitute an audit, and therefore I express no opinion on the performance measures included in the *2003-2004 Annual Report of the Ministry of Finance*.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
August 10, 2004

Results Analysis

Alberta Finance

2003-2004 Annual Report

RESULTS ANALYSIS

Financial Highlights

REVENUE
Revenue for the Ministry in 2003-04 was $982 million.
This was down $257 million, or 22% from 2002-03.

- Internal government transfers from the Lottery Fund to the Department of Finance declined by $142 million compared to the previous year. This was due to an offsetting increase in Lottery Fund grants to ministries.
- Investment income increased by $13 million. The newly created Sustainability Fund and Capital Account earned $42 million and $29 million, respectively. An additional $7 million was earned by the General Revenue Fund due to larger than anticipated cash surpluses. These increases were partially offset by a $49 million reduction in earnings on income set aside for debt retirements and a $16 million reduction in the income of the Alberta Capital Finance Authority as a result of reduced borrowing over the previous year by its shareholders.
- Net income from commercial operations decreased by $25 million. This was primarily due to a recovery of a credit loss provision by ATB Financial in 2002-03.
- Other income and fees decreased by $103 million due primarily to a one-time transfer of $100 million in 2002-03 from the retained earnings of the Alberta Capital Finance Authority to the Department of Finance.

EXPENSE
Expenses in 2003-04 were $703 million.
This was down $290 million, or 29% from 2002-03.

- Total debt servicing costs declined by $216 million from 2002-03 primarily due to debt retirement of $1.7 billion in 2003-04 and a decrease in the foreign exchange provision on unhedged US$ debt as a result of a stronger Canadian dollar.
- Valuation adjustments decreased by $80 million. An actuarial valuation of the Public Service Management (Closed Membership) Pension Plan that was conducted in 2002-03 resulted in an increase to the pension provision in that year.
- Alberta Pensions Administration Corporation operating costs increased by $2.8 million as a result of additional staffing requirements and amortization of newly developed systems.
- Department of Finance voted operating expenses increased by $2.7 million, which included a $1.5 million supplementary estimate for the automobile insurance review.

MINISTRY EXPENSE BY CORE BUSINESS

(thousands of dollars)

Core Business	2003-04 Budget	2003-04 Actual	2002-03 Actual
Fiscal Planning and Financial Management	543,094	346,708	550,923
Regulation of Provincial Financial Institutions	5,156	6,278	4,521
Pensions Policy, Regulation and Administration	28,131	27,219	24,834
Financial Services	315,938	320,354	331,703
	892,319	**700,559** [1]	**911,981** [1]

MINISTRY EXPENSE BY FUNCTION

(thousands of dollars)

Function	2003-04 Budget	2003-04 Actual	2002-03 Actual
Agriculture and Economic Development	500	501	821
Regional Planning and Development	315,518	319,943	331,257
Protection of Person and Property	2,420	2,401	2,049
General Government	116,378	114,607	109,750
Debt Servicing Costs	457,503	263,107	468,104
	892,319	**700,559** [1]	**911,981** [1]

1 excludes pension provisions

GOALS, PERFORMANCE MEASURES, TARGETS AND RESULTS

CORE BUSINESS

FISCAL PLANNING AND FINANCIAL MANAGEMENT

Re-engineering Alberta's fiscal framework is a strategic priority for Alberta Finance. In 2003-04, Alberta Finance concentrated on developing a new fiscal framework, establishing the sustainability fund and capital account, assisting in the development of the capital plan and beginning to assess expansion of the government's reporting entity to include other entities.

Alberta Finance worked with other ministries on assessing the economic impact and challenges with global climate change as a result of the introduction to the Kyoto Protocol.

Financial Information

(thousands of dollars)

Expense for Core Business

2003-04 Comparable Budget	2003-04 Actual	Variance
543,094	346,708	196,386

Debt servicing costs were $194.4 million below budget primarily due to an increase in the foreign exchange loss provision on unhedged US$ debt, higher than anticipated debt retirement and lower short-term interest rates. This linked to better performance on accumulated debt. The remaining $1.9 million reduction from budget is attributed to staff vacancies and lower contract costs.

GOAL 1

A Financially Strong, Sustainable and Accountable Government

Having a financially strong, sustainable and accountable government is important to Albertans. This means that the Government should be fiscally prudent in its economic forecasting. It must plan strategically to meet the needs of the Province today and into the future.

As a result of this strategic approach, the Alberta Government balanced its budget for the tenth consecutive year in 2003-04. As reported in the 2003-04 Government of Alberta Annual Report, the Province's revenue exceeded expense by $4 billion. This was $3 billion higher than budgeted.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Alberta's credit rating	**AAA credit rating**	**AAA credit rating**	**AAA credit rating (2002-03)**

A credit rating is an independent credit rating agency's assessment of the future ability of an organization to repay its long-term debt, and a method of comparing the quality of different bond issues. A blended rate is an average (rounded) of the domestic debt credit ratings issued by the following credit rating agencies: Standard and Poor's Rating Services, Moody's Investors Service Limited and Dominion Bond Rating Service. The highest possible rating is AAA.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Value of assets in the Sustainability Fund	**$2.5 billion**	**$2.5 billion**	**New measure**

Source: Alberta Finance

The *Fiscal Responsibility Act* (FRA) legislated and implemented Alberta's Sustainability Fund (SF) in 2003-04. The Sustainability Fund is an account within the General Revenue Fund and is the mechanism that protects the fiscal plan from revenue volatility and costs of emergencies, disasters and natural gas rebates. The balance in the Sustainability Fund achieved the target of $2.5 billion in 2003-04.

The FRA stipulates that non-renewable resource revenue above $3.5 billion (changed to $4 billion for 2004-05) is transferred into the SF. In addition, Treasury Board can allocate additional amounts to the SF. By way of policy, the SF is the first priority for year-end surpluses until the Fund reaches $2.5 billion.

The balance in the SF cannot be less than zero, and if the SF balance exceeds $2.5 billion, Treasury Board may re-allocate the excess to other balance sheet accounts, reducing liabilities, such as accumulated debt, or increasing assets, such as the Capital Account or the Heritage Fund.

In 2003-04, approximately $1 billion was allocated to Bovine Spongiform Encephalopathy (BSE) agriculture assistance, increased forest fire fighting costs and the provision of natural gas rebates.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Accumulated debt (less cash set aside and to be transferred)	**$4.8 billion**	**$3.7 billion**	**$4.7 billion (2002-03)**

Source: Alberta Finance

The *Fiscal Responsibility Act* sets out the government's schedule to repay the $12.5 billion of accumulated debt that was remaining as of March 31, 2000 over a maximum of 25 years. The legislation includes five-year milestones for repayment of the accumulated debt.

Alberta's accumulated debt is the sum of the outstanding consolidated debt of the General Revenue Fund, the debt of the Alberta Social Housing Corporation and the government's liability for school construction.

As of March 31, 2004, accumulated debt less cash set aside for future debt repayment was $3.7 billion, significantly better than the original Budget 2003 target of $4.7 billion. This favorable position is a result of strong non-renewable resource revenues in 2003-04.

On July 12, 2004, the Government announced a debt-free Alberta. The Province will be setting aside an additional $3 billion to pay off the province's accumulated debt. The additional $3 billion will be set aside in the Debt Retirement Account by March 31st, 2005 to make all remaining debt payments as they become due. Once it is topped up, funds in the Debt Retirement Account will be locked in by legislation that will be introduced in the next session, to ensure the account can only be used to pay down the debt.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Percentage of Albertans who think they get enough information on the government's financial performance	**Establish baseline**	**57%**	**67% (2002-03)**

Source: Survey conducted for Alberta Public Affairs Bureau by Environics West

Alberta is dedicated to being financially open and accountable and has become a leader among Canadian governments in financial reporting. The provincial government reports quarterly to Albertans on progress made in achieving the current year's fiscal plan. The *Government Accountability Act* sets out the reporting requirements that provide government accountability. The government has to publish three-year consolidated fiscal plans, quarterly fiscal updates and annual reports including audited financial statements within a relatively short time frame. By providing timely, comprehensive information, Albertans have the opportunity to objectively evaluate the performance of government.

In the spring of 2004, 606 adult Albertans were surveyed to see how satisfied they are with the information they receive on the government's financial performance. They were asked the following question: "How satisfied are you with the information you receive from the Alberta government on the government's financial performance?" The results were reliable to within plus or minus 4.0%, 19 times out of 20. Out of the Albertans surveyed, 57% said they were satisfied with the amount of information they received, 10% less than 2002-03. The results may have been affected by the timing of the survey and in the future this survey will be conducted at the same time every year. The baseline was established at 70%.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Percentage of accepted FMC recommendations implemented	**32%**	**50%**	**New measure**

Source: Alberta Finance

In July 2002, the Financial Management Commission (FMC) submitted a report containing 25 recommendations to the Minister of Finance. A formal government response was published in September 2002 accepting 22 of the 25 recommendations. Finance is coordinating the implementation of the 22 accepted recommendations. The key recommendations implemented included a new fiscal framework, sustainability fund, capital plan, and changes to the accounting treatment of capital.

At the end of this fiscal year, 11 of the 22 (50%) FMC recommendations accepted by Government have been implemented. This is ahead of the target of 7 of 22 (32%). The FMC recommendations implemented include numbers 1-3, 5, 7-9, 15, 20, 22 and 24. The FMC recommendations are available at www.finance.gov.ab.ca or the FMC website at www.albertafmc.com.

GOAL 2 A Fair and Competitive Provincial Tax System

Alberta's tax system is fair and competitive. A fair tax system is one that incorporates a low-rate, broad-based tax regime, rather than introducing special tax incentives that favour one group over another. Further, our high personal tax exemptions protect low-income people by allowing them to earn more money before paying any tax at all. Alberta's low personal and corporate taxes translate into a competitive tax system that helps attract workers and investment, creating a strong provincial economy.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Provincial tax load for a family of four	**Lowest in Canada**	**Lowest in Canada**	**Lowest in Canada (2002-03)**

Shared measure with Alberta Revenue

Low personal income taxes and fuel taxes, in combination with no retail sales taxes, mean that Albertans pay the lowest personal taxes in Canada. A typical two-income family earning $60,000 will pay over $600 less in taxes in Alberta than they will in Ontario, the next lowest province. Low personal taxes give people more money to spend or invest as they wish, and help attract people to Alberta.

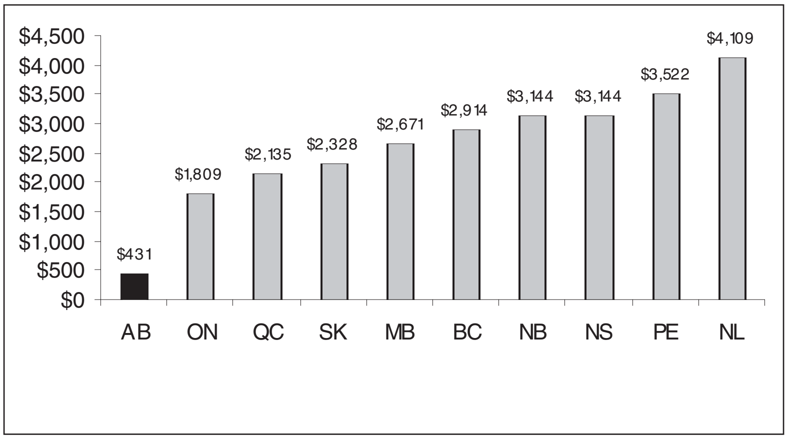
Alberta's personal tax system is also fair. With the highest income exemptions in Canada, at $14,337 in 2004, Albertans are able to earn more money before they start to pay any tax. A family of four can earn up to $35,700 in 2004 without paying provincial income tax, as the Alberta Family Employment Tax Credit offsets any tax paid to that level. Alberta's decision to index the tax system also protects taxpayers by preventing inflation from eating away at past tax cuts.

The taxes in the comparison include provincial personal income tax, sales tax, payroll taxes, fuel taxes, tobacco taxes and healthcare premiums.

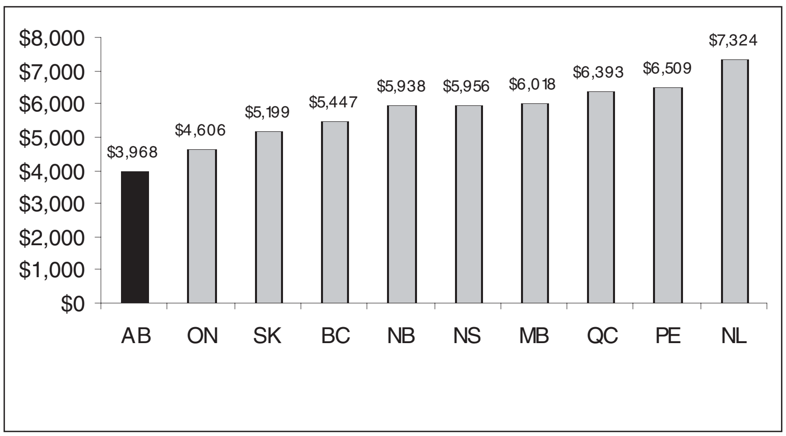
Calculations are based on the following assumptions:

- 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 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 estimated consumption of 100 packs per adult per year.
- RRSP/RPP contributions of $1,000, $7,800 and $13,500 are included in the calculation of personal income tax for the $30,000, $60,000 and $100,000 families, respectively.
- For two income families, income and RRSP/RPP contributions are split 60/40 between two spouses.
- The children in each family are assumed to be 6 and 12 years old.

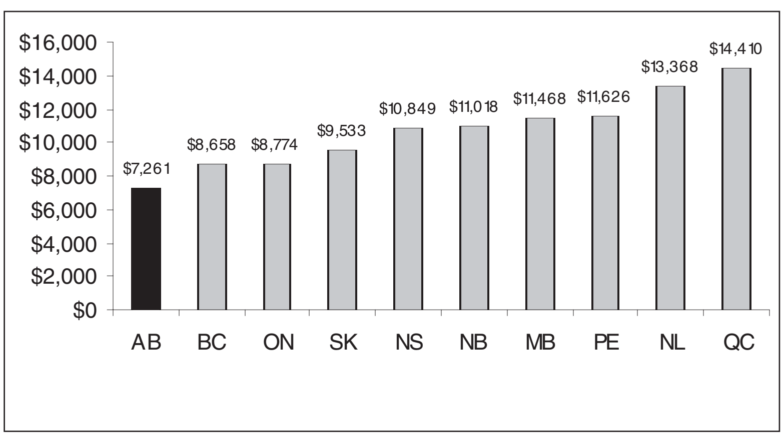
One income family earning $30,000 - with two children



Two income family earning $60,000 - with two children



Two income family earning $100,000 - with two children



Source: Alberta Finance

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Provincial tax load on businesses	**Lowest in Canada**	**Third Lowest in Canada**	**Second Lowest in Canada (revised) (2002-03)**

Shared measure with Alberta Revenue

Alberta's corporate taxes are competitive. In 2003-04, the target of being the lowest in Canada was not met. Alberta's provincial tax load on businesses was the third lowest in Canada, following New Brunswick and British Columbia. Alberta's general corporate tax rate and small business tax rate were the second lowest in Canada. Further, Alberta does not have a capital tax or a payroll tax, making Alberta businesses more competitive. Low overall taxes encourage entrepreneurs to start new businesses here, or expand existing operations.

TAX LOAD ON BUSINESS*

	% 2003-04	% 2002-03 (revised percentage of provincial average)
British Columbia	71.6	75.6
New Brunswick	76.1	98.3
Alberta	87.2	79.5
Ontario	95.7	96.9
Prince Edward Island	106.5	86.6
Quebec	111.0	113.3
Manitoba	116.7	142.5
Newfoundland and Labrador	123.8	128.1
Nova Scotia	124.5	97.5
Saskatchewan	253.1	230.9

* Includes business income taxes, capital taxes, and insurance corporation taxes. Tax load relative to provincial average = 100
Source: Federal Department of Finance, February 2004 Third Estimate for 2003-04;
February 2004 Fifth Estimate for 2002-03: Alberta Finance.

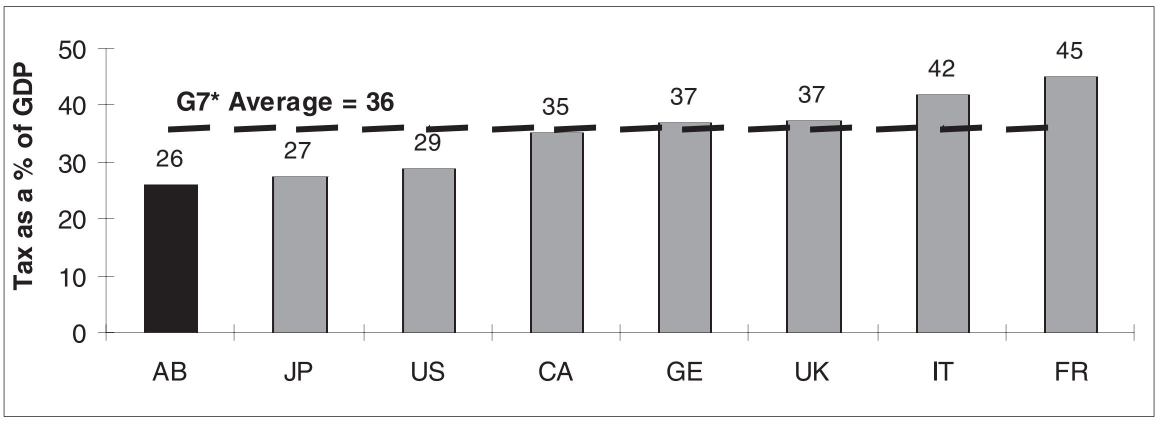
The government continued its plan of corporate income tax reductions in 2003-04. Effective April 1, 2003, the general rate was reduced to 12.5%, the small business rate was reduced to 4.0%, and the small business threshold was increased to $400,000. The tax cuts continued in 2004. Effective April 1, 2004, the general rate was reduced to 11.5%, the small business rate was reduced to 3%, and the small business threshold continued to be $400,000. The government will continue to take steps towards its goal of an 8.0% general rate, as affordable.

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.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Total tax load in Alberta as a percentage of GDP	**29%**	**26%**	**26% (2002-03)**

In a global economy, it is important to be competitive not only within Canada, but also with other countries. A competitive tax system helps attract investment from around the world. 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% of GDP, Alberta's tax load is lower than all the G-7 nations, and 10 percentage points lower than the G-7 average.



* G7 comprises of Japan, United States, Canada, Germany, United Kingdom, Italy and France.

Sources: The Organization for Economic Co-operation and Development (OECD) Revenue Statistics; Statistics Canada; Alberta Finance.

The measure is calculated using OECD and Statistics Canada data and as such is limited to the most recent year published by these sources, consequently 2001 data is used as the base year for this comparison. Provisional estimates by the OECD are not used in the comparison. Information on Russia is not available on a consistent basis; as a result, it is not included in the comparison.

GOAL 3 Effective Management of Financial Assets, Liabilities and Risk

The Government of Alberta's annual cash flow must be managed to optimize returns and to ensure cash is available to meet Alberta's obligations. The Minister of Finance is also responsible for managing several billion dollars in liabilities as well as certain assets. Through prudent management of liabilities and assets, the Ministry works at minimizing financing costs and maximizing investment returns.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Return on Sustainability Fund (benchmark to be established 2003-04)	**Greater than the approved benchmark**	**Return on the Fund exceeded the approved benchmarks** (Return on fund for 9 months exceeded both the 91 and 365 days Scotia Capital Treasury Bill Indices)	**New measure**

Source: Alberta Finance.

The Ministry established the benchmark for the Fund in the 2003-04 Statement of Investment Policy for the Sustainability Fund ("the Fund"). For the portion of the Fund invested in CCITF, the benchmark is the 91 day Scotia Capital Treasury Bill index. For the remaining funds, invested in short and long-term fixed income securities, the benchmark is the 365 day Scotia Capital Treasury Bill index.

Performance is presented in terms of nine-month returns because the Fund was established July 2003. The index returns for the nine-month period, from July 2003 to March 2004, for the 91 and 365 day Scotia Capital Treasury Bill indices were 2.16% and 2.91% respectively. Comparable returns for the Fund were 2.66% and 3.68% respectively, which exceeded both benchmarks.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
All in cost of debt issued compared to an issue of comparable term in the Canadian public debt market	**Lower**	**Costs were lower by $1.2 million**	**Costs were lower by $596,500 (2002-03)**

Source: Alberta Finance.

During the year, the ministry arranged the borrowing of $1.05 billion for provincial crown corporations through public bond issues and private placements. The ministry was able to negotiate lower commission costs and saved the Province and its corporations an estimated $1.2 million compared to selling the same bonds in the public markets.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Return on Debt Retirement Account compared to the cost of the debt on the day the investment is made	**Greater**	**5.7 basis points higher than market return on matching debt**	**5.6 basis points higher than market return on matching debt (2002-03)**

Source: Alberta Finance.

The Debt Retirement Account represents funds that have been set aside from annual surpluses to meet the Province's obligations on future debt maturities. The objective is to have cash available as debt matures and to invest the money in securities with a higher rate of return than the cost of Province of Alberta debt that would have been issued on the day the investment is purchased. If the investment return exceeds the market cost on the Province of Alberta debt, then the Province is able to save that differential. The funds invested in the current year (2003-04) with a maturity date of 60 days or greater, exceeded the market return on the debt by 5.7 basis points.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Return on Consolidated Cash Investment Trust Fund compared to ScotiaMcLeod 91 day Treasury Bill Index	**Greater by over 10 basis points**	**Greater by 15 basis points**	**Under performed by 4 basis points (2002-03)**

Source: Alberta Finance.

The Consolidated Cash Investment Trust Fund (CCITF) is a money market fund used to manage the cash balances of the Province and other depositors in the fund. A benchmark for the return on the fund has been established as the Scotia Capital (formerly ScotiaMcLeod) 91 day Treasury Bill index plus 10 basis points. The benchmark return for 2003-04 was 3.10%. The one-year return on the CCITF was 3.25%.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Government decision on enterprise risk management program	**Completed**	**Ongoing**	**Research phase complete (2002-03)**

Source: Alberta Finance.

An enterprise risk management framework is one of Finance's strategic priorities. Identification and management of these risks has become a priority for the government as a whole. Finance was originally given the task of developing a risk management program for the government. The target was not met for 2003-04. The leadership for this initiative became the responsibility of a sub-committee of the Deputy Minister's Council, chaired by Finance. The sub-committee is currently looking at developing a risk management framework for the Government of Alberta. Alberta Finance also participated in the sponsorship and funding of a comprehensive study by the Conference Board of Canada and Deloitte & Touche, looking at government organizations across Canada and abroad with a goal of providing senior government leaders with risk management strategies.

CORE BUSINESS

REGULATION OF PROVINCIAL FINANCIAL INSTITUTIONS

Alberta Finance sets the legislative and regulatory framework and with its delegated regulatory organizations regulates the credit union, loan and trust, and insurance industries in Alberta. By balancing the interests of stakeholders including depositors, policyholders, investors and the companies themselves, the department helps to promote an efficient, fair and competitive financial sector in Alberta.

The Department also monitors the Credit Union Central Alberta Ltd. (CUCA) and, through the Credit Union Deposit Guarantee Corporation (CUDGC), guarantees the repayment of all deposits held with credit unions. Alberta Finance's role with respect to deposit insurance is to ensure that CUDGC is capable of fulfilling its guarantee of credit union deposits.

Automobile insurance is compulsory in Alberta to help ensure that Albertans are protected from loss when they are involved in an automobile collision. Alberta Finance regulates this industry and monitors availability, affordability and fairness of insurance to Albertans. In the past couple of years, premiums increased at a high rate and more vehicle owners found it difficult to obtain insurance in the regular marketplace. A strategic priority for Alberta Finance in 2003-04 was to assess the issues facing the automobile insurance industry and review the compensation for automobile injury claims and related premium increases.

Financial Information

(thousands of dollars)

Expense for Core Business

2003-04 Comparable Budget	2003-04 Actual	Variance
5,156	6,278	(1,122)

Expenses were $1.1 million above budget due to the Auto Insurance Reform. The Ministry received a supplemental estimate of $1.5 million to develop and communicate reforms to Alberta's automobile insurance systems.

GOAL 4

Confidence in Provincially Regulated Financial Institutions and Insurance Companies

In 2003-04, there were 67 credit unions operating in Alberta through 199 branches with assets exceeding $9 billion, 57 loan and trust corporations registered to conduct business in Alberta and 301 insurance companies licensed to conduct business in Alberta.

All provincially incorporated credit unions, trust and loan companies, insurance companies and the CUCA met solvency requirements. No financial failures were recorded in 2003-04.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Automobile Insurance Review	**Completed and implemented**	**• Review completed • Implementation to be completed in October 2004**	**New measure**

A review of Alberta's automobile insurance system was initiated in 2002-03 and will be completed in 2004. Bill 53, the Insurance Amendment Act (No.2), was introduced in the Fall 2003 session of the Legislative Assembly. Bill 53 was passed on December 3, 2003 and put in place the enabling framework for a new premium rate structure that will reward safe drivers, and ensure fair compensation for Albertans injured in automobile accidents. The framework also provided for a new process to diagnose and treat minor injuries, a new Automobile Insurance Rate Board and a new dispute resolution process for consumers with complaints regarding the calculation of their premium. A new automobile insurance system is set for October 2004. The target was partially met for 2003-04.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Stakeholder satisfaction with harmonization of financial sector policy and regulation	**Set baseline**	**Survey did not occur**	**New measure**

Over the past few years on an international and national level, the financial services sector has undergone changes that have seen a broader range of services offered to customers through the amalgamation of financial institutions. To keep pace with these changes and to ensure that our provincial institutions remain on an even playing field within the market place, the province's regulatory framework has required amendments. Notable changes during the past fiscal year included harmonizing and expanding the powers of credit unions and ATB Financial to enable them to (i) serve the need for financial services in local communities, (ii) streamline their operations, and (iii) encourage an efficient and fair regulatory environment for financial institutions.

An integral component in ensuring that Alberta financial sector policy and regulation remains harmonized with changes that occur nationally and internationally is gauging our stakeholders' satisfaction with these efforts.

A baseline survey, scheduled for 2003-04, to gauge stakeholder satisfaction in the future did not occur. However, throughout the past year, the department has been engaged in ongoing consultation and communication with our provincially incorporated financial institutions. Collectively, our stakeholders have indicated that they are generally satisfied with the department's progress. This measure has been removed from the Ministry 2004-07 business plan but, ongoing consultations will continue with stakeholders.

CORE BUSINESS

PENSION POLICY, REGULATION AND ADMINISTRATION

Pension Plan Governance and Regulation is one of the strategic priorities for Alberta Finance. The Minister of Finance is responsible for Alberta's public sector pension plans (except for the Teachers' Pension Plans which fall under the Ministry of Learning). These four major plans are: the Local Authorities Pension Plan, the Special Forces Pension Plan, the Public Service Pension Plan, and the Management Employees Pension Plan. The plans have approximately 146,000 active members and 77,000 inactive members, which include members who have contributed to the plans but have left the public service and are not yet drawing a pension. The four plans have over $16 billion in assets. Annually, they collect in excess of $720 million in contributions and pay out approximately $690 million in benefits and refunds.

Alberta Finance also provides policy support to the Minister regarding the Canada Pension Plan. Over the past year, we have worked with the federal government and the other provinces to monitor the stability and sustainability of the plan.

Financial Information

(thousands of dollars)

Expense for Core Business

2003-04 Comparable Budget	2003-04 Actual	Variance
28,131	27,219	912

The variance is due to increased spending in the Department of $0.8 million as a result of higher staffing levels offset by decreased spending in Alberta Pension Administration Corporation of $1.7 million due to delays in commencement of business cases, staff vacancies and staff development.

GOAL 5

Pensions that Deliver on Promises

After suffering three consecutive years of decline in world capital markets, equity markets rebounded in 2003 and pension fund assets began to once again post positive returns. However, the funding of the public sector pension plans is still a concern. The Pension Boards and the Government will continue to monitor this situation closely. Alberta Finance also 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.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Improved governance frameworks developed and implemented	**In progress**	**In progress**	**In progress (2002-03)**

Some of the pension boards have made recommendations to improve governance of the public sector plans. Alberta Finance is currently reviewing these recommendations as part of Finance's general governance review. An advisory committee was established to help oversee the Supplementary Retirement Plan for Public Service Managers. As at March 31, 2004, a new Memorandum of Understanding was being drafted which outlined the roles and responsibilities of Alberta Pensions Administration Corporation and the Minister of Finance.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Local Authorities Pension Plan independence resolved	**In progress**	**In progress**	**New measure**

Over the past year, Alberta Finance continued to work with stakeholders of the Local Authorities Pension Plan (LAPP) to determine if, subject to meeting established principles and guidelines, the plan should become independent of government. Several stakeholders made presentations to the Standing Policy Committee on Economic Development and Finance and made recommendations on issues that the government needed to consider. Alberta Finance will carry this work forward with LAPP stakeholders to determine the future direction of the plan. In the interim, LAPP Corporation's mandate was extended for another year.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Percentage of APA client members and employers satisfied or very satisfied with products and services.	**95%**	**79%**	**New measure**

Alberta Pensions Administration (APA) Corporation 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.

In 2003, following the successful implementation of a new pension administration system for two client pension plans, APA Corporation transitioned its largest client plan to the new system in July and its final pension plan in September. Additionally, online services for employers were implemented for the four main plans during 2003.

In 2004, APA Corporation surveyed 3,000 members and 54 employers who used APA Corporation services in 2003. This 79% result is an average of the two surveys. The target was not met due to dissatisfaction with the employers on the APA telephone service. Further information on these and other surveys is available at site www.apaco.ab.ca. The response rate and results were as follows:

SURVEY RESULTS

	Satisfaction	Response Rate
Members	84%	19%
Employers	74%	8%
Total Average	**79%**	

Source: APA Corporation

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Percentage of private sector plans that meet minimum funding requirements	**98%**	**99%**	**New measure**

Source: Alberta Finance.

Alberta Finance 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. There are currently 1,280 private pension plans being monitored by the Superintendent's Office. Of these, 1,103 are active, 45 are in the process of being registered, and 132 are in the process of winding up. These plans have 175,843 active members. Total contributions were approximately $965 million for the year ended March 31, 2004, with the market value of total Assets and going concern Liabilities as at March 31, 2004 of $14.7 billion and $11.9 billion respectively.

During the past fiscal year, a risk assessment system was implemented to support the department's shift in regulatory focus from routine compliance monitoring to risk management. The new system enables the department to use data filed for compliance purposes to help identify plans "at risk" of failing to meet the minimum standards of the legislation. At-risk plans will be subject to more detailed scrutiny and the level of intervention will depend on the results of the risk assessment. Intervention will include desk reviews (both randomly selected plans and those identified by the risk assessment system) and on-site examinations of the plan's administration. A report will be issued to the plan administrator after each review identifying deficiencies and requiring that they be corrected within a specified time.

Plans must demonstrate they have adequate funding to pay out all promised benefits by filing annual information returns and, for defined benefit plans, triennial actuarial valuations. Over the last few years, investments, including those in registered private sector pension plans, have experienced a significant drop in returns that have reduced the market value of assets and increased the funding requirements of plan sponsors.

The EPPA requires that the sponsors of the plans meet minimum funding requirements by making current service contributions, eliminating any unfunded liability by making special payments over a fifteen-year period, and eliminating any solvency deficiency by making special payments over a five-year period. The department's performance benchmark is that at least 98% of pension plans registered in Alberta will meet these minimum funding requirements.

This measure is an amendment of the previous measure, which was based only on the solvency ratios of the plans. Because the risk management system is designed to ensure that plans meet all minimum funding requirements, this new measure is designed to assess that outcome directly.

Stakeholders in the pension industry advocate greater harmony in pension regulation for all jurisdictions in Canada. Alberta is participating in the development of a Model Pension Law through its membership in Canadian Association of Pension Supervisory Authorities (CAPSA). CAPSA released Proposed Regulatory Principles for a Model Pension Law in January 2004 with public consultations ending June 30, 2004.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Stakeholder satisfaction with Canada-wide harmonization of private pension legislation and regulatory processes	**Set baseline**	**Baseline not established (Review replaced the survey)**	**New measure**

Alberta also performs regular reviews of its legislation to ensure its relevance, effectiveness, and consistency with other jurisdictions. In the past year, Alberta Finance released consultation papers and received feedback from stakeholders on four issues: Risk Assessment, Access to Locked-in Accounts, Strengthening Risk Management, Disclosure and Accountability and Pension Division on Marriage Breakdown. Informal stakeholder feedback for Alberta proposals that would increase harmonization was positive.

This measure has been removed from the Ministry 2004-07 business plan because it is an ongoing process that involves not just Alberta but also several jurisdictions in Canada.

CORE BUSINESS

FINANCIAL SERVICES

Alberta Finance's goal is to ensure Albertans and local authorities receive reliable and competitive financial products and services. ATB Financial and the Alberta Capital Finance Authority are key components of the financial servicing sector.

Financial Information

(thousands of dollars)

Expense for Core Business

2003-04 Comparable Budget	2003-04 Actual	Variance
315,938	320,354	(4,416)

Alberta Capital Finance Authority expenses were $4.4 million over the budget amount due to increased borrowing activity by shareholders. ATB had no major variances.

GOAL 6

Financial Services Available to Albertans and Alberta Municipalities

ATB Financial is a $14.3 billion, full service financial institution operating in Alberta through 147 branches and 129 agencies. ATB Financial serves over 600,000 Albertans. ATB Financial is the largest lender to primary producers and independent business in Alberta with about $3.5 billion in loans outstanding at March 31, 2004.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
ATB Financial			
Loan loss provisions as a percentage of average total loans	**0.25%**	**0.13%**	**(0.39)% (2002-03)**
Expenses to operating revenue	**65.34%**	**63.42%**	**66.99% (2002-03)**
Return on average assets (before tax)	**1.06%**	**1.24%**	**1.55% (2002-03)**

Source: ATB Financial

ATB Financial has a conservative risk profile, with approximately half of its assets in residential mortgages and consumer loans. The remaining loans are about equally divided between commercial, agricultural, and independent business loans. Like other financial institutions that seek to remain relevant to their customers, ATB has launched a wealth management platform both to meet the needs of its customer base and to reduce its dependence on spread income. Under the banner of ATB Investor Services, ATB Financial continued to build strong momentum during the year, adding $355 million in assets under administration. At March 31, 2004 assets under administration stood at $544 million.

Although ATB's mandate is to provide services to Albertans, it also wants to earn a fair return for the Government of Alberta. ATB Financial compares its financial results with the major Canadian banks. During fiscal 2003-04, ATB performed exceptionally well in spite of difficulties in the agricultural community due to the occurrence of one case of BSE. ATB was able to exceed most of its targets with the exception of loan growth. While loan authorizations grew in its Commercial and Energy Banking portfolio during the year, due to very high energy prices, loan advances fell by about 18% since energy companies could finance their investments through cash flow.

Financial Results

(For further information, refer to ATB Financial Annual Report dated March 31, 2004.)

Highlights

- Total assets of $14.3 billion is an increase of 8.51% over last year.
- Total loans at $12.1 billion is an increase of 3.76% over last year.
- Total deposits of $13.0 billion is an increase of 7.76% over last year.
- Net income of $172.0 million is a decrease of 13.51% from last year.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Local authorites' cost of borrowing from ACFA relative to borrowing costs of other Canadian municipalities within the viability of the Corporation	**Lowest**	**Partially met** **Met for short-term rates. Mid and long-term rates were comparable to, or slightly higher than the lowest**	**Partially met** **Met for short and long-term maturities, mid-term rates have been slightly higher than the lowest rate in Canada (2002-03)**

Source: ACFA

The Alberta Capital Finance Authority's (ACFA) mission is to provide local authorities within the Province with flexible funding for capital projects at the lowest possible cost, consistent with the viability of ACFA.

The Alberta Capital Finance Authority (ACFA) aims to offer the lowest cost of borrowing to local authorities in Canada. The ACFA compares Alberta local authorities' cost of borrowing to the Municipal Finance Authority of British Columbia (BCMFA) and the City of Toronto. The BCMFA and the City of Toronto were selected for comparison because they reflected the size and credit rating of ACFA. Data was not collected prior to 2002; therefore, the 2002 average is calculated using data from August 2002 to December 2002. However, the 2003 average is calculated using the entire calendar year. The target was consistently met for short-term rates (3-5 years), but mid- (10-15 years) and long-term rates (20-25 years), were comparable to, or slightly higher than, the lowest rates in Canada.

PERFORMANCE MEASURE	TARGET	CURRENT RESULTS	PREVIOUS RESULTS
Percentage of local authorities satisfied with lending policies and efficiency of ACFA (biennial survey)		**Biennial survey not conducted. Scheduled for September 2004**	
Lending policies of the ACFA	**85%**		**83% (2001-02)**
Efficiency of the ACFA	**85%**		**86.7% (2001-02)**

Source: ACFA

A biennial survey is conducted to measure shareholder satisfaction with ACFA's lending policies and efficiency levels. Due to changes in lending policies the biennial survey, last conducted in 2001, has been rescheduled for September 2004 to measure the impact of these significant changes on stakeholder satisfaction.

Financial Information

Alberta Finance

2003-2004 Annual Report

Finance Financial Statements

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Consolidated Financial Statements
Year ended March 31, 2004

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, 2004 and the consolidated statements of operations and cash flow 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.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Ministry as at March 31, 2004 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
May 21, 2004

Consolidated Statement of Operations

YEAR ENDED MARCH 31, 2004

	In thousands		
	2004		**2003**
	Budget	**Actual**	**Actual**
	(Schedule 2)		
Revenues (Schedules 1 and 2)			
Internal government transfers	$ 95,679	$ 137,755	$ 280,243
Taxes	600	2,668	1,702
Transfers from Government of Canada	4,030	4,100	4,055
Investment income	504,311	541,414	528,710
Net income from commercial operations	156,660	200,183	224,899
Fees, permits and licences	26,582	15,075	19,406
Other	28,313	27,095	126,144
	816,175	928,290	1,185,159
Expenses (Schedules 2 and 3)			
Treasury management	71,887	72,894	72,132
Public sector pension policy and administration	27,068	25,350	23,343
Fiscal planning and accountability	10,088	8,365	7,735
Ministry support services	5,074	5,246	5,272
Financial sector operations	4,881	6,685	4,483
Valuation adjustments (Schedule 4)	(5,700)	1,415	81,004
Debt servicing costs			
General government	396,000	201,613	397,429
Local authorities	315,518	319,943	331,257
School boards	61,503	61,493	70,675
	886,319	703,004	993,330
Net operating results	$ (70,144)	$ 225,286	$ 191,829

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

Consolidated Statement of Financial Position

MARCH 31, 2004

	In thousands 2004	2003
Assets		
Cash and temporary investments (Schedule 5)	$ 2,204,553	$ 774,387
Accrued interest and accounts receivable (Schedule 6)	312,858	336,797
Portfolio investments (Schedule 7)	4,043,760	2,780,340
Equity in commercial enterprises (Schedule 8)	1,130,232	964,095
Loans and advances to government entities (Schedule 9)	1,242,460	1,346,036
Other loans and advances (Schedule 10)	3,990,666	3,876,528
Tangible capital assets (Schedule 11)	7,991	8,726
	$ 12,932,520	$ 10,086,909
Liabilities		
Bank overdraft	$ 786,928	$ 777,775
Accrued interest and accounts payable (Schedule 12)	352,913	396,799
Unmatured debt (Schedule 13)	5,147,016	6,811,591
Debt of Alberta Capital Finance Authority (Schedule 14)	4,069,558	3,671,081
Pension obligations (Schedule 15)	964,692	962,247
Other accrued liabilities (Schedule 16)	531,067	614,677
	11,852,174	13,234,170
Net Assets (Liabilities)		
Net liabilities at beginning of year	(3,147,261)	(4,887,378)
Net operating results	225,286	191,829
Net transfer from general revenues	4,002,321	1,548,288
Net assets (liabilities) at end of year	1,080,346	(3,147,261)
	$ 12,932,520	$ 10,086,909

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

Consolidated Statement of Cash Flow

YEAR ENDED MARCH 31, 2004

	In thousands 2004	2003
Operating activities		
Net operating results	$ 225,286	$ 191,829
Non-cash items included in net operating results	(348,849)	(162,430)
	(123,563)	29,399
Other	29,853	(342,046)
Cash used for operating activities	(93,710)	(312,647)
Capital activities		
Purchase of tangible capital assets	(1,892)	(4,422)
Cash used for capital activities	(1,892)	(4,422)
Investing activities		
Proceeds from disposals, repayments and redemptions of portfolio investments	5,908,378	5,561,857
Portfolio investments purchased	(7,147,580)	(5,573,527)
Repayments of loans and advances	547,090	454,443
Loans and advances made	(541,871)	(638,668)
Cash used for investing activities	(1,233,983)	(195,895)
Financing activities		
Debt issues	13,952,981	11,777,394
Debt retirement	(15,122,195)	(13,093,943)
Grants for school construction debenture principal repayment	(82,509)	(167,138)
Net transfer from general revenues	4,002,321	1,548,288
Cash provided by financing activities	2,750,598	64,601
Net cash provided (used)	1,421,013	(448,363)
Bank overdraft, net of cash and temporary investments, at beginning of year	(3,388)	444,975
Cash and temporary investments, net of bank overdraft, at end of year	$ 1,417,625	$ (3,388)

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

Notes to the 2003-04 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 Capital Finance Authority	Alberta Capital Finance Authority Act, Chapter A-14.5, Revised Statutes of Alberta 2000
Alberta Insurance Council	Insurance Act, Chapter I-3, 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
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:

a) fiscal planning and financial management,
b) regulation of provincial financial institutions,
c) pensions policy, regulation and administration, and
d) financial services.

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 Capital Finance Authority, Alberta Insurance Council, 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, capital, 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, and N.A. Properties (1994) 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, 2004 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 tangible 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 allowance for credit loss. 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. Tangible 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 (see Schedule 11).

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 and amortized over the life of the contract. 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.

Due to their short term nature, 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.

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 Capital Finance Authority 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 has decided, 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, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, disasters and natural gas rebates.

NOTE 6 COMMITMENTS
(*in thousands)*

Commitments to outside organizations in respect of contracts entered into before March 31, 2004 amounted to $219,794 (2003 $126,064). 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:

2004-05	$	45,733
2005-06		39,533
2006-07		38,424
2007-08		36,039
2008-09		25,838
Thereafter		34,227
	$	219,794

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

Guarantees at March 31, 2004 amounting to $27,342 (2003 $43,150) 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, 2003, credit unions in Alberta held deposits totalling $8,240,449 (2002 $7,583,130), and had assets in excess of deposits.

At March 31, 2004, Alberta Treasury Branches had a potential liability under guarantees and letters of credit amounting to $107,786 (2003 $101,211).

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 $2,239 at March 31, 2004 (2003 $3,053).

C) LEGAL ACTIONS

At March 31, 2004, the Ministry is a defendant in various legal actions. The total claimed in specific legal actions amounts to approximately $68,387 (2003 $55,807). 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, 2004, trust funds under administration were as follows:

	2004	2003
Local Authorities Pension Plan Fund	$ 10,068,470	$ 8,049,940
Public Service Pension Plan Fund	4,235,063	3,400,249
Universities Academic Pension Plan Fund	1,808,091	1,446,909
Management Employees Pension Plan Fund	1,633,697	1,329,315
Special Forces Pension Plan Fund	1,102,139	894,183
Regional Health Authorities and various health institutions construction accounts	395,975	419,765
Other	88,565	113,797
	$ 19,332,000	$ 15,654,158

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 $1,869 for the year ended March 31, 2004 (2003 $1,520).

At December 31, 2003, the Management Employees Pension Plan reported a deficiency of $290,014 (2002 $301,968) and the Public Service Pension Plan reported an actuarial deficiency of $596,213 (2002 $175,528). At December 31, 2003, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of $9,312 (2002 $6,472).

The Ministry also participates in two multiemployer Long Term Disability Income Continuance Plans. At March 31, 2004, the Bargaining Unit Plan reported an actuarial deficiency of $9,766 (2003 $14,434) and the Management, Opted Out and Excluded Plan an actuarial surplus of $1,298 (2003 actuarial deficiency of $3,053). The expense for these two plans is limited to the employer's annual contributions for the year.

NOTE 10 COMPARATIVE FIGURES

Certain 2003 figures have been reclassified to conform to 2004 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Senior Financial Officer and the Deputy Minister.

Schedules to the 2003-04 Ministry of Finance Consolidated Financial Statements

REVENUES **Schedule 1**

	In thousands		
	2004		2003
	Budget	Actual	Actual
Internal government transfers			
Lottery Fund	$ 95,679	$ 137,755	$ 280,243
Taxes			
Special broker tax	600	2,668	1,702
Transfers from Government of Canada			
Unconditional subsidy	4,030	4,100	4,055
Investment income			
Farm credit stability program	3,600	3,620	6,139
Other	500,711	537,794	522,571
	504,311	541,414	528,710
Net income from commercial operations			
Alberta Treasury Branches	152,405	172,024	198,904
The Alberta Government Telephones Commission	-	21,495	19,549
Other	4,255	6,664	6,446
	156,660	200,183	224,899
Fees, permits and licences			
Deposit guarantee fee	23,440	11,836	15,988
Insurance companies, agents and brokers	1,757	1,859	2,093
Other	1,385	1,380	1,325
	26,582	15,075	19,406
Other			
Sale of assets	-	3	3
Refunds of expenditure	370	163	275
Miscellaneous	27,943	26,929	25,866
Transfer from Alberta Capital Finance Authority	-	-	100,000
	28,313	27,095	126,144
	$ 816,175	$ 928,290	$1,185,159

BUDGET **Schedule 2**

In thousands

	2003-04 Estimates	Adjustments (a)	2003-04 Budget	Authorized Supplementary (b)	2003-04 Authorized Budget
Revenues					
Internal government transfers	$ 95,679	$ -	$ 95,679	$ -	$ 95,679
Taxes	600	-	600	-	600
Transfers from Government of Canada	4,030	-	4,030	-	4,030
Investment income	504,311	-	504,311	-	504,311
Net income from commercial operations	156,660	-	156,660	-	156,660
Fees, permits and licences	26,582	-	26,582	-	26,582
Other	28,313	-	28,313	-	28,313
	816,175	-	816,175	-	816,175
Expenses					
Treasury management	71,887	-	71,887	-	71,887
Public sector pension policy and administration	27,068	-	27,068	-	27,068
Fiscal planning and accountability	10,088	-	10,088	250	10,338
Ministry support services	5,074	-	5,074	-	5,074
Financial sector operations	4,881	-	4,881	1,500	6,381
Valuation adjustments	300	(6,000)	(5,700)	-	(5,700)
Debt servicing costs					
General government	396,000	-	396,000	-	396,000
Local authorities	315,518	-	315,518	-	315,518
School boards	61,503	-	61,503	-	61,503
	892,319	(6,000)	886,319	1,750	888,069
Net operating results	$ (76,144)	$ 6,000	$ (70,144)	$ (1,750)	$ (71,894)

a) Adjustments consist of $6,000 for pension provisions excluded from the Estimates.

b) Supplementary Estimates were approved on December 4, 2003.

EXPENSES BY OBJECT **Schedule 3**

	In thousands		
	2004		2003
	Budget	Actual	Actual
Salaries, wages and employee benefits	$ 27,560	$ 28,122	$ 24,904
Supplies and services	22,005	19,774	19,946
Grants	61,503	61,615	70,675
Interest and amortization of unrealized exchange gains and losses	711,094	520,669	727,899
Pension liability funding	67,800	69,172	68,255
Other financial transactions	1,591	1,488	1,922
Amortization of capital assets	2,356	2,627	1,190
Valuation adjustments (Schedule 4)	(5,700)	1,415	81,004
	888,209	704,882	995,795
Less recovery from support service arrangements with related parties (a)	1,890	1,878	2,465
	$ 886,319	$ 703,004	$ 993,330

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**

	In thousands		
	2004		2003
	Budget	Actual	Actual
Pension provisions	$ (6,000)	$ 2,445	$ 81,349
Provision for employee benefits other than pensions	-	128	288
Provision for doubtful accounts and loans	-	(192)	(27)
Provision for guarantees and indemnities	300	(966)	(606)
	$ (5,700)	$ 1,415	$ 81,004

CASH AND TEMPORARY INVESTMENTS **Schedule 5**

	In thousands 2004	2003
Fixed-income securities (a)		
Government of Canada, direct and guaranteed	$ 431,770	$ -
Provincial, direct and guaranteed	39,850	-
Corporate	659,932	574,360
	1,131,552	574,360
Deposit in the Consolidated Cash Investment Trust Fund	1,030,374	172,615
Cash in bank and in transit	42,627	27,412
	$2,204,553	$ 774,387

a) At March 31, 2004, fixed-income securities held have an average effective market yield of 2.2% (2003 3.0%) per annum. All of the securities have terms to maturity of less than one year (2003 less than three years).

ACCRUED INTEREST AND ACCOUNTS RECEIVABLE **Schedule 6**

	In thousands 2004	2003
Accrued interest receivable	$ 207,009	$ 212,792
Lottery Fund	52,755	72,243
Present value of future contributions from credit union system	47,695	47,043
Other	6,042	5,531
	313,501	337,609
Less allowance for doubtful accounts	643	812
	$ 312,858	$ 336,797

PORTFOLIO INVESTMENTS **Schedule 7**

	In thousands			
	2004		2003	
	Book Value	Fair Value	Book Value	Fair Value
Fixed-income securities (a)				
Government of Canada, direct and guaranteed	$ 963,239	$ 967,217	$ 367,530	$ 367,797
Provincial, direct and guaranteed	1,000,396	1,006,801	962,663	966,652
Municipal	14,250	14,459	81,971	82,367
Corporate	2,060,381	2,071,659	1,368,176	1,366,784
Pooled investment funds	2,993	2,993	-	-
	4,041,259	4,063,129	2,780,340	2,783,600
Equities				
Pooled investment funds				
Canadian	333	333	-	-
Foreign	2,168	2,168	-	-
	2,501	2,501	-	-
	$ 4,043,760	$ 4,065,630	$ 2,780,340	$ 2,783,600

a) Nearly all of the Ministry's fixed-income securities are held to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, disasters and natural gas rebates. At March 31, 2004, the securities held have an average effective market yield of 2.3% (2003 3.4%) per annum. 77.3% (2003 all) of the securities held had terms to maturity of less than two years.

EQUITY IN COMMERCIAL ENTERPRISES **Schedule 8**

	In thousands 2004	2003
Accumulated surpluses		
Accumulated surpluses at beginning of year	$ 878,122	$ 672,772
Total revenue	901,846	849,513
Total expense	701,740	624,614
Net revenue	200,106	224,899
Net transfers to departments	(21,418)	(19,549)
Accumulated surpluses at end of year	$ 1,056,810	$ 878,122
Represented by		
Assets		
Loans	$ 12,131,053	$ 11,691,483
Investments	944,399	660,700
Other assets	1,337,946	997,125
Total assets	14,413,398	13,349,308
Liabilities		
Accounts payable	276,052	328,859
Deposits	13,035,120	12,096,911
Unmatured debt	45,416	45,416
Total liabilities	13,356,588	12,471,186
	$ 1,056,810	$ 878,122
Accumulated surpluses at end of year		
Alberta Treasury Branches	$ 962,961	$ 790,937
Credit Union Deposit Guarantee Corporation	92,410	85,199
N.A. Properties (1994) Ltd.	1,439	1,986
	1,056,810	878,122
Elimination of inter fund/agency balances	73,422	85,973
Equity in commercial enterprises at end of year	$ 1,130,232	$ 964,095

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

	In thousands	
	2004	**2003**
Agriculture Financial Services Corporation	$ 911,867	$ 999,734
Alberta Social Housing Corporation	330,369	346,078
Public Trustee	224	224
	$1,242,460	$ 1,346,036

OTHER LOANS AND ADVANCES **Schedule 10**

	In thousands	
	2004	**2003**
Alberta Capital Finance Authority (a)	$3,961,104	$ 3,829,869
Farm Credit Stability Act	25,878	41,889
Board of Governors of the University of Alberta	1,663	2,018
Pratt & Whitney Canada Ltd.	1,407	1,963
University of Lethbridge Students' Union	611	786
Implemented guarantees and indemnities	201	224
Judgement debts	51	51
Accountable advances	4	4
	3,990,919	3,876,804
Less allowance for doubtful loans, advances, implemented guarantees and indemnities	253	276
	$3,990,666	$ 3,876,528

a) Municipal loans on average yield 7.8% per annum (2003 8.3%) and have the following term structure as at March 31, 2004.

	2004	**2003**
	%	
Under 1 year	1	2
1 to 5 years	21	23
6 to 10 years	31	32
Over 10 years	47	43
	100	100

TANGIBLE CAPITAL ASSETS **Schedule 11**

		In thousands			
		2004			2003
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment	10 years	$ 1,081	$ 664	$ 417	$ 534
Computer hardware and software	5 years	12,708	5,149	7,559	8,169
Other	10 years	67	52	15	23
		$ 13,856	$ 5,865	$ 7,991	$ 8,726

ACCRUED INTEREST AND ACCOUNTS PAYABLE **Schedule 12**

	In thousands	
	2004	2003
Accrued interest on unmatured debt and debt of Alberta Capital Finance Authority	$ 232,507	$ 296,883
Unearned revenue	726	572
Other	119,680	99,344
	$ 352,913	$ 396,799

UNMATURED DEBT **Schedule 13**

			In thousands			
			2004		2003	
	Effective Rate (a)(b)(c) %	Modified Duration (d) years	Book Value (a)	Fair Value (a)	Book Value (a)	Fair Value (a)
Canadian dollar debt and fully hedged foreign currency debt						
Floating rate and short-term fixed rate (e)	4.65	0.36	$ 1,486,133	$ 1,511,606	$ 1,456,592	$ 1,493,278
Fixed rate long-term (f)	7.11	4.64	2,932,683	3,429,457	3,794,895	4,244,327
	6.28	3.33	4,418,816	4,941,063	5,251,487	5,737,605
Unhedged U.S. dollar debt (g)						
Floating rate and short-term fixed rate (e)	3.77	0.21	680,239	694,077	1,055,900	1,050,468
Fixed rate long-term	5.68	1.58	47,961	52,941	504,204	553,938
	3.90	0.31	728,200	747,018	1,560,104	1,604,406
Total unmatured debt	5.95	2.93	$ 5,147,016	$ 5,688,081	$ 6,811,591	$ 7,342,011

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 (2003 $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 $1.31 per U.S. dollar (2003 $1.47 per U.S. dollar). Deferred exchange gains on unhedged U.S. dollar debt amounted to $4,653 at March 31, 2004 (2003 $23,457). Amortization of deferred exchange gains amounted to $146,260 for the year ended March 31, 2004 (2003 $50,105). In Budget 2003, a change in the exchange rate of one U.S. cent to the Canadian dollar was estimated to have a $25 million effect on debt servicing costs.

Schedule 13 (continued)

Debt principal repayment requirements at par in each of the next five years, including short-term debt maturing in 2004-05, and thereafter are as follows:

	In thousands	
	Total in Canadian Dollars	**Unhedged in US Dollars**
2004-05	$ 1,594,965	$ 438,800
2005-06	1,305,119	107,600
2006-07	149,379	
2007-08	273,428	-
2008-09	630,679	-
Thereafter to 2016-17	1,202,514	-
	$ 5,156,084	$ 546,400

None of the debt has call provisions (2003 none).

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, 2004, 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			
	2004		2003	
	Notional Amount	Replacement Cost	Notional Amount	Replacement Cost
Interest rate swaps	$1,131,000	$ 13,908	$ 1,908,000	$ 24,491
Cross currency interest rate swaps	483,000	10,619	536,000	-
	$1,614,000	$ 24,527	$ 2,444,000	$ 24,491

DEBT OF ALBERTA CAPITAL FINANCE AUTHORITY **Schedule 14**

	In thousands	
	2004	2003
Alberta Capital Finance Authority		
Canadian dollar fixed rate debt (a)	$4,069,558	$ 3,671,081

a) Canadian dollar fixed rate debt includes $2,465,058 (2003 $2,706,081) held by the Canada Pension Plan Investment Fund and has the following characteristics as at March 31, 2004 (see Schedule 13 note (a)).

	2004	2003
Fair value	$4,544,000	$4,245,000
Effective rate per annum	8.1%	8.9%

Debt principal repayment requirements in each of the next five years, including short-term debt maturing in 2004-05 and thereafter are as follows:

	In thousands
2004-05	$ 452,991
2005-06	423,604
2006-07	395,396
2007-08	335,383
2008-09	259,294
Thereafter	2,202,890
	$ 4,069,558

PENSION OBLIGATIONS **Schedule 15**

Because the pension plans referred to in Note 9 are multiemployer, 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	
	2004	**2003**
Obligations to pension plans for current and former employees and Members of the Legislative Assembly		
Public Service Management (Closed Membership) Pension Plan (a)	$ 675,856	$ 695,785
Members of the Legislative Assembly Pension Plan (b)	49,625	49,323
	725,481	745,108
Obligations to pension plans for employees of organizations outside the government reporting entity		
Universities Academic Pension Plan (c)	171,501	157,134
Special Forces Pension Plan (c)	67,710	60,005
	239,211	217,139
	$ 964,692	$ 962,247

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 contributions by employers and employees to fund 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, 2002	4.0	3.0	7.0
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 losses of $11,372 (2003 $8,390), unfunded liabilities were extrapolated to March 31, 2004.

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 2004	2003
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 525,626	$ 608,135
Guarantees and indemnities (Schedule 17)	2,550	3,601
Vacation entitlements	2,546	2,522
Other	345	419
	$ 531,067	$ 614,677

GUARANTEES (a) **Schedule 17**

	In thousands 2004	2003	Expiry Date
Farm Credit Stability Act (b)	$ 27,081	$ 43,061	2011
Centre for Engineering Research Inc.	1,149	1,553	2005
University of Calgary	1,071	1,134	2016
Rural utilities loans	591	973	2015
Small Business Term Assistance Act	-	30	(c)
	29,892	46,751	
Less estimated liability (Schedule 16)	2,550	3,601	
	$ 27,342	$ 43,150	

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	
	2004	**2003**
Revenues		
Transfers	$ 137,755	$ 280,243
Interest	68,870	69,642
Charges for services	153	175
	$ 206,778	$ 350,060
Expenses		
Cost of services	$ 2,481	3,157
Assets		
Accounts receivable	$ 53,962	$ 73,064
Accrued interest receivable	13,721	14,351
Loans and advances	1,242,236	1,345,812
	$1,309,919	$ 1,433,227
Liabilities		
Accounts and accrued interest payable	$ 46	$ 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	
	2004	**2003**
Expenses - incurred by others		
Accommodation	$ 856	$ 1,155
Legal services	743	408
	$ 1,599	$ 1,563

Department of Finance Financial Statements

Year ended March 31, 2004

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, 2004 and the statements of operations and cash flow 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.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Department as at March 31, 2004 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
May 21, 2004

Statement of Operations

YEAR ENDED MARCH 31, 2004

	In thousands		
	2004		2003
	Budget (Schedule 3)	Actual	Actual
Revenues (Schedule 1)			
Internal government transfers	$ 95,679	$ 137,755	$ 280,243
Taxes	600	2,668	1,702
Transfers from Government of Canada	4,030	4,100	4,055
Investment income	188,743	223,455	202,109
Fees, permits and licences	24,825	13,216	17,313
Transfers from government enterprises	-	21,495	19,549
Other	2,029	2,256	103,382
	315,906	404,945	628,353
Expenses - directly incurred (Note 2b and Schedule 20)			
Voted (Schedules 2 and 4)			
Ministry support services	5,086	5,258	5,284
Fiscal planning and accountability	10,110	8,381	7,760
Pensions, insurance and financial institutions	3,286	5,023	3,079
Treasury management	3,612	3,240	3,076
Debt servicing costs - school construction	61,503	61,493	70,675
	83,597	83,395	89,874
Statutory (Schedules 2 and 4)			
Farm credit stability program	500	501	821
Pension liability funding	67,800	69,242	68,334
Debt servicing costs	396,000	204,352	403,583
Valuation adjustments (Schedule 5)	(5,700)	1,415	80,799
	458,600	275,510	553,537
	542,197	358,905	643,411
Net operating results	$ (226,291)	$ 46,040	$ (15,058)

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

Statement of Financial Position

MARCH 31, 2004

	In thousands	
	2004	**2003**
Assets		
Cash and temporary investments (Schedule 7)	$ 2,037,347	$ 724,998
Accounts and accrued interest receivable (Schedule 8)	236,799	267,571
Portfolio investments (Schedule 9)	4,081,865	3,042,266
Loans and advances to government entities (Schedule 10)	1,242,460	1,346,036
Other loans, advances and investments (Schedule 11)	31,046	48,690
Tangible capital assets (Schedule 12)	368	518
	$ 7,629,885	$ 5,430,079
Liabilities		
Bank overdraft	$ 786,928	$ 777,775
Accounts and accrued interest payable (Schedule 13)	133,606	187,499
Unmatured debt (Schedule 14)	5,190,416	6,913,168
Pension obligations (Schedule 15)	964,692	962,247
Other accrued liabilities (Schedule 16)	530,404	613,912
	7,606,046	9,454,601
Net Assets (Liabilities)		
Net liabilities at beginning of year	(4,024,522)	(5,557,752)
Net operating results	46,040	(15,058)
Net transfer from general revenues	4,002,321	1,548,288
Net assets (liabilities) at end of year	23,839	(4,024,522)
	$ 7,629,885	$ 5,430,079

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

Statement of Cash Flow

YEAR ENDED MARCH 31, 2004

	In thousands 2004	2003
Operating transactions		
Net operating results	$ 46,040	$ (15,058)
Non-cash items included in net operating results		
Amortization on investments and debt, net		
Purchase and issue discounts	(9,225)	23,428
Foreign exchange gains	(146,735)	(50,509)
Net loss (income) on investments valued at equity	547	(351)
Amortization of capital assets	185	211
Valuation adjustments (Schedule 5)	1,415	80,799
	(107,773)	38,520
Decrease (increase) in receivables	30,940	(57,205)
Decrease in payables, including pension obligations	(27,963)	(204,295)
Cash used for operating transactions	(104,796)	(222,980)
Capital transactions		
Purchase of capital assets (Schedule 4)	(36)	(31)
Cash used for capital transactions	(36)	(31)
Investing transactions		
Disposals of portfolio investments	6,126,705	5,591,617
Portfolio investments purchased	(7,142,110)	(5,573,527)
Repayments of loans and advances		
Government entities	2,365,527	1,983,246
Other	18,328	34,127
Loans and advances		
Government entities	(2,258,152)	(2,076,734)
Other	(725)	(439)
Cash used for investing transactions	(890,427)	(41,710)
Financing transactions		
Debt issues	10,774,743	9,750,275
Debt retirement	(12,396,100)	(11,332,170)
Voted non-budgetary disbursements to settle obligations (Schedule 4)	(82,509)	(167,138)
Net transfer from general revenues	4,002,321	1,548,288
Cash provided by (used for) financing transactions	2,298,455	(200,745)
Net cash provided (used)	1,303,196	(465,466)
Bank overdraft, net of cash and temporary investments, at beginning of year	(52,777)	412,689
Cash and temporary investments, net of bank overdraft, at end of year	$ 1,250,419	$ (52,777)

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

Notes to the 2003-04 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 fiscal planning and financial management, regulation of provincial financial institutions, pensions policy, regulation and administration, and financial services.

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 Capital Finance Authority (formerly Alberta Municipal Financing Corporation), Alberta Insurance Council, Alberta Pensions Administration Corporation, 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 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.

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 tangible 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 20.

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 recorded at cost less any allowance for credit loss. 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.

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. Tangible 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 and amortized over the life of the contract. 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 Assets (Liabilities)

Net assets 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.

Due to their short term nature, 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 has decided 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, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, disasters and natural gas rebates.

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, 2003, credit unions in Alberta held deposits totalling $8,240,449 (2002 $7,583,130). 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, 2004 amounted to $797 (2003 $491). 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 16.

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

A) INDEMNITIES AND DEBENTURE, DEPOSIT AND LOAN GUARANTEES

Guaranteed liabilities at March 31, 2004 of government entities amounting to $17,610,400 (2003 $16,455,757), and other guarantees amounting to $27,342 (2003 $43,150) are analyzed in Schedules 17 and 18 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, 2004, the Department is a defendant in nine legal claims (2003 nine legal claims). The claims have specified amounts totalling approximately $68,387 (2003 $55,807). One claim amounting to $107 (2003 two amounting to $227) 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, 2004, trust funds under administration were as follows:

	2004	2003
Local Authorities Pension Plan Fund	$ 10,068,470	$ 8,049,940
Public Service Pension Plan Fund	4,235,063	3,400,249
Universities Academic Pension Plan Fund	1,808,091	1,446,909
Management Employees Pension Plan Fund	1,633,697	1,329,315
Special Forces Pension Plan Fund	1,102,139	894,183
Regional Health Authorities and various health institutions construction accounts	395,975	419,765
Other	88,565	113,797
	$ 19,332,000	$ 15,654,158

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 $1,259 for the year ended March 31, 2004 (2003 $1,090).

At December 31, 2003, the Management Employees Pension Plan reported a deficiency of $290,014 (2002 $301,968) and the Public Service Pension Plan reported an actuarial deficiency of $596,213 (2002 $175,528). At December 31, 2003, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of $9,312 (2002 $6,472).

The Department also participates in two multiemployer Long Term Disability Income Continuance Plans. At March 31, 2004, the Bargaining Unit Plan reported an actuarial deficiency of $9,766 (2003 $14,434) and the Management, Opted Out and Excluded Plan an actuarial surplus of $1,298 (2003 actuarial deficiency of $3,053). The expense for these two plans is limited to the employer’s annual contributions for the year.

NOTE 9 COMPARATIVE FIGURES

Certain 2003 figures have been reclassified to conform to 2004 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Senior Financial Officer and the Deputy Minister.

Schedules to the 2003-04 Department of Finance Financial Statements

REVENUES **Schedule 1**

	In thousands		
	2004		**2003**
	Budget	**Actual**	**Actual**
Internal government transfers			
Lottery Fund	$ 95,679	$ 137,755	$ 280,243
Taxes			
Special broker tax	600	2,668	1,702
Transfers from Government of Canada			
Unconditional subsidy	4,030	4,100	4,055
Investment income			
Farm credit stability program	3,600	3,620	6,139
Other	185,143	219,835	195,970
	188,743	223,455	202,109
Fees, permits and licences			
Deposit guarantee fee	23,440	11,836	15,988
Insurance companies, agents and brokers	250	228	224
Other	1,135	1,152	1,101
	24,825	13,216	17,313
Transfers from government enterprises			
The Alberta Government Telephones Commission	-	21,495	19,549
Other			
Sale of assets	-	3	3
Refunds of expenditure	370	163	275
Miscellaneous	1,659	2,090	3,104
Alberta Capital Finance Authority	-	-	100,000
	2,029	2,256	103,382
	$ 315,906	$ 404,945	$ 628,353

EXPENSES DETAILED BY OBJECT **Schedule 2**

	In thousands		
	2004		**2003**
	Budget	**Actual**	**Actual**
Voted			
Salaries, wages and employee benefits	$ 13,982	$ 14,190	$ 13,253
Supplies and services	8,702	8,312	7,168
Grants	61,503	61,615	70,675
Financial transactions and other	1,091	971	1,032
Amortization of capital assets	209	185	211
Total voted expenses before recoveries	85,487	85,273	92,339
Less recovery from support service arrangements with related parties (a)	1,890	1,878	2,465
	$ 83,597	$ 83,395	$ 89,874
Statutory			
Farm credit stability program	$ 500	$ 501	$ 821
Pension liability funding	67,800	69,242	68,334
Debt servicing costs	396,000	204,352	403,583
Valuation adjustments (Schedule 5)	(5,700)	1,415	80,799
	$ 458,600	$ 275,510	$ 553,537

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 3**

In thousands

	2003-04 Estimates	Adjustments (a)	2003-04 Budget	Authorized Supplementary (b)	2003-04 Authorized Budget
Revenues					
Internal government transfers	$ 95,679	$ -	$ 95,679	$ -	$ 95,679
Taxes	600	-	600	-	600
Transfers from Government of Canada	4,030	-	4,030	-	4,030
Investment income	188,743	-	188,743	-	188,743
Fees, permits and licences	24,825	-	24,825	-	24,825
Other	2,029	-	2,029	-	2,029
	315,906	-	315,906	-	315,906
Expenses					
Voted					
Ministry support services	5,086	-	5,086	-	5,086
Fiscal planning and accountability	10,110	-	10,110	250	10,360
Pensions, insurance and financial institutions	3,286	-	3,286	1,500	4,786
Treasury management	3,612	-	3,612	-	3,612
Debt servicing costs	61,503	-	61,503	-	61,503
	83,597	-	83,597	1,750	85,347
Statutory					
Farm credit stability program	500	-	500	-	500
Pension liability funding	67,800	-	67,800	-	67,800
Debt servicing costs	396,000	-	396,000	-	396,000
Valuation adjustments	300	(6,000)	(5,700)	-	(5,700)
	464,600	(6,000)	458,600	-	458,600
	548,197	(6,000)	542,197	1,750	543,947
Net operating results	$ (232,291)	$ 6,000	$ (226,291)	$ (1,750)	$ (228,041)
Equipment/inventory purchases	$ 80	$ -	$ 80	$ -	$ 80

a) Adjustments consist of $6,000 for pension provisions excluded from the Estimates.

b) Supplementary Estimates were approved on December 4, 2003.

COMPARISON OF EXPENSES, EQUIPMENT/INVENTORY PURCHASES AND DISBURSEMENTS BY ELEMENT TO AUTHORIZED BUDGET **Schedule 4**

In thousands

	2003-04 Budget	Supplementary Estimates (a)	2003-04 Authorized Budget	2003-04 Actual Expense (b)	Unexpended (Over Expended)
Voted Expenses and Equipment/Inventory Purchases					
Program 1 - Ministry Support Services					
1.0.1 Minister's Office	$ 294	$ -	$ 294	$ 284	$ 10
1.0.2 Deputy Minister's Office	397	-	397	472	(75)
1.0.3 Corporate Services					
- Operating Expense	3,915	-	3,915	4,100	(185)
- Equipment/Inventory Purchases	50	-	50	36	14
1.0.4 Communications	385	-	385	311	74
1.0.5 Standing Policy Committee on Economic Development and Finance	95	-	95	91	4
	5,136	-	5,136	5,294	(158)
Program 2 - Fiscal Planning and Accountability					
2.0.1 Office of Budget and Management	10,110	250	10,360	8,381	1,979
Program 3 - Pensions, Insurance and Financial Institutions					
3.0.1 Assistant Deputy Minister's Office	365	-	365	504	(139)
3.0.2 Financial Institutions Regulation	1,447	1,500	2,947	3,781	(834)
3.0.3 Financial Sector Policy	649	-	649	-	649
3.0.4 Pension Policy	534	-	534	467	67
3.0.5 Corporate Management Services to Alberta Capital Finance Authority	291	-	291	271	20
	3,286	1,500	4,786	5,023	(237)
Program 4 - Treasury Management					
4.0.1 Liability Management					
- Operating Expense	2,223	-	2,223	1,923	300
- Equipment/Inventory Purchases	30	-	30	-	30
4.0.2 Banking and Cash Forecasting	1,389	-	1,389	1,317	72
	3,642	-	3,642	3,240	402
Debt Servicing					
Grants for School Construction Debenture Interest Payments	61,503	-	61,503	61,493	10
	$ 83,677	$ 1,750	$ 85,427	$ 83,431	$ 1,996
Program Operating Expense	$ 83,597	$ 1,750	$ 85,347	$ 83,395	$ 1,952
Equipment/Inventory Purchases	80	-	80	36	44
	$ 83,677	$ 1,750	$ 85,427	$ 83,431	$ 1,996

a) Supplementary Estimates were approved on December 4, 2003.

b) Includes achievement bonus of $725.

Schedule 4 (continued)

	2003-04 Budget	2003-04 Actual	Unexpended (Over Expended)
	In thousands		
Statutory Expenses			
Farm credit stability program	$ 500	$ 501	$ (1)
Pension liability funding	67,800	69,242	(1,442)
Debt servicing costs	396,000	204,352	191,648
Valuation adjustments	(5,700)	1,415	(7,115)
	$ 458,600	$ 275,510	$ 183,090
Voted Non-Budgetary Disbursements			
Grants for school construction debenture principal repayment	$ 82,529	$ 82,509	$ 20

VALUATION ADJUSTMENTS **Schedule 5**

	2004 Budget	2004 Actual	2003 Actual
	In thousands		
Pension provisions	$ (6,000)	$ 2,445	$ 81,349
Provision for employee benefits other than pensions	-	128	83
Provision for doubtful accounts and loans	-	(192)	(27)
Provision for guarantees and indemnities	300	(966)	(606)
	$ (5,700)	$ 1,415	$ 80,799

SALARY AND BENEFITS DISCLOSURE **Schedule 6**

	2004				2003
	Base Salary (1)	Other Cash Benefits (2)	Other Non-cash Benefits (3)	Total	Total
Senior Officials					
Deputy Minister (4)	$ 165,012	$ 41,383	$ 39,372	$ 245,767	$ 246,107
Controller (4)	124,320	18,207	29,855	172,382	174,003
Executives					
Assistant Deputy Minister - Pensions, Insurance and Financial Institutions	128,352	18,797	28,793	175,942	177,579
Executive Director, Treasury Management	124,200	14,000	29,521	167,721	161,521
Executive Director, Strategic & Business Services (5)(6)	108,341	16,113	24,459	148,913	137,200
Director, Human Resource Services (6)	110,028	16,113	24,486	150,627	137,143

1) Base salary includes pensionable base pay.

2) Other cash benefits include bonuses, vacation payouts and lump sum payments.

3) Other non-cash benefits 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, professional memberships and tuition fees.

4) Automobile provided, no dollar amount included in other non-cash benefit.

5) Executive Director, Strategic and Business Services was formerly named Corporate Secretary.

6) 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 7**

	In thousands	
	2004	**2003**
Fixed-income securities (a)		
Government of Canada, direct and guaranteed	$ 431,770	$ -
Provincial, direct and guaranteed	39,850	-
Corporate	659,932	574,360
	1,131,552	574,360
Deposit in Consolidated Cash Investment Trust Fund	863,168	123,249
Cash in bank and in transit	42,627	27,389
	$2,037,347	$ 724,998

a) Fixed-income securities have an average effective yield of 2.2% (2003 3.0%) per annum. All of the securities have terms to maturity of less than one year (2003 less than three years).

ACCOUNTS AND ACCRUED INTEREST RECEIVABLE **Schedule 8**

	In thousands	
	2004	**2003**
Alberta Treasury Branches	$ 73,237	$ 61,401
Lottery Fund	52,756	72,243
Present value of future contributions from credit union system	47,695	47,043
Accrued interest receivable	46,616	50,919
Swap accruals	15,106	11,259
The Alberta Government Telephones Commission	185	24,572
Other	1,847	946
	237,442	268,383
Less allowance for doubtful accounts	643	812
	$ 236,799	$ 267,571

PORTFOLIO INVESTMENTS **Schedule 9**

	In thousands			
	2004		2003	
	Book Value	Fair Value	Book Value	Fair Value
Fixed-income securities (a)				
Government of Canada, direct and guaranteed	$ 963,239	$ 967,217	$ 367,530	$ 367,797
Provincial, direct and guaranteed	1,043,995	1,051,195	1,224,589	1,230,691
Municipal	14,250	14,459	81,971	82,367
Corporate	2,060,381	2,071,659	1,368,176	1,366,784
	$ 4,081,865	$ 4,104,530	$ 3,042,266	$ 3,047,639

a) The Department's fixed-income securities are held to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, disasters and natural gas rebates. The securities held have an average effective market yield of 2.3% (2003 3.4%) per annum. 77.3% (2003 all) of the securities have terms to maturity of less than two years.

LOANS AND ADVANCES TO GOVERNMENT ENTITIES **Schedule 10**

	In thousands	
	2004	2003
Agriculture Financial Services Corporation	$ 911,867	$ 999,734
Alberta Social Housing Corporation	330,369	346,078
Public Trustee	224	224
	$ 1,242,460	$ 1,346,036

OTHER LOANS, ADVANCES AND INVESTMENTS **Schedule 11**

	In thousands 2004	2003
Loans and advances		
Farm Credit Stability Act	$ 25,878	$ 41,889
Board of Governors of the University of Alberta	1,663	2,018
Pratt & Whitney Canada Ltd.	1,407	1,963
University of Lethbridge Students' Union	611	786
Implemented guarantees and indemnities	201	224
Judgement debts	51	51
Accountable advances	4	4
	29,815	46,935
Less allowance for doubtful loans and advances	253	276
	29,562	46,659
Investments		
N.A. Properties (1994) Ltd.	1,439	1,986
Alberta Capital Finance Authority	45	45
	1,484	2,031
	$ 31,046	$ 48,690

TANGIBLE CAPITAL ASSETS **Schedule 12**

		In thousands 2004			2003
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	5 years	$ 1,132	$ 764	$ 368	$ 518

ACCOUNTS AND ACCRUED INTEREST PAYABLE **Schedule 13**

	In thousands 2004	2003
Accrued interest on unmatured debt	$ 108,280	$ 167,944
Other	25,326	19,555
	$ 133,606	$ 187,499

UNMATURED DEBT **Schedule 14**

			In thousands			
			2004		2003	
	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)	4.62	0.37	$ 1,529,533	$ 1,555,966	$ 1,513,571	$ 1,550,492
Fixed rate long-term (f)	7.11	4.64	2,932,683	3,429,457	3,839,493	4,290,299
	6.26	3.31	4,462,216	4,985,423	5,353,064	5,840,791
Unhedged U.S. dollar debt (g)						
Floating rate and short-term fixed rate (e)	3.77	0.21	680,239	694,077	1,055,900	1,050,468
Fixed rate long-term	5.68	1.58	47,961	52,941	504,204	553,938
	3.90	0.31	728,200	747,018	1,560,104	1,604,406
	5.93	2.92	$ 5,190,416	$ 5,732,441	$ 6,913,168	$ 7,445,197

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 (2003 $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 $1.31 per U.S. dollar (2003 $1.47 per U.S. dollar). Deferred exchange gains on unhedged U.S. dollar debt amounted to $4,653 at March 31, 2004 (2003 $23,457). Amortization of deferred exchange gains amounted to $146,260 for the year ended March 31, 2004 (2003 $50,105). In Budget 2003, a change in the exchange rate of one U.S. cent to the Canadian dollar was estimated to have a $25 million effect on debt servicing costs.

Schedule 14 (continued)

Debt principal repayment requirements at par in each of the next five years, including short-term debt maturing in 2004-05, and thereafter are as follows:

	In thousands	
	Total in Canadian Dollars	Unhedged in US Dollars
2004-05	$1,638,365	$438,800
2005-06	1,305,119	107,600
2006-07	149,379	-
2007-08	273,428	-
2008-09	630,679	-
Thereafter to 2016-17	1,202,514	-
	$5,199,484	$546,400

None of the debt has call provisions (2003 none).

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, 2004, 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 14 (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			
	2004		2003	
	Notional Amount	Replacement Cost	Notional Amount	Replacement Cost
Interest rate swaps	$ 1,131,000	$ 13,908	$ 1,906,000	$ 24,491
Cross currency interest rate swaps	483,000	10,619	536,000	-
	$ 1,614,000	$ 24,527	$ 2,442,000	$ 24,491

PENSION OBLIGATIONS **Schedule 15**

Because the pension plans referred to in Note 8 are multiemployer, 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	
	2004	2003
Obligations to pension plans for current and former employees and Members of the Legislative Assembly		
Public Service Management (Closed Membership) Pension Plan (a)	$ 675,856	$ 695,785
Members of the Legislative Assembly Pension Plan (b)	49,625	49,323
	725,481	745,108
Obligations to pension plans for employees of organizations outside the government reporting entity		
Universities Academic Pension Plan (c)	171,501	157,134
Special Forces Pension Plan (c)	67,710	60,005
	239,211	217,139
	$ 964,692	$ 962,247

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 15 (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 contributions by employers and employees to fund 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, 2002	4.0	3.0	7.0
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 losses of $11,372 (2003 $8,390), unfunded liabilities were extrapolated to March 31, 2004.

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 2004	2003
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 525,626	$ 608,135
Guarantees and indemnities (Schedule 18)	2,550	3,601
Vacation entitlements	1,884	1,757
Other	344	419
	$ 530,404	$ 613,912

GUARANTEED DEBT OF GOVERNMENT ENTITIES **Schedule 17**

In thousands

	Held by: Department of Finance	Alberta Heritage Savings Trust Fund	Others	Total 2004	Total 2003
Debentures					
Alberta Capital Finance Authority	$ -	$ -	$ 4,069,558	$ 4,069,558	$ 3,831,081
Alberta Social Housing Corporation	330,369	94,656	80,697	505,722	527,765
	330,369	94,656	4,150,255	4,575,280	4,358,846
Deposits					
Alberta Treasury Branches	4,927	-	13,030,193	13,035,120	12,096,911
	$ 335,296	$ 94,656	$ 17,180,448	$ 17,610,400	$ 16,455,757

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

Schedule 17 (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 2004	2003
Alberta Capital Finance Authority	December 31, 2003	Shareholders' equity	$ 22,470	$ 26,740
Alberta Social Housing Corporation	March 31, 2004	Surplus	$ 315,940	$ 307,199
Alberta Treasury Branches	March 31, 2004	Equity	$ 962,961	$ 790,937

OTHER GUARANTEES (a) **Schedule 18**

	In thousands 2004	2003	Expiry Date
Farm Credit Stability Act (b)	$ 27,081	$ 43,061	2011
Centre for Engineering Research Inc.	1,149	1,553	2005
University of Calgary	1,071	1,134	2016
Rural utilities loans	591	973	2015
Small Business Term Assistance Act	-	30	(c)
	29,892	46,751	
Less estimated liability (Schedule 16)	2,550	3,601	
	$ 27,342	$ 43,150	

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 19**

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 Capital Finance Authority. Alberta Pensions Administration Corporation is wholly owned and Alberta Capital Finance Authority 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 Capital Finance Authority is recorded at cost (see Schedule 11) because the Corporation has the power to pay its retained earnings, which amounted to $22,406,000 at December 31, 2003 (2002 $26,676,000), to municipal and other shareholders which have borrowed money from the Corporation. During the 2003-04 fiscal year, the Department paid $144,002,000 (2003 $160,284,000) 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 19 (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**	
	2004	**2003**	**2004**	**2003**
Revenues				
Transfers	$ 21,495	$ 119,549	$ 137,755	$ 280,243
Interest	5,924	10,321	68,913	69,722
Charges for services	12,156	16,301	153	175
	$ 39,575	$ 146,171	$ 206,821	$ 350,140
Expenses				
Cost of services	$ 70	$ 77	$ 2,481	$ 3,157
Assets				
Accounts receivable	$ 73,430	$ 86,005	$ 52,756	$ 72,247
Accrued interest receivable	1,271	1,911	13,721	15,050
Portfolio investments	-	160,000	-	-
Loans, advances and investments	1,484	2,031	1,242,236	1,345,812
	$ 76,185	$ 249,947	$1,308,713	$ 1,433,109
Liabilities				
Accounts and accrued interest payable	$ -	$ 19	$ 46	$ 175

The above transactions do not include support service arrangement transactions disclosed in Schedule 2.

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 20.

	Entities in the Ministry		**Other Entities**	
	2004	**2003**	**2004**	**2003**
Expenses - incurred by others				
Accommodation	$ -	$ -	$ 856	$ 1,155
Legal services	-	-	743	408
	$ -	$ -	$ 1,599	$ 1,563

ALLOCATED COSTS BY PROGRAM **Schedule 20**

In thousands

	Ministry Support Services	Fiscal Planning and Accountability	Pensions, Insurance and Financial Institutions	Treasury Management	Debt Servicing Costs and Other	Total
Expenses [(1)]	$ 5,258	$ 8,381	$ 5,023	$ 3,240	$ 335,588	$ 357,490
Expenses - incurred by others						
Accommodation	470	215	109	62	-	856
Legal services	14	95	580	54	-	743
	484	310	689	116	-	1,599
Valuation adjustments						
Vacation pay	50	23	48	7	-	128
Doubtful accounts and loans, guarantees and indemnities	-	-	-	(1,158)	-	(1,158)
Other	-	-	-	-	2,445	2,445
	50	23	48	(1,151)	2,445	1,415
2004 Total	$ 5,792	$ 8,714	$ 5,760	$ 2,205	$ 338,033	$ 360,504
2003 Total	$ 5,768	$ 8,065	$ 3,852	$ 3,133	$ 624,156	$ 644,974

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

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND FINANCIAL STATEMENTS MARCH 31, 2004

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of the Provincial Judges and Masters in Chambers Reserve Fund as at March 31, 2004 and the statement of changes in net assets for the year then ended. These financial statements are the responsibility of the management of the Fund. 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, 2004 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
May 21, 2004

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND
BALANCE SHEET
MARCH 31, 2004
($ thousands)

	2004	2003
ASSETS		
Cash and cash equivalents (Note 3)	$ 30,399	$ 26,177
Receivable from the Province of Alberta	926	308
	31,325	26,485
LIABILITIES		
Amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Notes 2(c) and 4)	31,325	26,485
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, 2004
($ thousands)

	2004	2003
Increase in assets		
Contributions from the Province of Alberta	$ 3,989	$ 3,592
Investment income	851	682
	4,840	4,274
Decrease in assets		
Increase in amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	4,840	4,274
Increase in net assets	-	-
Net assets at beginning of period	-	-
Net assets at end of period	$ -	$ -

The accompanying notes are part of these financial statements.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2004

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 the yearly maximum pensionable earnings limit as defined by the *Income Tax Act*.

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.

Due to their short term nature, 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, 2004 was at 36.04% (2003 39.97%) of the pensionable earnings of Provincial Judges and Masters in Chambers that were in excess of the yearly maximum pensionable earnings limit. 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.

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, 2004, securities held by the CCITF had an average effective market yield of 2.11% (2003 3.23%) per annum and an average duration of 142 days (2003 71 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 and was then extrapolated to March 31, 2004.

As at March 31, 2004, the Unregistered Plan reported an actuarial surplus of $0.3 million (2003 $0.6 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, 2004

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, 2004 and the statement of changes in net assets for the year then ended. These financial statements are the responsibility of the management of the Fund. 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, 2004 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

May 21, 2004

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

BALANCE SHEET
MARCH 31, 2004
($ thousands)

	2004	2003
Assets		
Investments (Note 3)	$ 17,491	$ 14,057
Receivable from participating employers	280	509
	17,771	14,566
Liabilities		
Amounts owing to the Supplementary Retirement Plan for Public Service Managers (Notes 2(f) and 6)	17,771	14,566
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, 2004
($ thousands)

	2004	2003
Increase in assets		
Contributions from participating employers	$ 2,680	$ 6,638
Net investment income	526	308
	3,206	6,946
Decrease in assets		
Increase in amounts owing to the Supplementary Retirement Plan for Public Service Managers	3,205	6,946
Administration expenses	1	-
	3,206	6,946
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, 2004

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 the yearly maximum pensionable earnings limit as defined by the federal *Income Tax Act*.

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.

The Reserve Fund's investments are held in pooled investment funds administered by Alberta Revenue or external managers appointed 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.

(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 Reserve Fund 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.

Due to their short term nature, the fair values of deposits, receivables, accrued investment income and accrued liabilities 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 income.

(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, credit default swaps 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.

Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields and year-end exchange rates.

Income and expense from derivative contracts are accrued as earned and included in net investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

(f) 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, 2004 was at 6.8% (2003 42.5%) of the pensionable salaries of eligible public service managers that were in excess of the yearly maximum pensionable earnings limit. These amounts represent assets held by the Reserve Fund, which are available to meet future benefit payments of the SRP over the long term.

NOTE 3 INVESTMENTS (SCHEDULES A TO D)

	2004		2003	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 11,997	68.6	$ 14,057	100.0
Canadian Dollar Public Bond Pool (b)	2,993	17.1	-	-
Total fixed income securities	14,990	85.7	14,057	100.0
Canadian Equities (Schedule B)				
Domestic Passive Equity Pooled Fund (c)	187	1.1	-	-
External Managers				
Canadian Large Cap Equity Pool (d)	146	0.8	-	-
	333	1.9	-	-
United States Equities (Schedule C)				
S&P 500 Pooled Index Fund (e)	606	3.5	-	-
External Managers				
US Large Cap Equity Pool (f)	506	2.9	-	-
	1,112	6.4	-	-
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool (g)	533	3.0	-	-
EAFE Plus Equity Pool (g)	269	1.5	-	-
EAFE Passive Equity Pool (h)	254	1.5	-	-
	1,056	6.0	-	-
Total equities	2,501	14.3	-	-
Total investments	$ 17,491	100.0	$ 14,057	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 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.

(d) The External Managers Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap equity markets. 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 managers, each of whom has a different investment style and market capitalization focus.

(e) The S&P 500 Pooled Index Fund is passively managed. The portfolio is comprised of publicly traded United States equities similar in weights to the Standard & Poor's S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pool utilizes a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pool also invests in futures, swaps and other structured investments.

(f) The External Managers US Large Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US large cap equity markets. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period while reducing return volatility through multiple managers, each of whom has a different investment style and market capitalization focus.

(g) The External Managers EAFE (Europe, Australasia 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.

(h) The External Managers EAFE Passive Equity Pool's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The Pool consists of a single portfolio of Non-North American publicly traded equities similar in weights to the MSCI EAFE index.

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.

In order to earn the best possible return at an acceptable level of risk, management has established a benchmark policy asset mix of 45% fixed income instruments and 55% 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 may be 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 Reserve Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to credit, 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. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. 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 Reserve Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2004:

	2004					2003	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value	Notional Amount	Net Fair Value
	%			($ thousands)			
Equity index swap contracts	93	7	-	$ 313	$ (4)	$ -	$ -
Cross-currency interest rate swap contracts	1	21	78	276	(42)	-	-
Interest rate swap contracts	44	47	9	195	(9)	-	-
Bond index swap contracts	100	-	-	42	1	-	-
Forward foreign exchange contracts	100	-	-	34	-	-	-
Credit default swap contracts	-	29	71	24	-	-	-
Equity index futures contracts	100	-	-	5	-	-	-
				$ 889	$ (54)	$ -	$ -

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 Reserve Fund attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

NOTE 6 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. and was then extrapolated to December 31, 2003.

As at December 31, 2003, the SRP reported an actuarial surplus of $9.3 million (2002 $6.5 million), taking into account the amounts owing from the Reserve Fund.

NOTE 7 APPROVAL OF FINANCIAL STATEMENTS

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

Schedule A

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND
SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES
MARCH 31, 2004

	Reserve Fund's Share	
	2004	2003
	($ thousands)	
Deposits and short-term securities	$ 12,002	$ 14,057
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	713	-
Provincial		
Alberta, direct and guaranteed	2	-
Other, direct and guaranteed	714	-
Municipal	41	-
Corporate, public and private	1,526	-
	2,996	-
Receivable from sale of investments and accrued investment income	35	-
Liabilities for investment purchases	(43)	-
	(8)	-
	$ 14,990	$ 14,057

(a) Fixed income securities held as at March 31, 2004 had an average effective market yield of 4.20% per annum. The following term structure of these securities as at March 31, 2004 was based on principal amount:

	2004	2003
	%	
under 1 year	2	-
1 to 5 years	40	-
6 to 10 years	30	-
11 to 20 years	10	-
over 20 years	18	-
	100	-

Schedule B

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

MARCH 31, 2004

	Reserve Fund's Share	
	2004	2003
	($ thousands)	
Deposits and short-term securities	$ 4	$ -
Public equities (a) (b)		
Consumer discretionary	24	-
Consumer staples	13	-
Energy	49	-
Financials	106	-
Health care	7	-
Industrials	26	-
Information technology	26	-
Materials	56	-
Telecommunication services	16	-
Utilities	9	-
	332	-
Receivable from sale of investments and accrued investment income	2	-
Liabilities for investment purchases	(5)	-
	(3)	-
	$ 333	$ -

(a) The Reserve Fund's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $132,000 (2003 $nil), 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

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND
SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES
MARCH 31, 2004

	Reserve Fund's Share	
	2004	2003
	($ thousands)	
Deposits and short-term securities	$ 5	$ -
Public equities (a) (b)		
Consumer discretionary	173	-
Consumer staples	114	-
Energy	65	-
Financials	228	-
Health care	134	-
Industrials	125	-
Information technology	171	-
Materials	41	-
Telecommunication services	33	-
Utilities	25	-
	1,109	-
Receivable from sale of investments and accrued investment income	3	-
Liabilities for investment purchases	(5)	-
	(2)	-
	$ 1,112	$ -

(a) The Reserve Fund's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $186,000 (2003 $nil) 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

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND
SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES
MARCH 31, 2004

	Reserve Fund's Share 2004	2003
	($ thousands)	
Deposits and short-term securities	$ 21	$ -
Public equities (a)		
Consumer discretionary	162	-
Consumer staples	77	-
Energy	79	-
Financials	249	-
Health care	80	-
Industrials	120	-
Information technology	64	-
Materials	81	-
Telecommunication services	81	-
Utilities	40	-
	1,033	-
Receivable from sale of investments and accrued investment income	11	-
Liabilities for investment purchases	(9)	-
	2	-
	$ 1,056	$ -

(a) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. The following is a summary of the Reserve Fund's investment in Non-North American public equities by country based on geographic location of stock exchange on which stocks were purchased.

	Reserve Fund's Share 2004	2003
	($ thousands)	
United Kingdom	$ 237	$ -
Japan	198	-
France	97	-
Switzerland	81	-
Germany	70	-
Netherlands	56	-
Australia	50	-
Italy	46	-
Spain	27	-
Hong Kong	23	-
Other	148	-
	$ 1,033	$ -

ALBERTA CAPITAL FINANCE AUTHORITY
FINANCIAL STATEMENTS
DECEMBER 31, 2003

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Shareholders of the

Alberta Capital Finance Authority

I have audited the balance sheet of the Alberta Capital Finance Authority as at December 31, 2003 and the statements of loss and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Authority'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 Authority as at December 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
January 26, 2004

ALBERTA CAPITAL FINANCE AUTHORITY

BALANCE SHEET

AS AT DECEMBER 31, 2003

(thousands of dollars)

	2003 Budget	2003 Actual	2002 Actual
ASSETS:			
Cash (Note 3)	$ 8,283	$ 2,308	$ 6,030
Accrued interest receivable	129,648	128,189	135,649
Loans to local authorities (Note 4)	3,976,213	3,917,098	3,818,270
	$ 4,114,144	$ 4,047,595	$ 3,959,949
LIABILITIES AND SHAREHOLDERS' EQUITY:			
Liabilities:			
Accrued interest payable	$ 53,807	$ 52,646	$ 59,035
Due to the General Revenue Fund (Note 11)	-	-	100,000
Debt (Note 5 and Schedule 1)	4,048,073	3,972,479	3,774,174
	4,101,880	4,025,125	3,933,209
Shareholders' equity:			
Share capital (Note 6):			
Isssued and fully paid:			
6,373 shares (2002 - 6,373)	64	64	64
Retained earnings	12,200	22,406	26,676
	12,264	22,470	26,740
	$ 4,114,144	$ 4,047,595	$ 3,959,949

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

G. H. Sherwin, CA
Chair

T. S. Stroich, FCA
President

ALBERTA CAPITAL FINANCE AUTHORITY
STATEMENT OF LOSS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2003
(thousands of dollars)

	2003 Budget	2003 Actual	2002 Actual
Interest Income:			
Loans	$ 312,821	$ 311,113	$ 323,829
Amortization of loan discounts	12,243	12,243	15,744
Other	300	967	618
	325,364	324,323	340,191
Interest Expense:			
Debt	335,225	323,939	342,743
Amortization of net discounts on debt	3,804	4,642	3,687
	339,029	328,581	346,430
Net interest expense	(13,665)	(4,258)	(6,239)
Other Income:			
Loan prepayment fees	-	485	519
Net interest expense and other income	(13,665)	(3,773)	(5,720)
Non-Interest Expense:			
Administration and office expenses (Note 7)	811	497	342
Net loss	(14,476)	(4,270)	(6,062)
Retained earnings, beginning of year	26,676	26,676	132,738
	12,200	22,406	126,676
Transfer to the General Revenue Fund (Note 11)	-	-	(100,000)
Retained earnings, end of year	$ 12,200	$ 22,406	$ 26,676

ALBERTA CAPITAL FINANCE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2003
(thousands of dollars)

	2003 Budget	2003 Actual	2002 Actual
Operating Activities:			
Interest received on loans	$ 318,822	$ 318,573	$ 316,602
Other interest	300	967	618
Loan prepayment fees	-	485	519
Administration and office expenses	(811)	(497)	(342)
Interest paid on debt	(340,453)	(330,328)	(346,630)
Cash flows used in operating activities	(22,142)	(10,800)	(29,233)
Investing Activities:			
Loan repayments	402,300	410,372	418,565
New loans issued	(548,000)	(496,957)	(766,141)
Cash flows used in operating activities	(145,700)	(86,585)	(347,576)
Financing Activities:			
Debt issues	1,921,118	3,124,186	2,281,657
Debt redemptions	(1,651,023)	(2,930,523)	(1,929,735)
Cash flows from financing activities	270,095	193,663	351,922
Payment of retained earnings to General Revenue Fund (Note11)	(100,000)	(100,000)	-
Net (decrease) increase in cash	2,253	(3,722)	(24,887)
Cash, beginning of year	6,030	6,030	30,917
Cash, end of year	$ 8,283	$ 2,308	$ 6,030

ALBERTA CAPITAL FINANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003

NOTE 1 AUTHORITY

The Alberta Capital Finance Authority (formerly the Alberta Municipal Financing Corporation) operates under the authority of the *Alberta Capital Finance Authority Act*, Chapter A-14.5, 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 (GAAP) 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

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates. Measurement uncertainty exists in the valuation of the loans to local authorities.

(d) Credit Risk

Credit risk is the risk of loss due to borrowers failing to meet their obligations to the Authority. Historically, the Authority has not needed to record any provisions or allowances regarding credit losses nor has it suffered any such losses. The Authority 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 a deposit 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 Authority'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

	2003	2002
	(thousands of dollars)	
Loans to local authorities	$ 3,940,658	$ 3,854,073
Less: Unamortized discounts	23,560	35,803
	$ 3,917,098	$ 3,818,270

NOTE 5 DEBT

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

(b) Debt amounting to $2,465,058,000 (2002 - $2,706,081,000) 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 Authority 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)
2004	$ 360,991
2005	423,604
2006	395,396
2007	335,383
2008	259,294
	$ 1,774,668

NOTE 6 SHARE CAPITAL

Particulars of share capital are as follows:

Class	Restricted to	Number of Shares Authorized	Number of Shares Issued and Fully Paid	Total Dollar Amount
A	Province of Alberta	4,500	4,500	$ 45,000
B	Municipal authorities, airport and health authorities	1,000	855	8,550
C	Cities	750	582	5,820
D	Towns and villages	750	300	3,000
E	Educational authorities	500	136	1,360
		7,500	6,373	$ 63,730

During the year, one Class B share was 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 Authority are as follows:

	2003		2002	
	Number of Individuals	Total	Number of Individuals	Total
Chair of the Board	1	$ 6,900	1	$ 2,500
Board Members	6	$ 18,900	6	$ 14,400

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

The Authority has no employees. Included in administration and office expenses of $496,765 (2002 - $342,126) is the amount of $267,110 (2002 - $241,024) that was paid to the controlling shareholder, Province of Alberta for goods and services 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 Authority's earnings 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 Authority's financial assets and liabilities:

AS AT DECEMBER 31, 2003
(thousands of dollars)

Maturities	Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	2003 Total	2002 Total
Assets							
Cash	$ 2,308	$ -	$ -	$ -	$ -	$ 2,308	$ 6,030
Accrued Interest Receivable	128,189	-	-	-	-	128,189	135,649
Loans	44,411	207,914	633,609	1,210,231	1,844,493	3,940,658 (i)	3,854,073 (i)
Effective Rate	10.3%	7.6%	9.5%	8.5%	6.7%	7.8%	8.3%
Total	174,908	207,914	633,609	1,210,231	1,844,493	4,071,155	3,995,752
Liabilities							
Accrued Interest Payable	$ 52,646	$ -	$ -	$ -	$ -	$ 52,646	$ 59,035
Debt	360,955	423,257	990,073	1,526,887	671,307	3,972,479	3,774,174
Effective Rate	12.4%	9.4%	9.8%	6.6%	5.9%	8.1%	8.9%
Total	413,601	423,257	990,073	1,526,887	671,307	4,025,125	3,833,209
Net Gap	$(238,693)	$(215,343)	$(356,464)	$ (316,656)	$ 1,173,186	$ 46,030	$ 162,543

(i) This total is not reduced by unamortized discount of $23,560 (2002 - $35,803).

The Authority 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 Authority's surplus position.

NOTE 9 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair value represents the estimated consideration that would be agreed upon in a current transaction between knowledgeable, willing parties who are under no compulsion to act. For loans and debt, fair value is calculated using net present value techniques where the Authority's future cash flows are discounted at the Authority's current cost of funds.

Changes in interest rates are the main cause of changes in the fair value of the Authority'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:

	2003		2002	
	Fair Value	Book Value	Fair Value	Book Value
	(thousands of dollars)			
Loans, including accrued interest receivable	$ 4,571,827	$ 4,045,287	$ 4,543,254	$ 3,953,919
Debt, including accrued interest payable	$ 4,505,138	$ 4,025,125	$ 4,404,516	$ 3,833,209

Certain of the comparative figures for 2002 have been amended to conform to the current year's presentation.

NOTE 10 COMMITMENTS

The Authority has obligations under a five-year operating lease for the rental of premises at an annual minimum amount of $24,802, expiring in July 2008.

NOTE 11 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 Authority's retained earnings to the General Revenue Fund. This transfer was made on March 28, 2003 in accordance with Section 33 of the *Financial Administration Act*.

NOTE 12 BUDGET

The 2003 budget was approved by the Board of Directors on April 10, 2003.

SCHEDULE 1

ALBERTA CAPITAL FINANCE AUTHORITY

SCHEDULE OF DEBT
AS AT DECEMBER 31, 2003
(thousands of dollars)

Maturity Date	Interest Rate	Principal Outstanding
	%	
Canada Pension Plan Investment Fund (Note5(b))		
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
Apr 05, 2023	5.89	50,000
Dec 01, 2023	5.50	150,000
Total		2,465,058
Public		
Jan 05, 2004	2.60	2,500
Jan 15, 2004	2.68	10,000
Feb 02, 2004	2.68	10,000
Jun 01, 2005	4.60	140,000
Mar 01, 2010	4.55	50,000
Aug 20, 2010	4.50	150,000
Sep 01, 2011	5.70	200,000
Jun 01, 2012	5.85	500,000
Dec 02, 2013	5.00	300,000
Jun 01, 2015	4.90	100,000
Jun 01, 2018	5.15	50,000
Total		1,512,500
		3,977,558
Net unamortized discount		5,079
Total debt 2003		$ 3,972,479
Total debt 2002		$ 3,774,174

ALBERTA INSURANCE COUNCIL
FINANCIAL STATEMENTS
DECEMBER 31, 2003

AUDITORS' REPORT

To the Members of Alberta Insurance Council

We have audited the statement of financial position of Alberta Insurance Council as at December 31, 2003 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, 2003, 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.

Pricewaterhouse Coopers LLP
Chartered Accountants

Edmonton, Alberta
March 5, 2004

ALBERTA INSURANCE COUNCIL
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2003

	2003	2002
ASSETS		
Current assets		
Cash and short-term investments (Note 3)	$ 1,590,102	$ 1,820,604
Accounts receivable	10,925	77,685
Prepaid expenses	24,542	13,141
	1,625,569	1,911,430
Recoverable program development costs	57,519	86,081
Deferred program and examination development costs (Note 4)	205,948	244,094
Property and equipment (Note 5)	234,145	179,606
	$ 2,123,181	$ 2,421,211
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 119,107	$ 101,071
Current portion of obligation under capital lease	4,500	-
Deferred tenant inducement	13,797	18,528
Deferred license and assessment fee revenue	646,100	483,400
	783,504	602,999
Obligation under capital lease	4,500	-
	788,004	602,999
NET ASSETS		
Net assets		
Invested in property, plant and equipment	225,145	179,606
Invested in program and examination development	205,948	244,094
Unrestricted	904,084	1,394,512
	1,335,177	1,818,212
	$ 2,123,181	$ 2,421,211

Approved by the Board of Directors

R.L. Audiel, Director Valerie Chatten, Director

ALBERTA INSURANCE COUNCIL
STATEMENT OF CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2003

	Invested in property, plant and equipment	Invested in program and examination development	Unrestricted	Total 2003	Total 2002
Balance - Beginning of year	$179,606	$ 244,093	$ 1,394,513	$ 1,818,212	$ 1,718,846
(Deficiency) excess of revenue over expenditures	(94,925)	(75,531)	(312,579)	(483,035)	99,366
Invested in property and equipment	140,464	-	(140,464)	-	-
Invested in program and examination development	-	37,386	(37,386)	-	-
Balance - End of year	$225,145	$ 205,948	$ 904,084	$ 1,335,177	$ 1,818,212

ALBERTA INSURANCE COUNCIL
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2003

	Budget 2003 (Unaudited)	2003	2002
Revenue			
License and assessment fees	$ 1,683,000	$ 1,859,527	$ 2,093,479
Interest and other	50,000	57,688	51,865
Curriculum development exam fees	100,000	-	-
	1,833,000	1,917,215	2,145,344
Expenditures			
Salaries and benefits	1,410,000	1,299,820	1,241,529
Occupancy	235,000	214,366	202,300
Council meetings	135,000	144,700	130,079
Legal fees	95,000	101,130	61,592
Amortization of property and equipment	100,000	94,925	76,532
Freight and postage	70,000	94,519	36,031
Amortization of program development costs	65,000	75,531	-
Travel	90,000	72,342	82,183
Printing and stationery	20,000	48,473	25,818
Professional fees	30,000	40,762	22,070
Software maintenance	40,000	45,626	3,658
Communications	50,000	38,711	44,281
Accreditation committee	40,000	29,201	25,254
Appeal boards	25,000	20,183	26,618
Training	10,000	15,760	18,825
Insurance	15,000	15,203	10,289
Other	-	14,311	10,036
Office	25,000	12,068	16,702
Promotion and publications	15,000	11,879	5,892
Repairs and maintenance	-	10,740	6,289
	2,470,000	2,400,250	2,045,978
(Deficiency) excess of revenue over expenditures	$ (637,000)	$ (483,035)	$ 99,366

ALBERTA INSURANCE COUNCIL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2003

	2003	2002
Cash provided by (used in)		
Operating activities		
(Deficiency) excess of revenue over expenditures	$ (483,035)	$ 99,366
Items not affecting cash		
Amortization of program development costs	75,531	-
Amortization of property and equipment	94,925	76,532
Amortization of deferred tenant inducement	(4,730)	(4,730)
	(317,309)	171,168
Net changes in non-cash working capital items		
Decrease (increase) in accounts receivable	66,760	(806)
(Increase) decrease in prepaid expenses	(11,400)	5,127
Increase in accounts payable and accrued liabilities	18,035	53,865
Increase in deferred license and assessment fee revenue	162,700	176,270
	(81,214)	405,624
Investing activities		
Purchase of property and equipment	(149,464)	(90,250)
Proceeds from capital lease	9,000	-
Expenditures on deferred program and examination development - net of recovery	(37,386)	(17,500)
Receipt of recoverable program development costs	28,562	8,082
	(149,288)	(99,668)
(Decrease) increase in cash	(230,502)	305,956
Cash - Beginning of year	1,820,604	1,514,648
Cash - End of year	$1,590,102	$1,820,604
Supplementary information		
Interest received	$ 52,449	$ 50,323

ALBERTA INSURANCE COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003

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 enforcing the provisions of the *Insurance Act* and Regulations for 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 fees are recognized as revenue on a straight-line basis over the term of the license. Assessment fees are recognized at the time the related exam is held. License and assessment fees received but not yet recognized as revenue are recorded as deferred license and assessment fee revenue.

Recoverable Program Development Costs

Costs incurred by the Council as a committee member of the Canadian Insurance Regulatory Organization ("CISRO") on behalf of other jurisdictions are expected to be recovered from those jurisdictions over the next two to four years.

Deferred Program and Examination Development Costs

a) Deferred program development costs

Costs which have been incurred by the Council as a committee member of CISRO for the development of the Life License Qualification Program (the "LLQP" program) are deferred. Upon program implementation on January 1, 2003, these costs are amortized on a straight-line basis over a period of three years.

b) Deferred examination development costs

Costs which have been incurred by the Council for the development of LLQP examination questions have been deferred. These costs, net of recoveries, will be amortized on a straight-line basis over a period of three years upon completion of the development and testing of the questions.

Property and Equipment and Amortization

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

Leasehold improvements	Term of the lease
Furniture and office equipment under capital lease	10 years
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 $13,797 (2002 - $18,528) is recorded at amortized cost and is 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 $1,433,843 (2002 - $1,615,945) invested in the Consolidated Cash Investment Trust Fund (the "CCITF"). The CCITF is managed by the Government of Alberta with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital.

NOTE 4 DEFERRED PROGRAM EXAMINATION DEVELOPMENT COSTS

	2003			2002
	Cost	Accumulated amortization	Net	Net
Travel	$ 79,165	$ 26,388	$ 52,777	$ 79,165
Professional fees	147,429	49,143	98,286	147,429
Exam development	54,885	-	54,885	17,500
	$281,479	$ 75,531	$205,948	$244,094

NOTE 5 PROPERTY AND EQUIPMENT

	2003			2002
	Cost	Accumulated amortization	Net	Net
Leasehold improvements	$ 67,111	$ 52,460	$ 14,651	$ 23,161
Furniture and office equipment under capital lease	9,075	304	8,771	-
Furniture and office equipment	147,905	103,144	44,761	45,465
Computer equipment	177,527	114,012	63,515	57,553
Computer software	271,458	179,658	91,800	37,718
Telephone equipment	38,864	28,217	10,647	15,709
	$711,940	$ 477,795	$234,145	$179,606

NOTE 6 LEASE COMMITMENTS

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

2004	$ 74,448
2005	47,831
2006	43,887

The Council is committed to capital lease payments for equipment as follows:

2004	$ 4,537
2005	4,537

NOTE 7 FINANCIAL INSTRUMENTS

The Council's financial instruments comprise cash, accounts receivable, recoverable program development costs, accounts payable and accrued liabilities and obligation under capital lease. The carrying value of these financial instruments 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 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, 2003

Per diem payments of Council Members
The following amounts are included in council meetings expenses:

	2003		2002	
	#	Total	#	Total
Councils [a]				
Chairs	6	$ 41,907	4	$ 20,700
Council Members	26	52,000	22	63,305
Total	32	$ 93,907	26	$ 84,005

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

Salaries and benefits

	2003				2002	
	#	Salary[b]	Benefits[c]	Total	#	Total
General Manager	1	$ 131,805	$ 31,082	$ 162,887	1	$ 168,286
Assistant General Manager	1	110,637	28,940	139,577	1	141,685
Full-time staff [d]	17	801,449	143,348	944,797	17	908,630
Part-time staff	1	46,163	6,396	52,559	1	22,928
Total	20	$ 1,090,054	$ 209,766	$ 1,299,820	20	$ 1,241,529

(b) Salary includes regular base pay, bonuses and overtime.

(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, long and short-term disability plans and vacation pay. Accrued vacation pay was $22,034 for 2003 (2002 - $19,204).

(d) Full-time staff consists of all individuals working 29 hours or more per week. Average annual salary and benefits was $55,440 for 2003 (2002 - $52,659).

ALBERTA PENSIONS ADMINISTRATION CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2003

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, 2003 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, 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
March 15, 2004

ALBERTA PENSIONS ADMINISTRATION CORPORATION
BALANCE SHEET
AS AT DECEMBER 31, 2003
($ thousands)

	2003	2002
ASSETS		
Cash	$ 98	$ 46
Accounts receivable	12	5
Prepaid expenses	120	2
Due from pension plans	3,224	3,925
Property and equipment (Note 5)	8,040	6,918
	$ 11,494	$ 10,896
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities:		
Accounts payable and accrued liabilities	$ 1,376	$ 3,039
Accrued salaries and benefits	502	342
Accrued vacation pay	719	597
Deferred lease inducement	70	-
Capital lease obligation (Note 13)	787	-
Deferred capital contributions [Note 3(b)]	8,040	6,918
	11,494	10,896
Shareholder's equity:		
Share capital (Note 6)	-	-
	$ 11,494	$ 10,896

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, 2003
($ thousands)

	Budget 2003 (Note 17)	Actual 2003	Actual 2002
Revenue			
Service revenue (Note 7)	$ 26,541	$ 24,713	$ 21,881
Miscellaneous revenue	62	75	79
Total revenue	26,603	24,788	21,960
Operating costs before APEX business system and plan specific costs			
Salaries and benefits	11,142	10,812	8,112
Data processing	630	753	2,953
Materials and supplies	1,368	1,361	1,493
Contract services	1,976	1,717	644
Rent	527	538	502
Amortization	681	629	465
Operating costs before APEX business system and plan specific costs	16,324	15,810	14,169
APEX implementation phase (Note 15a)	5,669	5,996	5,743
APEX process improvements (Note 15b)	2,133	825	-
Operating costs before plan specific costs	24,126	22,631	19,912
Plan specific costs (Note 10)	2,477	2,157	2,048
Total operating costs	26,603	24,788	21,960
Net income	$ -	$ -	$ -

ALBERTA PENSIONS ADMINISTRATION CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2003

($ thousands)

	2003	2002
Operating activities		
Net income	$ -	$ -
Items not requiring cash		
Amortization	2,113	601
Capital contributions recognized	(2,113)	(601)
	-	-
Changes in non-cash working capital (Note 8)	(805)	(362)
	(805)	(362)
Investing activities		
Acquisition of property and equipment		
APEX implementation phase	(1,573)	(2,477)
APEX process improvements	(994)	-
Non-APEX	(668)	(1,014)
	(3,235)	(3,491)
Financing activities		
Increase in deferred lease inducement	70	-
Increase/(decrease) in capital lease obligation	787	(15)
Capital contributions received	3,235	3,491
	4,092	3,476
Increase (decrease) in cash for the year	52	(377)
Cash at beginning of year	46	423
Cash at end of year	$ 98	$ 46

ALBERTA PENSIONS ADMINISTRATION CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003

NOTE 1 AUTHORITY

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

NOTE 2 NATURE OF OPERATIONS

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

Special Forces Pension Plan

Public Service Management (Closed Membership) Pension Plan

Members of the Legislative Assembly Pension Plan

Provincial Judges and Masters In Chambers (Registered) Pension Plan

Supplementary Retirement Plan for Public Service Managers

Provincial Judges and Masters In Chambers (Unregistered) Pension Plan

All administrative services required by the pension plans are provided by the Corporation pursuant to an agreement with the Minister through to 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 requested by individual pension boards.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Property and Equipment

Property and equipment is recorded at cost and 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	3 to 5 years

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

(b) Recognition of Deferred Capital Contributions

Financing obtained from the public sector pension plan funds to acquire property and equipment is 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.

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 carrying value.

NOTE 5 PROPERTY AND EQUIPMENT

	2003			2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	($ thousands)			
Computer equipment	$ 1,905	$ 1,171	$ 734	$ 835
Software development projects	113	113	-	-
Computer software	724	499	225	112
Furniture and equipment	528	383	145	241
Telephone system	43	43	-	-
Leasehold improvements	315	68	247	124
APEX business system (Note 15)	8,377	1,688	6,689	5,606
	$ 12,005	$ 3,965	$ 8,040	$ 6,918

NOTE 6 SHARE CAPITAL

	2003	2002
Authorized		
Unlimited number of common shares		
Unlimited number of preferred shares		
Issued		
1 common share, for cash (Note 1)	$1	$1

NOTE 7 SERVICE REVENUE

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

	2003	2002
	($ thousands)	
Public Sector Pension Plans		
Local Authorities Pension Plan	$ 14,827	$ 12,780
Public Service Pension Plan	6,568	5,676
Management Employees Pension Plan	1,364	1,104
Special Forces Pension Plan	976	827
Public Service Management (Closed Membership) Pension Plan	392	286
Members of the Legislative Assembly Pension Plan	74	68
Provincial Judges and Masters in Chambers (Registered) Pension Plan	76	65
Supplementary Retirement Pension Plans		
Supplementary Retirement Plan for Public Service Managers	368	330
Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	68	61
Other Pension Plan		
Universities Academic Pension Plan	-	684
	$ 24,713	$ 21,881

NOTE 8 CHANGES IN NON-CASH WORKING CAPITAL

	2003	2002
	($ thousands)	
Changes in non-cash working capital consist of the following:		
Decrease/(increase) in accounts receivable	$ (7)	$ 23
Decrease/(increase) in prepaid expenses	(118)	4
Decrease/(increase) in due from pension plans	701	(1,703)
Increase/(decrease) in accounts payable and accrued liabilities	(1,663)	1,041
Increase in accrued salaries and benefits	160	186
Increase in accrued vacation pay	122	87
	$ (805)	$ (362)

NOTE 9 RELATED PARTY TRANSACTIONS

		2003	2002
		($ thousands)	
The Corporation received the following services at amounts which approximate market from:			
Alberta Finance	Accounting and administrative	$ 25	$ 23
Alberta Infrastructure	Postage and parking rental	16	59
Alberta Corporate Service Centre	Data processing and postage	794	758

The Corporation also provided services to the Public Sector Pension Plans as disclosed in Notes 7 and 10.

NOTE 10 PLAN SPECIFIC COSTS

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

	2003	2002
	($ thousands)	
Remuneration for Pension Plan Boards	$ 136	$ 162
Salaries and benefits	360	314
Contract services	1,376	1,205
Materials and supplies	285	367
	$ 2,157	$ 2,048

NOTE 11 SALARIES AND BENEFITS DISCLOSURE

		2003			2002
		Salary [a]	Benefits and Allowances [b]	Total	Total
		($ thousands)			
Chairman of APA Board	(c)	$ 31	$ -	$ 31	$ 24
Board Members of APA	(c)	72	5	77	50
President and Chief Executive Officer	(d)(e)	179	64	243	169
Corporate Officers:					
Chief Operating Officer and Corporate Secretary	(f)	151	40	191	155
Chief Administrative Officer	(f)	140	34	174	145
Chief Information Officer	(g)	108	28	136	52
Executive:					
Executive Director Operation		123	30	153	129

(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, vacation payouts and a cash payment equivalent to the contributions that would have been paid into a supplementary retirement plan.

(c) Remuneration paid to the Chairman and four board members is classified as contract services and is paid in accordance with the fee structure approved by the Minister of Finance.

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

(e) 2003 benefits and allowances include a $15,000 payment equivalent to the employers share of contributions that would have been paid into a supplementary retirement plan for 2002.

(f) Benefits and allowances include vacation payouts to the Chief Operating Officer and Corporate Secretary $nil (2002: $5,000) and the Chief Administrative Officer $nil (2002: $9,000).

(g) Position was occupied for five months in 2002.

NOTE 12 PENSIONS

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 $610,000 for the year ended December 31, 2003 (2002: $430,000).

NOTE 13 OBLIGATION UNDER CAPITAL LEASE

The Corporation is committed under a capital lease for computer equipment for the periods extending to 2006. Future minimum lease payments are as follows:

	($ thousands)
2004	$ 294
2005	294
2006	294
Total minimum lease payments	882
Less amount representing maintenance costs	95
Capital lease obligation	787
Current portion	246
Long term portion	$ 541

NOTE 14 COMMITMENTS

The Corporation has entered into agreements with minimum annual commitments for office space and automobile as follows:

	($ thousands)
2004	$ 549
2005	541
2006	540
2007	540

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.

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

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

	2003	2002
	($ thousands)	
Costs incurred	$ 7,569	$ 8,220
Costs expensed		
Implementation phase	4,785	5,607
Amortization	1,211	136
	5,996	5,743
Costs capitalized	1,573	2,477
Costs amortized	(1,211)	(136)
Unamortized costs at beginning of year	5,606	3,265
Unamortized costs at end of year	$ 5,968	$ 5,606

The implementation phase of the project was completed by December 31, 2003 at a total cost of $19,153,000 compared to the approved budget of $19,240,000.

(b) **Process Improvements**

Process improvements began in 2003 and costs incurred, expansed and capitalized were as follows:

	Infaormation Management	Pensioner Payroll	Total
		($ thousands)	
Costs incurred	$ 1,754	$ 65	$ 1,819
Costs expensed			
Process improvements	487	65	552
Amortization	273	-	273
	760	65	825
Costs capitalized	994	-	994
Costs amortized	(273)	-	(273)
Unamortized costs at end of year	$ 721	$ -	$ 721

The 2004 - 2006 financial plan operating and capital budgets for Information Management and Pensioner Payroll are $5,789,000 and $2,128,000 respectively.

NOTE 16 SUBSEQUENT EVENT

In late 2003, a potential workplace health concern was identified on one of the floors occupied by the Corporation. Out of an abundance of concern for its employees' health, management chose to reloclate all staff from this floor prior to commencing any remediation work in 2004. This potential workplace health concern will be fully remediated by mid-2004.

It is estimated that the uninsured cost associated with the temporary relocation of employees may be as much as $100,000.

NOTE 17 BUDGET

The 2003 budget was approved by the Board of Directors on November 21, 2002.

NOTE 18 COMPARATIVE FIGURES

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

THE ALBERTA GOVERNMENT TELEPHONES COMMISSION FINANCIAL STATEMENTS DECEMBER 31, 2003

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, 2003 and the statements 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, 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
May 10, 2004

THE ALBERTA GOVERNMENT TELEPHONES COMMISSION
BALANCE SHEET
AS AT DECEMBER 31, 2003
(thousands of dollars)

	2003	2002
ASSETS		
Cash and temporary investments (Note 3)	$ 45,850	$ 50,704
Interest and accounts receivable	-	102
	$ 45,850	$ 50,806
LIABILITIES AND EQUITY		
Accounts payable and accrued liabilities	$ 80	$ 190
Due to the Province of Alberta (Note 4)	45,770	26,326
Income taxes (Note 2(c))	-	24,290
	45,850	50,806
Retained earnings	-	-
	$ 45,850	$ 50,806

The accompanying notes are part of these financial statements.

On behalf of the Commission:

Rod Matheson

Chairman and Sole Commission Member

THE ALBERTA GOVERNMENT TELEPHONES COMMISSION
STATEMENT OF REVENUE, EXPENSE AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2003
(thousands of dollars)

	2003		2002
	Budget (Note 6)	Actual	
Revenue:			
Interest on deposits	$ -	$ 983	$ 1,030
Foreign exchange gain on income taxes	-	3,120	434
Foreign exchange gain on notes	-	-	-
	-	4,103	1,464
Expense:			
Interest on income taxes	-	-	913
Foreign exchange loss on notes	-	5,415	386
Foreign exchange loss on income taxes	-	-	-
Interest and other	-	62	10
	-	5,477	1,309
Gain on valuation adjustment (Note 2(c))	-	20,818	21,295
Excess of revenue over expense for the year	-	19,444	21,450
Retained earnings at beginning of year	-	-	-
Transfer to the Province of Alberta	-	(19,444)	(21,450)
Retained earnings at end of year	$ -	$ -	$ -

THE ALBERTA GOVERNMENT TELEPHONES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

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 due to the limited nature of the Commission's operations. All information about the Commission's cash flows is contained within the financial statements.

(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

Income tax payable represent management's estimate of taxes owing following the wind up of its U.S. subsidiaries in 1999. The tax returns have now passed their statute of limitation period and no income taxes are payable by the Commission. Changes in income taxes payable are recorded as valuation adjustments.

(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 TEMPORARY INVESTMENTS

	2003	2002
	(thousands of dollars)	
Bank deposits	$ 135	$ 494
CCITF account	45,715	2,348
Short-term deposits	-	47,862
	$ 45,850	$ 50,704

The Consolidated Cash Investment Trust Fund (CCITF) is managed with the objective of providing competitive interest income to depositors while maintaining appropriate 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.

NOTE 4 DUE TO THE PROVINCE OF ALBERTA

	2003	2002
	(thousands of dollars)	
Balance at beginning of year	$ 26,326	$ 4,876
Excess of revenue over expense of the Commission	19,444	21,450
Balance at end of year	$ 45,770	$ 26,326

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 2003 budget was published in the 2003-04 Government and Lottery Fund Estimates at page 156.

NOTE 7 RELATED PARTY TRANSACTIONS

Other than interest earned from the Consolidated Cash Investment Trust Fund, there were no other related party transactions during the year.

NOTE 8 SUBSEQUENT EVENTS

By the end of March 31, 2004, the Commmission transferred its remaining assets to the province with the approval of the Liutenant Governor in Council and now has no assets or liabilities.

ALBERTA TREASURY BRANCHES
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2004

AUDITOR'S REPORT

To the Minister of Finance

I have audited the consolidated balance sheet of Alberta Treasury Branches as at March 31, 2004, 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 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 consolidated financial statements present fairly, in all material respects, the financial position of Alberta Treasury Branches as at March 31, 2004 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
May 10, 2004

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

	2004	2003	2002
ASSETS			
Cash resources (Note 4)			
Cash and items in transit	$ 101,281	$ 72,750	$ 120,061
Interest bearing deposits with banks	956,727	579,607	752,269
	1,058,008	652,357	872,330
Securities (Note 5)	854,997	578,850	807,793
Loans (Notes 6 and 7)			
Residential mortgage	5,378,595	4,961,459	4,428,527
Personal	1,986,397	1,806,125	1,632,876
Business and other	4,958,957	5,098,631	4,512,890
Allowance for loan losses	(192,896)	(174,733)	(173,730)
	12,131,053	11,691,482	10,400,563
Other			
Premises and equipment (Note 8)	93,016	81,322	74,661
Other assets (Notes 9)	168,736	179,984	198,463
	261,752	261,306	273,124
	$ 14,305,810	$ 13,183,995	$ 12,353,810
LIABILITIES AND EQUITY			
Deposits (Note 10)			
Personal	$ 7,815,239	$ 7,508,559	$ 6,978,556
Business and other	5,219,881	4,588,352	4,446,654
	13,035,120	12,096,911	11,425,210
Other liabilities (Note 11)	262,313	250,731	306,385
Subordinated debentures (Note 12)	45,416	45,416	30,182
Equity	962,961	790,937	592,033
	$ 14,305,810	$ 13,183,995	$ 12,353,810

The accompanying notes are an intergral part of the consoilated 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 YEARS ENDED MARCH 31
($ in thousands)

	2004	2003	2002
Interest income			
Loans	$ 695,106	$ 657,374	$ 669,422
Securities	22,268	18,613	34,697
Deposits with banks	23,227	21,537	35,326
	740,601	697,524	739,445
Interest expense			
Deposits	340,627	330,896	372,243
Subordinated debentures	2,690	2,468	1,619
	343,317	333,364	373,862
Net interest income	397,284	364,160	365,583
Provision for (recovery of) credit losses (Note 7)	15,859	(43,211)	21,095
Net interest income after provision for (recovery of) credit losses	381,425	407,371	344,488
Other income			
Service charges	53,213	49,699	45,751
Credit fees	28,216	26,520	25,581
Commission and other	13,277	12,017	12,045
Card fees	15,636	13,892	12,679
Foreign exchange	5,930	5,314	5,153
	116,272	107,442	101,209
Net interest and other income	497,697	514,813	445,697
Non-interest expenses			
Salaries and employee benefits (Notes 13 and 14)	168,028	160,160	146,789
Premises and equipment, including amortization	50,574	46,922	42,905
Communications and electronic processing	55,199	55,884	52,559
Other	51,872	52,943	45,518
	325,673	315,909	287,771
Net income	$ 172,024	$ 198,904	$ 157,926

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

	2004	2003	2002
Equity at beginning of year	$ 790,937	$ 592,033	$ 434,107
Net income	172,024	198,904	157,926
Equity at end of year	$ 962,961	$ 790,937	$ 592,033

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

	2004	2003	2002
Cash flows from operating activities			
Net income	$ 172,024	$ 198,904	$ 157,926
Adjustments to determine net cash flows:			
Provision for (recovery of) credit losses	15,859	(43,211)	21,095
Amortization	24,676	20,107	17,419
Net changes in accrued interest receivable and payable	9,138	12,604	4,867
Other items, net	13,692	(49,779)	26,439
	235,389	138,625	227,746
Cash flows from financing activities			
Net change in deposits	938,209	671,701	506,347
Issue of subordinated debentures	-	15,234	12,738
	938,209	686,935	519,085
Cash flows from investing activities			
Net change in interest bearing deposits with banks	(377,120)	172,662	250
Purchase of investment securities	(7,802,340)	(6,653,500)	(8,595,386)
Maturity of investment securities	7,526,193	6,882,443	8,713,773
Net change in loans	(455,430)	(1,247,708)	(867,406)
Net purchases of premises and equipment	(36,370)	(26,768)	(17,897)
	(1,145,067)	(872,871)	(766,666)
Net (decrease) increase in cash and cash equivalents	28,531	(47,311)	(19,835)
Cash and cash equivalents at beginning of year	72,750	120,061	139,896
Cash and cash equivalents at end of year	$ 101,281	$ 72,750	$ 120,061
Supplementary cash flow information:			
Amount of interest paid during the year	$ 341,462	$ 335,260	$ 378,411

ALBERTA TREASURY BRANCHES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2004

($ 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. ATB is exempt from income tax.

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. All intercompany transactions and balances have been eliminated.

At March 31, 2004 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

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, revenues and expenses and related disclosures such as credit loss allowances, pension liability, accrued liabilities and amortization. Actual results can significantly 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. Items in transit represent uncleared settlements with other financial institutions and are recorded at cost.

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 $4,007 as per quoted market price at March 31, 2004. Securities pledged at March 31, 2004 totalled $234,200 (2003: $172,940; 2002: $41,625) (Note 16).

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

	Within one year	No specific maturity	2004 Total carrying value	2003 Total carrying value	2002 Total carrying value
Issued or guaranteed by the					
Canadian federal government	$ 13,679	$ -	$ 13,679	$ 8,728	$ 31,959
Corporate debt	837,916	-	837,916	558,144	775,834
Equity	-	3,402	3,402	11,978	-
	$851,595	$ 3,402	$ 854,997	$ 578,850	$ 807,793

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 unrecognized portion of loan and commitment fees is netted against loans in the Consolidated Balance Sheet.

Loans consist of the following:

	Gross Loans	Specific Allowances	General Allowances	2004 Net Carrying Value	2003 Net Carrying Value	2002 Net Carrying Value
Residential mortgage	$ 5,378,595	$ 3,834	$ 3,833	$ 5,370,928	$ 4,951,874	$ 4,417,971
Personal	1,986,397	2,257	49,921	1,934,219	1,756,723	1,583,409
Agricultural	1,408,902	6,819	34,732	1,367,351	1,312,493	1,264,358
Independent business, commercial and other	3,550,055	22,267	69,233	3,458,555	3,670,392	3,134,825
	$ 12,323,949	$ 35,177	$ 157,719	$ 12,131,053	$ 11,691,482	$ 10,400,563

Total net loans include loans of $56,267 (2003: $49,908; 2002: $5,781) denominated in U.S. funds.

Impaired loans (included in the preceding schedule):

	Gross impaired loans	Specific Allowance	2004 Net Carrying value	2003 Net Carrying value	2002 Net Carrying value
Residential mortgage	$ 33,345	$ 3,834	$ 29,511	$ 32,186	$ 24,789
Personal	9,538	2,257	7,281	4,741	4,240
Agricultural	28,972	6,819	22,153	11,511	8,039
Independent business, commercial and other	36,986	22,267	14,719	14,514	15,400
	$ 108,841	$ 35,177	$ 73,664	$ 62,952	$ 52,468

The total recorded investment at March 31, 2004 in foreclosed assets acquired was $113, with an allowance for losses of $98 and a net carrying value of $15. (2003: $31; 2002: $99). 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 even 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		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
Balance at beginning of year	$ 35,012	$ 89,588	$ 93,240	$ 146,311	$ 138,855	$ 123,649	$ 181,323	$ 228,443	$216,889
Write-offs	(12,394)	(29,459)	(19,635)	-	-	-	(12,394)	(29,459)	(19,635)
Recoveries	12,866	25,550	10,094	-	-	-	12,866	25,550	10,094
Provision for (recovery of) credit losses	4,451	(50,667)	5,889	11,408	7,456	15,206	15,859	(43,211)	21,095
Balance at end of year	$ 39,935	$ 35,012	$ 89,588	$ 157,719	$ 146,311	$ 138,855	$ 197,654	$ 181,323	$228,443
Less: Allowance for guarantees/losses included in other liabilities							-	-	45,000
Allowance for cost of credit recovery included in other liabilities							4,758	6,590	9,713
Allowance for loan losses							$ 192,896	$ 174,733	$173,730

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

	2004	2003	2002
Loan losses	$ 35,177	$ 28,422	$ 34,875
Guarantees/losses	-	-	45,000
Cost of credit recovery	4,758	6,590	9,713
	$ 39,935	$ 35,012	$ 89,588

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 is 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.

			2004	2003	2002
	Cost	Accumulated amortization	Net carrying value	Net carrying value	Net carrying value
Land	$ 7,382	$ -	$ 7,382	$ 7,531	$ 7,649
Buildings	67,153	52,398	14,755	14,264	15,100
Equipment and software	113,283	75,521	37,762	27,611	27,642
Leasehold improvements	75,407	42,290	33,117	31,916	24,270
	$ 263,225	$ 170,209	$ 93,016	$ 81,322	$ 74,661

Amortization charged to the Consolidated Statement of Income for the year ended March 31, 2004, in respect to the above assets was $24,676 (2003: $20,107; 2002: $17,419)

NOTE 9 OTHER ASSETS

	2004	2003	2002
Accrued interest receivable	$ 122,814	$ 130,097	$ 144,597
Other items, including accounts receivable, accrued pension benefit asset and prepaid items	45,922	49,887	53,866
	$ 168,736	$ 179,984	$ 198,463

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, 2004 the fee was $11,836 (2003: $15,985; 2002: $15,234).

				2004	2003	2002
	Payable on demand	Payable after notice	Payable on a fixed date	Total	Total	Total
Personal	$ 1,251,383	$ 819,429	$ 5,744,427	$ 7,815,239	$ 7,508,559	$ 6,978,556
Business and other	1,868,753	304,930	3,046,198	5,219,881	4,588,352	4,446,654
	$ 3,120,136	$ 1,124,359	$ 8,790,625	$ 13,035,120	$ 12,096,911	$ 11,425,210

Total deposits include $132,126 (2003: $127,485; 2002: $124,139) denominated in U. S. funds.

As at March 31, 2004, deposits by the Province of Alberta total $6,596 (2003: $8,880; 2002: $16,963) and include deposits for loans made under the Alberta Farm Credit Stability Program in the amount of $4,927 (2003: $7,888; 2002: $15,972).

NOTE 11 OTHER LIABILITIES

	2004	2003	2002
Accrued interest payable	$ 143,863	$ 142,008	$ 143,904
Allowance for credit losses on loan guarantees	-	-	45,000
Other items, including accounts payable, deposit guarantee fee payable, accrued pension benefit liability and other accrued liabilities	118,450	108,723	117,481
	$ 262,313	$ 250,731	$ 306,385

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 2004. ATB's obligation for the cost of the deposit guarantee for fiscal years 2003 and 2004 is recorded in other liabilities in the Consolidated Balance Sheet.

These debentures are non-convertible, non-redeemable, non-transferable, and bear a fixed interest rate payable semi-annually.

Maturity Date	Interest Rate	2004	2003	2002
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	12,738
June 30, 2007	5.810%	15,234	15,234	-
		$ 45,416	$ 45,416	$ 30,182

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 PSPP on a defined contribution basis. Expenses related to this plan were $3,475 (2003: $2,845; 2002: $2,699) 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, 2004 the expense was $3,668 (2003: $3,929; 2002: $2,773).

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.

The defined benefit pension plans are based on years of service and final average salary. Actuarial determination of the accrued benefit obligations uses the projected unit credit funding method, which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors.

Total cash payments for employee future benefits for the year ended March 31, 2004, consisting of cash contributed by ATB to its funded registered pension plan, cash payments directly to beneficiaries for its unfunded supplementary pension plan, and cash contributed to its defined contribution plans, was $18,136 (2003: $8,080; 2002: $6,427).

The following accounting policies have been applied to the defined benefit provision of the registered plan and defined benefit supplemental plan:

For the purpose of calculating the expected return on plan assets, those assets are valued at market-related value. A market-related value is a calculated amount that recognizes changes in the fair value of assets in a systematic and rational manner over a period of four years, using a four-year moving average for all classes of assets, and is applied consistently from year to year.

Actuarial gains (losses) arise from changes in the value of the accrued benefit obligation and the plan assets resulting from experience different from that assumed or changes in actuarial assumptions. The excess of the net accumulated actuarial gain (loss) over 10 percent of the greater of the benefit obligation and the market-related value of plan assets is amortized over the average remaining service period of active employees.

On March 31, 1999, ATB adopted the new accounting standard in employee future benefits using the prospective application method. ATB is amortizing the transitional asset on a straight-line basis over 10 years, which was the expected average remaining service period of active employees expected to receive benefits under the benefit plan as at March 31, 1999.

On April 1, 2003, the Supplemental Plan was amended to include limits to the pensionable earnings. This amendment resulted in a reduction to the projected benefit obligation related to past-service component. The effect of the past service amendment is being amortized on a straight-line basis over 14 years, which is the expected average remaining service period of active employees expected to receive supplemental benefits as at March 31, 2003.

ATB measures its accrued benefit obligations and the fair and the market-related values of plan assets for accounting purposes as at March 31 of each year. The most recent actuarial valuation of the registered pension plan for funding purposes was as of December 31, 2003, and the next required valuation date for funding purposes is December 31, 2006.

Management employees defined benefit pension plans

	Registered plan			Supplemental plan		
	2004	2003	2002	2004	2003	2002
Change in fair value of plan assets						
Fair value of plan assets at beginning of year	$ 50,324	$ 56,435	$ 58,316	$ -	$ -	$ -
Contributions from ATB	10,974	1,252	948	19	54	7
Contributions from employees	987	935	904	-	-	-
Actual return on plan assets	10,602	(6,861)	2,059	-	-	-
Benefits paid	(1,424)	(1,437)	(1,120)	(19)	(54)	(7)
Transfers to other plans	-	-	(4,672)	-	-	-
Fair value of plan assets at end of year	$ 71,463	$ 50,324	$ 56,435	$ -	$ -	$ -
Percentage of fair value of plan assets	2004	2003	2002	2004	2003	2002
Equity securities	68.53%	63.78%	64.67%	-	-	-
Debt securities	30.87%	34.92%	33.19%	-	-	-
Other	0.60%	1.30%	2.14%	-	-	-
	100.00%	100.00%	100.00%	-	-	-
Change in projected benefit obligation						
Projected benefit obligation at beginning of year	$ 68,441	$ 63,740	$ 57,326	$ 1,851	$ 1,850	$ 1,028
Past service amendment	-	-	-	(1,210)	-	-
Actuarial loss (gain)	11,048	(691)	5,381	282	(766)	156
Current service cost	2,530	2,491	2,233	163	675	578
Interest cost	4,829	4,338	3,907	50	146	95
Benefits paid	(1,424)	(1,437)	(1,120)	(19)	(54)	(7)
Transfers to other plans	-	-	(3,987)	-	-	-
Projected benefit obligation at end of year	$ 85,424	$ 68,441	$ 63,740	$ 1,117	$ 1,851	$ 1,850
Funded status						
Plan (deficit) surplus	$ (13,961)	$ (18,117)	$ (7,305)	$ (1,117)	$ (1,851)	$ (1,850)
Unamortized initial transition asset	(1,970)	(2,364)	(2,758)	-	-	-
Unamortized actuarial net loss (gain)	25,843	22,403	12,557	(90)	(395)	385
Unamortized past service amendment (gain)	-	-	-	(1,123)	-	-
Accrued benefit asset (liability)(1)	$ 9,912	$ 1,922	$ 2,494	$ (2,330)	$ (2,246)	$ (1,465)
Annual benefit expense						
Service cost, net of employee contributions	$ 1,543	$ 1,556	$ 1,329	$ 163	$ 675	$ 578
Interest cost	4,829	4,338	3,907	50	146	95
Expected return on plan assets	(4,164)	(4,303)	(4,305)	-	-	-
Amortization of initial transition asset	(394)	(394)	(394)	-	-	-
Amortization of past service amendment	-	-	-	(86)	-	-
Amortization of unrecognized experience losses	1,170	625	-	(24)	14	10
Loss on transfers to other plans	-	-	832	-	-	-
Net pension benefit expense	$ 2,984	$ 1,822	$ 1,369	$ 103	$ 835	$ 683
Actuarial assumptions used in actuarial valuations						
Discount rate at beginning of year(2)	7.00%	6.75%	7.25%	7.00%	6.75%	7.25%
Discount rate at end of year	6.00%	7.00%	6.75%	6.00%	7.00%	6.75%
Return on plan assets	7.35%	7.50%	8.00%	-	-	-
Rate of inflation(3)	2.50%	3.00%	2.75%	2.50%	3.00%	2.75%
Long term rate of increase in future compensation at end of year(4)	4.25%	4.75%	4.50%	4.50%	5.00%	4.75%
Average remaining service period of active employees	9 years	9 years	9 years	14 years	14 years	14 years

(1) Accrued benefit asset (liability) is included in ATB's consolidated balance sheet under other assets or (other liabilities) as appropriate.

(2) A decrease of one percentage point in the discount rate would have increased the 2004 net pension benefit expense of the registered plan by $1,954 and of the supplemental plan by $39.

(3) An increase of one percentage point in the inflation rate would have increased the 2004 net pension benefit expense of the registered plan by $1,122 and of the supplemental plan by $0.

(4) An increase of one percentage point in the compensation trends would have increased the 2004 net pension benefit expense of the registered plan by $570 and would have decreased the 2004 net pension benefits expense of the supplemental plan by $28.

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.

						2004	2003
	Base salary	Variable pay (1)	Deferred variable pay (2)	Total salary	Benefits and allowances	Total	Total
Chairman of Board	$ 44	$ -	$ -	$ 44	-	$ 44	$ 48
Board Members (11)	358	-	-	358	-	358	346
President and Chief Executive Officer	325	175	192	692	87	779	731
Chief Operating Officer	287	97	110	494	54	548	504
Executive Vice-President Marketing	184	48	55	287	49	336	366
Executive Vice-President Credit	199	47	54	300	46	346	355
Executive Vice-President Treasurer (3)	14	4	4	22	4	26	-
Chief Financial Officer (4)	163	44	50	257	51	308	361
Vice President Human Resources	152	41	47	240	37	277	290

(1) Variable pay is determined based on goal attainment in the fiscal year and paid in June 2004.

(2) Deferred variable pay is reported as earned in the year. Payment is deferred for up to 2.5 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 March 1, 2004.

(4) The position was occupied by two consecutive incumbents in fiscal 2004.

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 of $24 was paid out to the Executive Vice-President Credit in 2004; this amount is 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).

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, 2004, the total outstanding balances of loans and residential mortgages to these parties were $178,739 (2003: $164,321; 2002: $150,187).

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:

	2004	2003	2002
Guarantees	$ 95,168	$ 91,710	$ 440,744
Letters of credit	12,618	9,501	3,026
Commitments to extend credit	2,839,281	2,764,923	2,245,554
	$ 2,947,067	$ 2,866,134	$ 2,689,324

Contractual Obligations

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

2005	$ 44,140
2006	38,773
2007	37,511
2008	35,468
2009	25,807
2010 and thereafter	34,090
	$ 215,789

The total expense charged to the Consolidated Statement of Income for the year ended March 31, 2004, is $43,748 (2003: $43,839; 2002: $43,308).

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.

NOTE 17 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative products used by ATB include interest rate swaps, interest rate caps, interest rate collars, interest rate swap options, 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 and forward 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, 2004 is $32,197 (2003: $39,825; 2002: $38,652) and is recorded in other assets in the Consolidated Balance Sheet.

The derivative financial instruments are not included 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		2004	2003	2002
	Within 1 year	1 to 5 years	Total	Total	Total
Interest rate contracts					
Interest rate swaps	$ 635,000	$ -	$ 635,000	$ 900,000	$ 2,140,000
Interest rate caps	-	438,693	438,693	561,250	35,000
Interest rate floors	200,000	-	200,000	-	100,000
Interest rate collars	50,000	-	50,000	800,000	-
Interest rate swap options	-	72,481	72,481	14,888	-
	885,000	511,174	1,396,174	2,276,138	2,275,000
Equity and commodity linked contracts	149,750	272,950	422,700	457,200	455,050
Foreign exchange forward contracts	5,272	-	5,272	4,613	2,152
Forward contracts	2,377	-	2,377	8,960	-
	$ 1,042,399	$ 784,124	$ 1,826,523	$ 2,746,911	$ 2,732,202

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

			Current replacement cost	
2004	Notional amount	Net fair value	Favourable position	Unfavourable position
Interest rate contracts				
Interest rate swaps	$ 635,000	$ (493)	$ 1,530	$ (2,023)
Interest rate caps	438,693	545	545	-
Interest rate floors	200,000	38	38	-
Interest rate collars	50,000	88	88	-
Interest rate swap options	72,481	1,630	1,630	-
Equity linked contracts	422,700	37,225	37,225	-
Forward contracts	2,377	(677)	-	(677)
Foreign exchange forward contracts	5,272	(4)	53	(57)
Total	$ 1,826,523	$ 38,352	$ 41,109	$ (2,757)
2003 Total	$ 2,746,911	$ 7,697	$ 17,478	$ (9,781)
2002 Total	$ 2,732,202	$ 24,391	$ 39,042	$ (14,651)

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, 2004. 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:

	2004			2003			2002		
	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	$ 1,058,008	$ 1,058,008	$ -	$ 652,357	$ 652,357	$ -	$ 872,330	$ 872,330	$ -
Securities	854,997	854,997	-	578,850	578,400	(450)	807,793	807,793	-
Loans	12,131,053	12,472,755	341,702	11,691,482	12,001,997	310,515	10,400,563	10,661,762	261,199
Other	168,736	168,736	-	179,984	179,984	-	198,463	198,463	-
Liabilities									
Deposits	13,035,120	13,135,449	100,329	12,096,911	12,114,362	17,451	11,425,210	11,446,659	21,449
Other	307,729	310,545	2,816	296,147	296,147	-	336,567	336,567	-

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							
2004	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	$ 101,281	$ -	$ -	$ 101,281	$ -	$ -	$ -	$ 101,281
Effective interest rate	2.20%	-	-	2.20%	-	-	-	2.20%
Securities and interest bearing deposits with banks	1,769,073	29,257	13,394	1,811,724	-	-	-	1,811,724
Effective interest rate	2.19%	2.29%	2.35%	2.19%	-	-	-	2.19%
Loans	6,777,578	405,783	729,004	7,912,365	4,247,721	48,394	(77,427)	12,131,053
Effective interest rate	4.87%	6.08%	6.23%	5.06%	5.80%	5.70%	-	5.35%
Other	-	-	-	-	-	-	261,752	261,752
	8,647,932	435,040	742,398	9,825,370	4,247,721	48,394	184,325	14,305,810
Liabilities and Equity								
Deposits	7,509,107	1,039,500	1,233,329	9,781,936	3,253,059	125	-	13,035,120
Effective interest rate	1.13%	3.36%	3.57%	1.67%	4.05%	9.02%	-	2.27%
Other liabilities and equity	-	-	-	-	-	-	1,225,274	1,225,274
Subordinated debentures	-	-	-	-	-	-	45,416	45,416
Effective interest rate	-	-	-	-	-	-	5.92%	5.92%
	7,509,107	1,039,500	1,233,329	9,781,936	3,253,059	125	1,270,690	14,305,810
On-balance sheet gap	1,138,825	(604,460)	(490,931)	43,434	994,662	48,269	(1,086,365)	-
Derivatives used for asset/liability gap management (notional amounts)								
Pay side swaps	(635,000)	-	-	(635,000)	-	-	-	(635,000)
Effective interest rate	2.99%	-	-	2.99%	-	-	-	-
Receive side swaps	235,000	300,000	100,000	635,000	-	-	-	635,000
Effective interest rate	2.66%	3.00%	2.03%	2.72%	-	-	-	-
Off-balance sheet gap	(400,000)	300,000	100,000	-	-	-	-	-
Net gap	$ 738,825	$ (304,460)	$ (390,931)	$ 43,434	$ 994,662	$ 48,269	$ (1,086,365)	$ -
% of assets	5.17%	(2.13%)	(2.73%)	0.30%	6.96%	0.34%	(7.60%)	-
2003								
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%)	-

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. Further, policies and procedures are established to promote sound lending practices and ensure prompt attention to problem loans.

NOTE 21 MARKET SEGMENT INFORMATION

During the fiscal 2003, ATB re-organized its operations and activities around the following lines of Business: Personal Business Banking (which provides banking to individuals, independent business and agricultural customer), Energy and Commercial banking (which provides banking services to medium-and large-size borrowers), and ATB Investor Services (which provides wealth management solutions and financial advice to ATB customers). Results for these segments are presented below and are based on ATB's internal financial reporting systems. Comparable information for fiscal 2003 is not presented, since the lines of business are new and comparable information is not available.

	Personal and Business	Energy and Commercial	Investor Services	Other *	Total
2004					
Net interest income	$ 351,014	$ 34,232	$ -	$ 12,038	$ 397,284
Other income	97,136	6,615	3,970	8,551	116,272
Total revenue	448,150	40,847	3,970	20,589	513,556
Provision for (recovery of) credit losses	20,139	5,504	-	(9,784)	15,859
Net interest and other income	428,011	35,343	3,970	30,373	497,697
Non-interest expenses	283,004	7,189	12,084	23,396	325,673
Net income (loss)	$ 145,007	$ 28,154	$ (8,114)	$ 6,977	$ 172,024
Total assets	$ 10,759,963	$ 1,441,411	$ -	$ 2,104,436	$ 14,305,810

* 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 segment.

NOTE 22 FUTURE ACCOUNTING CHANGES

ATB has adopted CICA Handbook Accounting Guideline 13 Hedging Relationships on April 1, 2004. This Accounting Guideline requires that all conditions with respect to identification, documentation, designation and effectiveness of hedges be satisfied before companies use hedge accounting. These conditions are applicable to hedges existing on or after April 1, 2004. As preparation for the adoption of this Guideline, ATB reviewed the nature of its existing hedging derivative financial instruments and its current accounting policy for these instruments. ATB has identified certain April 1, 2004 transition adjustments that will be required as a result of its adopting the Accounting Guideline. These adjustments will be deferred and will be carried forward for subsequent recognition in income in the same period as corresponding gains, losses, revenues or expenses associated with the hedged item.

ATB INVESTMENT MANAGEMENT INC.
Financial Statements
March 31, 2004

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, 2004, and the statements of operations, shareholder's deficiency and cash flows for the year 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, 2004 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
June 18, 2004

ATB INVESTMENT MANAGEMENT INC.
BALANCE SHEET
AS AT MARCH 31

	2004	2003
ASSETS		
Current assets		
Cash	$ 1,187,554	$ 250,000
Due from ATB (Note3)	48,313	-
Clients' cash held in trust	797,653	27,254
Prepaid expenses	8,563	-
	2,042,083	277,254
Non-current assets		
Deferred charges	46,472	63,885
Total assets	$ 2,088,555	$ 341,139
LIABILITIES AND SHAREHOLDER'S DEFICIENCY		
Current liabilities		
Due to ATB (Note 3)	$ -	$ 322,229
Due to clients	797,653	27,254
	797,653	349,483
Non-current liabilities		
Subordinated notes (Note 4)	2,245,000	445,000
	3,042,653	794,483
Shareholder's deficiency		
Share capital (Note 5)	5,000	5,000
Deficiency	(959,098)	(458,344)
	(954,098)	(453,344)
Total liabilities and shareholder's deficiency	$ 2,088,555	$ 341,139

Approved by the Board of Directors:

B. Normand
Chairman of the Board and Chief Executive Officer

C.Warnock
Chief Financial Officer

The accompanying notes are an integral part of these financial statements.

ATB INVESTMENT MANAGEMENT INC.
STATEMENT OF OPERATIONS

	For the year ended March 31, 2004	For the 8-month period ended March 31, 2003
Revenue		
Investment management fees	$ 1,695,124	$ 81,493
Other revenue	12,688	-
	1,707,812	81,493
Administration and selling expenses		
Salaries and employee benefits	305,399	-
Professional fees (Note 6)	470,440	270,261
Trailing commission	749,105	23,784
Expense absorption (Note 2)	533,085	215,540
Other expenses (Note 6)	88,044	23,100
	2,146,073	532,685
Interest expense (Note 6)	62,493	7,152
Total expenses	2,208,566	539,837
Loss for the year	$ 500,754	$ 458,344

ATB INVESTMENT MANAGEMENT INC.
STATEMENT OF SHAREHOLDER'S DEFICIENCY
AS AT MARCH 31

	2004	2003
Share capital	$ 5,000	$ 5,000
Deficiency, beginning of year	458,344	-
Loss for the year	500,754	458,344
Deficiency, end of year	959,098	458,344
Total shareholder's deficiency	$ 954,098	$ 453,344

The accompanying notes are an integral part of these financial statements.

ATB INVESTMENT MANAGEMENT INC.
STATEMENT OF CASH FLOWS

	For the year ended March 31, 2004	For the 8-month period ended March 31, 2003
Cash flows used in operating activities		
Loss for the year	$ (500,754)	$ (458,344)
Changes in non-cash working capital		
Amortization of deferred charges	17,413	-
Increase in prepaid expenses	(8,563)	-
Increase in deferred charges	-	(63,885)
	(491,904)	(522,229)
Cash flows from financing activities		
Change in due/from to ATB	(370,542)	322,229
Issue of subordinated notes	1,800,000	445,000
Issue of share capital	-	5,000
	1,429,458	772,229
Net increase in cash	937,554	250,000
Cash, beginning of year	250,000	-
Cash, end of year	$ 1,187,554	$ 250,000
Supplementary cash flow information		
Amount of interest paid during the year	$ 55,464	$ nil

The accompanying notes are an integral part of these financial statements.

ATB INVESTMENT MANAGEMENT INC.
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 1 INCORPORATION AND OPERATIONS

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 and other provisions of discretionary portfolio management services. The continuing operations of ATBIM are dependent upon ATB's ongoing financial support. ATBIM was incorporated in Alberta under the *Business Corporations Act* (Alberta) on August 21, 2002. Prior year amounts represent an eight-month period. As a provincial corporation, ATBIM is exempt from income tax. ATBIM is registered with the Alberta Securities Commission (ASC).

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. Comparative amounts have been reclassified where necessary to conform to the current year's presentation. The significant accounting policies followed in the preparation of these financial statements 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. Actual results could differ from these estimates.

Revenue Recognition

Investment management fees are based on net asset values of the ATB mutual fund portfolios and are recognized on an accrual basis. Other revenue includes interest earned on cash deposits with ATB and is recorded on an accrual bases.

Cash

Cash consists of cash on deposit with ATB.

Clients' Cash Held in Trust

Client cash held in trust represents amounts deposited in trust accounts with Royal Bank of Canada for the settlement of mutual fund transactions. The corresponding liabilities are included in due to clients.

Due to Clients

Due to clients represents cash balances in clients' accounts, which have occurred but have not been settled. These amounts are due on demand.

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.

Expense Absorption

In its sole discretion, ATBIM may waive or absorb expenses of the ATB Compass Portfolio mutual funds. The effect of such waivers and absorption is to recongize expenses of $533,085 (2003 - $215,540) that are otherwise attributable to the fund. It is expected that such waivers and absorption will decline as the net assets of the fund grow over time.

NOTE 3 DUE TO AND FROM ATB

In the normal course of operations, ATB pays expenses and collects revenues on behalf of ATBIM. These amounts are duly recorded in the respective accounts of both ATB and ATBIM. 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 financed by issuance of subordinated notes by ATBIM. The amounts due to and due from ATB at March 31 are as follows:

	2004	2003
Due to ATB	$ (306,278)	$ (405,892)
Due from ATB	354,591	83,663
Total	$ 48,313	$ (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, 2004 was 4.00% (2003 - 4.75%).

NOTE 4 SUBORDINATED NOTES

The subordinated notes held by ATB, are collateralized by a floating charge on all the assets of ATBIM and bears interest at 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. Since ATB does not have the unilateral right to demand repayment, the subordinated notes have been classified as a non-current liability. The amounts at March 31 are as follows:

Date of Issue	2004	2003
August 30, 2002	$ 245,000	$ 245,000
February 25, 2003	200,000	200,000
May 22, 2003	300,000	-
October 22, 2003	500,000	-
December 19, 2003	1,000,000	-
Total	$ 2,245,000	$ 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

In the normal course of operations, ATB charges ATBIM for certain administrative and selling services as well as charging interest on subordinated notes and amounts owing to ATB. Where determinable, ATB allocates costs for employees of ATB providing services to ATBIM. The summary of these transactions is as follows:

RELATED PARTY	RELATIONSHIP	TRANSACTIONS	RECORDED AS	For the year ended March 31 2004	For the 8 month period ended March 31 2003
REVENUE					
ATB	Parent corporation	Interest income	Other revenue	$ 12,688	$ -
				$ 12,688	$ -
ADMINISTRATION & SELLING EXPENSES					
ATB Investment Services Inc.	Affiliate	Trailer fees	Trailing Commission	$ 482,432	$ 23,784
ATB Securities Inc.	Affiliate	Trailer fees	Trailing Commission	266,673	-
ATB	Parent Corporation	Employee services	Professional fees	36,675	54,950
ATB	Parent Corporation	Information technology	Other expenses	12,800	-
ATB Securities Inc.	Affiliate	Salaries (recoveries)	Salaries and employee benefits	44,700	-
				$ 843,280	$ 78,734
ATB	Parent Corporation	Salaries (recoveries)	Salaries and employee benefits	$ (56,113)	$ -
ATB Investment Services Inc.	Affiliate	Salaries (recoveries)	Salaries and employee benefits	(17,727)	-
ATB Securities Inc.	Affiliate	Salaries (recoveries)	Salaries and employee benefits	(17,727)	-
				$ (91,567)	$ -
INTEREST EXPENSE					
ATB	Parent Corporation	Interest expense on subordinated notes	Interest expense	$ 56,082	$ 6,510
ATB	Parent Corporation	Interest expense on due to ATB	Interest expense	5,617	642
				$ 61,699	$ 7,152
				$ 813,412	$ 85,886

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

NOTE 7 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair value of cash 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 8 INTEREST RATE RISK

ATBIM is subject to interest rate risk in that the amounts due to ATB and the subordinated notes are subject to fluctuations in interest rates. For each 1% change in the rate of interest on these obligations, the change in annual interest expense is approximately $22,000 (2003 - $7,600) based on the outstanding balances at March 31, 2004. This would be offset by increased interest earned on deposits.

ATB INVESTMENT SERVICES INC.
Financial Statements
March 31, 2004

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, 2004, and the statements of operations, 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 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 Services Inc. as at March 31, 2004 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
June 18, 2004

ATB INVESTMENT SERVICES INC.
BALANCE SHEET
AS AT MARCH 31

	2004	2003
ASSETS		
Current assets		
Cash	$ 4,304,228	$ 300,000
Clients' cash held in trust	5,065,043	3,571,511
Due from clients	326,591	-
Prepaid expenses	84,063	52,865
Total assets	$ 9,779,925	$ 3,924,376
LIABILITIES AND SHAREHOLDER'S DEFICIENCY		
Current liabilities		
Due to ATB (Note 3)	$ 492,096	$ 91,809
Due to clients and dealers	5,391,634	3,571,511
	5,883,730	3,663,320
Non-current liabilities		
Subordinated notes (Note 4)	12,749,000	4,399,000
	18,632,730	8,062,320
Commitments (Note 5)		
Shareholder’s deficiency		
Share capital (Note 6)	1,000	1,000
Deficiency	(8,853,805)	(4,138,944)
	(8,852,805)	(4,137,944)
Total liabilities and shareholder's deficiency	$ 9,779,925	$ 3,924,376

Approved by the Board of Directors:

B. Normand
Chairman of the Board and Chief Executive Officer

C. Warnock
Chief Financial Officer

The accompanying notes are an integral part of these financial statements.

ATB INVESTMENT SERVICES INC.
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31

	2004	2003
Revenue (Note 7)		
Commission revenue	$ 1,601,161	$ 1,607,441
Other revenue	328,524	132,864
	1,929,685	1,740,305
Administration and selling expenses (Note 7)		
Salaries and employee benefits	2,884,594	1,887,106
Processing, selling and premises rental	2,125,094	865,590
Professional and training	536,569	775,952
Other expenses	697,879	401,236
	6,244,136	3,929,884
Interest expense (Note 7)	400,410	110,662
Total expenses	6,644,546	4,040,546
Loss for the year	$4,714,861	$2,300,241

ATB INVESTMENT SERVICES INC.
STATEMENT OF SHAREHOLDER'S DEFICIENCY
AS AT MARCH 31

	2004	2003
Share capital	$ 1,000	$ 1,000
Deficiency, beginning of year	4,138,944	1,838,703
Loss for the year	4,714,861	2,300,241
Deficiency, end of year	8,853,805	4,138,944
Total shareholder's deficiency	$ 8,852,805	$ 4,137,944

The accompanying notes are an integral part of these financial statements.

ATB INVESTMENT SERVICES INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31

	2004	2003
Cash flows used in operating activities		
Loss for the year	$ (4,714,861)	$ (2,300,241)
Changes in non-cash working capital		
(Increase) decrease in prepaid expenses	(31,198)	47,628
Writedown of property, plant and equipment	-	71,199
Amortization expense	-	20,515
	(4,746,059)	(2,160,899)
Cash flows from investing activities		
Proceeds on disposal of property, plant and equipment	-	45,020
Cash flows from financing activities		
Increase (decrease) in due to ATB	400,287	(372,925)
Issue of subordinated notes	8,350,000	2,488,804
	8,750,287	2,115,879
Net increase in cash	4,004,228	-
Cash, beginning of year	300,000	300,000
Cash, end of year	$ 4,304,228	$ 300,000
Supplementary cash flow information		
Amount of interest paid during the year	$ 368,599	$ nil

The accompanying notes are an integral part of these financial statements.

ATB INVESTMENT SERVICES INC.
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 1 INCORPORATION AND OPERATIONS

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. The continuing operations of ATBIS are dependent upon ATB's ongoing financial support. 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 (MFDA) and is registered with the Alberta Securities Commission (ASC).

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

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

Measurement Uncertainty

In preparing the financial statements, management makes estimates and assumptions considering values of certain assets and liabilities, revenues, expenses and related disclosures reported in these financial statements. Actual results could differ from these estimates.

Revenue Recognition

ATBIS receives its revenue from third party clients and affiliates (Note 7) for providing services as a distributor of mutual funds and other investment products. Commission revenue earned on mutual fund sales is recognized on a trade-date basis. Trailer fee revenues are recognized on an accrual basis as they are earned.

Other revenue is recorded on an accrual basis and includes client fees, Registered Retirement Savings Plan (RRSP) administration fees, Guarantee Investment Certificate (GIC) referral revenue and interest income. GIC referral revenue is paid by ATB to ATBIS on a percentage of GIC sales.

Cash

Cash consists of cash on deposit with ATB.

Clients' Cash Held in Trust

Clients' cash held in trust represent amounts in trust accounts with ATB, for the settlement of mutual fund transactions. The corresponding liabilities are included due to clients and dealers.

Due to Clients and Dealers

Due to clients and dealers represents cash balances in clients' accounts and cash amounts related to trades which have occurred but have not been settled. These amounts are due on demand.

NOTE 3 DUE TO ATB

In the normal course of operations, ATB pays expenses and collects revenues on behalf of ATBIS. These amounts are duly recorded as payable and receivables in the respective accounts of both ATB and ATBIS. The amounts due to and from ATB are generally repaid in the following month. The amounts due to and due from ATB at March 31 are as follows:

	2004	2003
Due to ATB	$ 729,099	$ 137,804
Due from ATB	(237,003)	(45,995)
Total	$ 492,096	$ 91,809

The net amount due to ATB is subject to interest charges at ATB's prime-lending rate. The prime lending rate at Match 31, 2004 was 4.00% (2003 - 4.75%).

NOTE 4 SUBORDINATED NOTES

The subordinated notes held by ATB are collateralized 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 by ATB, subject to the prior approvals of the ASC and the MFDA. Since ATB does not have the unilateral right to demand repayment, the subordinated notes have been classified as a non-current liability. The amounts at March 31 are as follows:

Date of Issue	2003	2003
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	386,332
Nov. 27, 2002	31,937	31,937
Dec. 31, 2002	336,085	336,085
Feb. 28, 2003	655,413	655,413
Mar. 31, 2003	1,079,037	1,079,037
June 16, 2003	3,000,000	-
Oct. 31, 2003	350,000	-
Dec. 19, 2003	5,000,000	-
Total	$ 12,749,000	$ 4,399,000

NOTE 5 COMMITMENTS

ATBIS has entered into commitments with an independent service provider to provide data processing services through November 2007.

The cost associated with this agreement is based on volume of trading activity with minimum commitments under this agreement as follows:

2005	$ 350,000
2006	370,000
2007	393,000
2008	266,000

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, redeemable at $100 per share.

Issued:

100 Class A voting common shares	$1,000

NOTE 7 RELATED PARTY TRANSACTIONS

In the normal course of operations, ATBIS earns income in the form of trailer fees, and interest and other income from their parent company and ATB Investment Management Inc. (ATBIM), another wholly owned subsidiary of ATB. ATB also charges ATBIS for administrative and selling services, as well as charging interest on subordinated notes and amounts owing to ATB. ATBIS recovers from ATB certain administrative, processing and selling costs.

The summary of these transactions at March 31 is as follows:

RELATED PARTY	RELATIONSHIP	TRANSACTIONS	RECORDED AS	2004	2003
REVENUE					
ATBIM	Affiliate	Trailer fees	Commission Revenue	$ 482,432	$ 23,784
ATB	Parent corporation	Interest income	Other revenue	63,126	-
ATB	Parent corporation	GIC referral fees	Other revenue	186,023	131,747
				$ 731,581	$ 155,531
ADMINISTRATION & SELLING EXPENSES					
ATB	Parent Corporation	Processing	Processing, selling and premises rental	$ 1,636,103	$ 549,189
ATB	Parent Corporation	Selling costs	Processing, selling and premises rental	317,515	270,152
ATB	Parent Corporation	Premises and equipment rental	Processing, selling and premises rental	365,568	45,873
ATB	Parent Corporation	Employee services	Professional and training	234,444	316,729
ATB	Parent Corporation	Information technology	Other expenses	291,200	84,800
ATBIM	Affiliate	Salaries (recoveries)	Salaries and employee benefits	32,625	-
				$ 2,877,455	$ 1,266,743
ATB	Parent Corporation	Salaries (recoveries)	Salaries and employee benefits	$ (473,336)	$ -
ATB	Parent Corporation	Processing costs (recoveries)	Processing, selling and premises rental	(194,093)	-
ATB	Parent Corporation	Compliance costs (recoveries)	Administration and selling expenses	(226,936)	-
				$ (894,365)	$ -
INTEREST EXPENSE					
ATB	Parent Corporation	Interest expense on subordinated notes	Interest expense	$ 376,206	$ 101,492
ATB	Parent Corporation	Interest expense on due to ATB	Interest expense	24,204	9,170
				$ 400,410	$ 110,662
				$ 2,383,500	$ 1,377,405

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

NOTE 8 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair value of cash approximates the carrying value due to the short-term nature of these instruments. The fair value of amounts due to ATB and subordinated notes is not readily determinable, as there are no fixed terms of repayment.

NOTE 9 INTEREST RATE RISK

ATBIS is subject to interest rate risk in that the amounts due to ATB and the subordinated notes are subject to fluctuations in interest rates. For each 1% change in the rate of interest on these obligations, the change in annual interest expense is approximately $132,000 (2003 - $45,000) based on the outstanding balances at March 31, 2004. This would be partially offset by increased interest earned on deposits.

ATB SECURITIES INC.

Financial Statements

For the 13 month period ended March 31, 2004

AUDITOR'S REPORT

To the Board of Directors of ATB Securities Inc.

I have audited the balance sheet of ATB Securities Inc. as at March 31, 2004, and the statements of operations, shareholder's deficiency and cash flows for the thirteen month period then ended. These financial statements are the responsibility of ATB Securities 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 Securities Inc. as at March 31, 2004 and the results of its operations and its cash flows for the thirteen month period then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA

Auditor General

Edmonton, Alberta
May 20, 2004

ATB SECURITIES INC.
BALANCE SHEET
AS AT

	March 31 2004	February 14 2003
ASSETS		
Current assets		
Cash	$ 9,680,836	$ 1,000,000
Clients' cash held in trust	5,490,285	-
Due from clients	334,591	-
Prepaid expenses	34,572	-
Total assets	$15,540,284	$ 1,000,000
LIABILITIES AND SHAREHOLDER'S DEFICIENCY		
Current liabilities		
Due to ATB (Note 3)	$ 418,181	$ -
Accrued liabilities	33,168	-
Due to clients	7,048,837	-
Due to brokers and dealers	3,836,915	-
	11,337,101	-
Non-current liabilities		
Subordinated notes (Note 4)	6,995,000	995,000
	18,332,101	995,000
Commitments (Note 5)		
Shareholder’s deficiency		
Share capital (Note 6)	5,000	5,000
Deficiency	(2,796,817)	-
	(2,791,817)	5,000
Total liabilities and shareholder's deficiency	$15,540,284	$ 1,000,000

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors:

B. Normand
Chairman of the Board

C. Warnock
Chief Financial Officer

M. Mezei
Chief Executive Officer

ATB SECURITIES INC.
STATEMENT OF OPERATIONS
FOR THE THIRTEEN MONTH PERIOD ENDED MARCH 31

	2004
Revenue (Note 7)	
Commission revenuue	$ 774,978
Other revenue	306,539
	1,081,517
Administration and selling expenses (Note 7)	
Salaries and employee benefits	2,299,728
Professional fees	456,964
Other expenses	433,569
Processing costs	403,204
	3,593,465
Interest expense (Note 7)	284,869
Total expenses	3,878,334
Loss for the period	$ (2,796,817)

ATB SECURITIES INC.
STATEMENT OF SHAREHOLDER'S DEFICIENCY
AS AT MARCH 31

	2004
Share capital	$ 5,000
Deficiency, beginning of period	-
Loss for the period	(2,796,817)
Deficiency, end of period	(2,796,817)
Total shareholder's deficiency	$(2,791,817)

The accompanying notes are an integral part of these financial statements.

ATB SECURITIES INC.
STATEMENT OF CASH FLOWS
FOR THE THIRTEEN MONTH PERIOD ENDED MARCH 31

	2004
Cash flows used in operating activities	
Loss for the period	$ (2,796,817)
Changes in non-cash working capital	
Increase in prepaid expenses	(34,572)
Increase in accrued liabilities	33,168
Cash received from clients	5,060,876
	2,262,655
Cash flows from financing activities	
Increase in due to ATB	418,181
Issue of subordinated notes	6,000,000
	6,418,181
Increase in cash	8,680,836
Cash, beginning of period	1,000,000
Cash, end of period	$ 9,680,836
Supplementary cash flow information	
Amount of interest paid during the period	$ 259,994

The accompanying notes are an integral part of these financial statements.

ATB SECURITIES INC.

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2004

NOTE 1 INCORPORATION AND OPERATIONS

ATB Securities Inc. (ATBS) is a wholly owned subsidiary of Alberta Treasury Branches (ATB) established to facilitate client trading of securities. The continuing operations of ATBS are dependent upon ATB's ongoing financial support. ATBS was incorporated in Alberta under the *Business Corporations Act* (Alberta) on February 6, 2003.ATBS commenced operations on July 26, 2003. As a provincial corporation, ATBS is exempt from income tax. ATBS is a member of the Investment Dealers Association of Canadian (IDA) and the Canadian Investors Protection Fund (CIPF)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed in the preparation of these financial statements 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. Actual results could differ from these estimates.

Revenue Recognition

ATBS earns its revenue from third party clients and affiliates (Note 7). Commission revenue earned on mutual fund sales and securities transactions is recognized on a trade-date basis. Trailer fee revenues are recognized on an accrual basis as they are earned.

Other revenue is recorded on an accrual basis and includes client fees, Registered Retirement Savings Plan (RRSP) administration fees and Guaranteed Investment Certificate (GIC) referral revenue and interest income. GIC referral revenue is paid by ATB to ATBS based on the imputed profit earned on the GIC's.

Cash

Cash consists of cash on deposit with ATB.

Clients' Cash Held in Trust

Included in client's cash held are amounts with respect to Registered Retirement Savings Plans and Registered Retirement Income Funds segregated in trust accounts with Canadian Western Trust. Corresponding liabilities are included in Due to clients.

Due to Clients and Due to Brokers and Dealers

Due to clients represents cash balances in client accounts. These amounts are due on demand.

Due to brokers and dealers represents amounts related to trades which have occurred but not been settled.

NOTE 3 DUE TO ATB

In the normal course of operations, ATB pays expenses and collects revenues on behalf of ATBS. These amounts are duly recorded as payables and receivables, in both ATB's and ATBS's accounts. The amounts due to and due from ATB are generally repaid in the following month.

	2004
Due to ATB	$ 647,640
Due from ATB	(229,459)
Total	$ 418,181

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at Match 31, 2004 was 4.00% (2003 - 4.75%).

NOTE 4 SUBORDINATED NOTES

The subordinated notes held by ATB, are collateralized by a floating charge on all the assets of ATBS and bears interest at prime lending rate of ATB. The subordinated notes have no specified maturity dates, and are repayable upon demand of ATB, subject to the prior approvals of the IDA. Since ATB does not have the unilateral right to demand repayment, the subordinated notes have been classified as a non-current liability.

	As at February 14,	
Date of Issue	2004	2003
February 11, 2003	$ 995,000	$ 995,000
May 22, 2003	6,000,000	-
Total	$ 6,995,000	$ 995,000

NOTE 5 COMMITMENTS

ATBS has entered into commitments with an independent services provider to provide data processing services through November 2007.

The cost associated with this agreement is based on volume of trading activity with the minimum commitments under this agreement as follows:

2005	$ 78,000
2006	78,000
2007	78,000
2008	52,000
2009 and thereafter.	-

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, redeemable at $100 per share.

Issued and outstanding:

100 Class A voting common shares $5,000

NOTE 7 RELATED PARTY TRANSACTIONS

In the normal course of operations, ATBS earns income in the form of trailer fees, and interest and other income from their parent company and its other affiliates. ATB also charges ATBS for various administrative and selling services, as well as charging interest on subordinated notes and amounts owing to ATB. The summary of these transactions is as follows:

RELATED PARTY	RELATIONSHIP	TRANSACTIONS	RECORDED AS	2004
REVENUE				
ATB Investment Management Inc.	Affiliate	Trailer fees	Commission Revenue	$ 266,673
ATB	Parent corporation	Interest income/ GIC referral fees	Other revenue	215,969
				$ 482,642
ADMINISTRATION & SELLING EXPENSES				
ATB	Parent Corporation	Processing	Processing costs	$ 403,204
ATB	Parent Corporation	Information technology	Other expenses	127,600
ATB	Parent Corporation	Employee services	Professional fees	83,127
ATB Investment Management Inc.	Affiliate	Salaries (recoveries)	Salaries and employee benefits	(41,875)
				$ 572,056
INTEREST EXPENSE				
ATB	Parent Corporation	Interest expense on subordinated notes	Interest expense	$ 274,859
ATB	Parent Corporation	Interest expense on due to ATB	Interest expense	10,010
				$ 284,869

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

NOTE 8 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair value of cash and accrued liabilities approximates the carrying value due to the short-term nature of these instruments. The fair value of amounts due to ATB and subordinated notes is not readily determinable as there are no fixed terms of repayment.

NOTE 9 INTEREST RATE RISK

ATBS is subject to interest rate risk in that amounts due to ATB and the subordinated notes are subject to fluctuations in interest rates. For each 1% change in the rate of interest on these obligations, the change in annual interest expense is approximately $75,000 based on the outstanding balances at March 31, 2004. This would be offset by increased interest earned on deposits.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION FINANCIAL STATEMENTS DECEMBER 31, 2003

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, 2003 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, 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
February 13, 2004

CREDIT UNION DEPOSIT GUARANTEE CORPORATION
BALANCE SHEET
DECEMBER 31, 2003
(thousands of dollars)

	2003	2002
ASSETS		
Cash	$ 11,038	$ 11,414
Investments (Note 3)	89,402	81,850
Accrued interest receivable	797	863
Income taxes receivable	79	-
Due from credit unions	2,630	2,299
Other assets (Note 4)	932	828
Property and equipment (Note 5)	169	196
	$ 105,047	$ 97,450
LIABILITIES		
Accounts payable and accrued liabilities	$ 661	$ 724
Income taxes payable	-	28
Accrual for financial assistance (Note 6)	1,265	1,700
Deferred revenue	1,067	986
Special contribution payable (Note 7)	9,168	8,354
Long-term unclaimed credit union balances payable	476	459
	12,637	12,251
Commitments and contingencies (Note 8)		
EQUITY		
Deposit Guarantee Fund	$ 90,253	$ 83,105
Master Bond Fund	2,157	2,094
	92,410	85,199
	$ 105,047	$ 97,450

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

Approved by 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, 2003
(thousands of dollars)

	2003		2002
	Budget	Actual	Actual
DEPOSIT GUARANTEE FUND			
Revenues:			
Deposit guarantee assessments	$ 13,652	$ 13,690	$ 12,544
Investment income	4,112	6,044	5,844
	17,764	19,734	18,388
Expenses:			
Interest and bank charges	11	5	3
Provision for (recovery of) financial assistance (Note 6)	500	(445)	(26)
Special contribution (Note 7)	9,041	9,168	8,354
Administration (Schedule 1)	3,885	3,317	3,192
	13,437	12,045	11,523
Income before income taxes	4,327	7,689	6,865
Income taxes (Note 9)	72	541	580
Net income for the year	4,255	7,148	6,285
Equity at beginning of year	81,430	83,105	76,820
Equity at end of year	$ 85,685	$ 90,253	$ 83,105
MASTER BOND FUND			
Revenues:			
Insurance assessments	$ 941	$ 983	$ 855
Investment income	68	70	66
	1,009	1,053	921
Expenses:			
Insurance premiums	831	783	693
Administration (Schedule 1)	120	120	120
Insurance claims	103	87	298
	1,054	990	1,111
Net income (loss) for the year	(45)	63	(190)
Equity at beginning of year	2,295	2,094	2,284
Equity at end of year	$ 2,250	$ 2,157	$ 2,094

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, 2003

(thousands of dollars)

	2003 Budget	2003 Actual	2002 Actual
Operating activities:			
Assessments received	$ 14,406	$ 14,469	$ 13,328
Investment income received	4,180	6,180	5,690
Financial assistance recoveries (paid)	(500)	10	11
Interest and bank charges paid	(12)	(5)	(3)
Insurance claims paid	(103)	(231)	(156)
Income taxes paid	(321)	(637)	(689)
Paid to suppliers and employees	(4,273)	(4,198)	(3,967)
Special contribution paid	(8,372)	(8,354)	(7,637)
Cash flows from operating activities	5,005	7,234	6,577
Investing activities:			
Purchase of investments, net	(4,885)	(7,552)	(3,365)
Purchase of capital assets	(120)	(58)	(51)
Cash flows from investing activities	(5,005)	(7,610)	(3,416)
Cash inflow (outflow)	-	(376)	3,161
Cash at beginning of year	5,501	11,414	8,253
Cash at end of year	$ 5,501	$ 11,038	$ 11,414

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

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003

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, 2003, credit unions in Alberta held deposits including accrued interest totalling $8,240,449,000 (2002 - $7,583,130,000). Supervised credit unions receive assistance, support and direction in planning, policy and operational matters from the Corporation.

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 deposit guarantee assessments received from credit unions, financial 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, investment 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) 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.

(d) 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 sale of investments are included with investment income in the year of sale. Substantially all securities held are purchased with the intention to hold them to maturity.

(e) Property and equipment

The following rates are designed to amortize the cost of property and equipment 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

(f) 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.

(g) 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.

(h) Accrual for financial assistance

The Corporation recognizes financial assistance to specific credit unions as an expense when the need for financial 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.

(i) 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, accounts payable and accrued liabilities, accrual for financial assistance, special contribution payable and long-term unclaimed credit union balances payable. The fair values of investments are disclosed in Note 3.

NOTE 3 INVESTMENTS

	2003		2002	
	Cost	Market Value [2]	Cost	Market Value [2]
	(thousands of dollars)		(thousands of dollars)	
Securities issued or guaranteed by:				
Canada	$ 37,472	$ 38,519	$ 41,449	$ 43,349
Provinces	17,148	17,682	16,447	17,363
Other	34,782 [1]	35,625	23,954 [1]	24,524
Total	$ 89,402	$ 91,826	$ 81,850	$ 85,236

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, 2003, securities held have an average effective yield of 4.80% per annum based on cost (2002 – 5.20%); 4.10% per annum based on market (2002 – 4.30%). These securities have the following term structure based on par: under one year - 1% (2002 – 0%); over one year and under five years - 57% (2002 – 56%); over five years and under ten years - 42% (2002 – 44%).

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 $889,000 (2002 - $852,000) 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

	2003	2002
	(thousands of dollars)	
Prepaid expenses	$ 903	$ 785
Future income taxes recoverable (Note 9)	29	42
Investment in S C Financial Ltd.	-	1
Total	$ 932	$ 828

S C Financial Ltd. operations ceased effective October 31, 2002 and it was dissolved on March 25, 2003. The Corporation's investment in S C Financial Ltd. was liquidated on dissolution.

NOTE 5 PROPERTY AND EQUIPMENT

	2003	2002
	(thousands of dollars)	
Furniture and equipment	$ 399	$ 391
Computer equipment	155	171
Leasehold improvements	127	126
Computer software	92	94
	773	782
Less accumulated amortization	(604)	(586)
Net book value	$ 169	$ 196

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.

	2003	2002
	(thousands of dollars)	
Accrual for financial assistance:		
Balance at beginning of year	$ 1,700	$ 1,715
(Recovery of) financial assistance	(435)	(15)
Balance at end of year	$ 1,265	$ 1,700
Provision for (recovery of) financial assistance:		
(Recovery of) financial assistance	$ (435)	$ (15)
Loan loss (recoveries)	(10)	(11)
Provision for (recovery of) financial assistance	$ (445)	$ (26)

NOTE 7 SPECIAL CONTRIBUTION PAYABLE

	2003	2002
	(thousands of dollars)	
Balance at beginning of year	$ 8,354	$ 7,637
Payment of previous year's special contribution	(8,354)	(7,637)
Special contribution for the year	9,168	8,354
Balance at end of year	$ 9,168	$ 8,354

A special contribution is an annual amount payable by the Corporation to the Province under the Credit Union Restructuring Agreement until 2010. It is equal to 0.11 per cent of Alberta credit union deposits, including accrued interest and borrowings, as at October 31.

NOTE 8COMMITMENTS AND CONTINGENCIES

(a) Lease commitments

The Corporation is committed to a non-cancellable operating lease for business premises totalling $299,000.

The following amounts represent minimum payments over the next three years:

2004	$ 138,000
2005	138,000
2006	23,000

(b) Litigation

There are legal proceedings pending against the Corporation that arise 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, insurance claims, or special contributions paid.

The Corporation's statutory income tax rate is 20.1% (2002 – 22.5%). 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:

	2003	2002
	(thousands of dollars)	
Expected income tax expense on pre-tax income at the statutory rate (net of general tax reduction)	$ 1,558	$ 1,505
Add (deduct) tax effect of:		
Non-taxable assessments	(2,949)	(3,012)
Non-deductible special contribution	1,843	1,878
Non-taxable provision for (recovery of) financial assistance	(89)	(6)
Non-deductible insurance premiums	157	156
Non-deductible insurance claims	17	67
Other	4	(8)
Income taxes	$ 541	$ 580

At December 31, 2003 the Corporation had unamortized property and equipment for income tax purposes in excess of related book values of approximately $171,000 (2002 - $220,000). The resulting future income taxes recoverable are reflected in Note 4. The Corporation's future effective income tax rate is 17.2%.

	2003	2002
	(thousands of dollars)	
Current income taxes	$ 528	$ 553
Future income taxes	13	27
Income taxes	$ 541	$ 580

NOTE 10 DIRECTORS' AND MANAGEMENT REMUNERATION

	2003			2002
	Director Fees or Salary [1]	Benefits [2] and Allowances	Total	Total
	(thousands of dollars)			
Chair [3,5]	$ 42	$ -	$ 42	$ 37
Board Members [3,5]	72	-	72	65
Current senior management:				
President and Chief Executive Officer	$ 183	$ 24	$ 207	$ 204
Vice President, Finance and Administration	127	22	149	138
Vice President, Credit[4]	116	14	130	99
Vice President, Operations	109	13	122	101

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 position was occupied by two individuals in the previous year. The previous incumbent retired July 31, 2002. The new incumbent started September 1, 2002.

5 The minimum and maximum amounts paid to directors was $400 (2002 - $6,000) and $42,000 (2002 - $37,000) respectively. The average amount paid to directors was $16,000 (2002 - $17,000).

NOTE 11 2003 BUDGET

The 2003 budget was approved by the Board of Directors on September 23, 2002.

NOTE 12 COMPARATIVE FIGURES

The 2002 figures have been restated where necessary to conform to 2003 presentation.

SCHEDULE 1

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

SCHEDULE OF ADMINISTRATION EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2003

(thousands of dollars)

	2003		2002
	Budget	Actual	Actual
Deposit Guarantee Fund			
Salaries and benefits	$ 2,646	$ 2,599	$ 2,408
Professional fees	335	115	177
Staff travel	258	149	153
Rental charges	156	161	148
Other	173	96	104
Office	117	97	103
Board and committee fees	139	114	102
Amortization	133	82	96
Board and committee expenses	48	24	21
	4,005	3,437	3,312
Allocation to Master Bond Fund	(120)	(120)	(120)
	$ 3,885	$ 3,317	$ 3,192

N.A. PROPERTIES (1994) LTD.
FINANCIAL STATEMENTS
MARCH 31, 2004

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, 2004 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, 2004, 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
May 10, 2004

N.A. PROPERTIES (1994) LTD.
BALANCE SHEET
AS AT MARCH 31, 2004
(thousands of dollars)

	2004	2003
ASSETS		
Cash (Note 4)	$ 2,524	$ 2,474
Accounts receivable	6	6
Note receivable (Note 5)	12	10
	$ 2,542	$ 2,490
LIABILITIES		
Obligations under indemnities and commitments (Note 6)	$ 1,102	$ 502
SHAREHOLDER'S EQUITY		
Share capital (Note 7)	5,769	5,769
Deficit	(4,329)	(3,781)
	1,440	1,988
	$ 2,542	$ 2,490

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, 2004
(thousands of dollars)

	2004	2003
Revenue		
Interest and other	$ 77	$ 71
Expenses		
General and administrative	25	16
Operating income before provision	52	55
(Provision for) recovery of obligations under indemnities and commitments (Note 6)	(600)	291
(Deficiency) excess of revenue over expenses for the year	(548)	346
Deficit, beginning of year	(3,781)	(4,127)
Deficit, end of year	$ (4,329)	$ (3,781)

N.A. PROPERTIES (1994) LTD.

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2004

(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 its remaining assets. The Province of Alberta has indemnified the Company for all 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 three years.

The Company also manages indemnities described in Note 6.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

(a) Financial Statement Presentation

A cash flow statement is not provided due to the limited nature of the Commission's operations. All information about the Commission's cash flow are contained within the financial statements.

(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 with the objevtive of providing competitive interest income to depositors while maintaining appropriate 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, 2004, securities held by the Fund have an average effective market yield of 2.11% per annum (March 31, 2003: 3.23% per annum).

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, 2004 is $12 (2003 - $10). 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, 2004 is estimated to be $34 (2003 - $26) using the current interest rate in effect and adjusting the rate for a risk premium.

NOTE 6 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 totalled $2,239 at March 31, 2004 (2003 - $3,053). The Company's indemnities expire in part in 2015 and in full in 2017. The Company estimates its liability under the indemnities annually, based on its assessment of the mortgages.

Changes in the Company's obligations under indemnities and commitments are as follows.

	2004	2003
Beginning balance	$ 502	$ 793
Provision for (recovery of) obligations under indemnities and commitments	600	(291)
Ending balance	$ 1,102	$ 502

NOTE 7 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

		2004	2003
Issued			
1	Class "A" share	$ 5,768	$ 5,768
1,000	Class "B" shares	1	1
		$ 5,769	$ 5,769

NOTE 8 CONTINGENCIES

The Company has one lawsuit filed by plaintiffs outstanding. Management considers the liability under these legal proceedings not to be determinable and accordingly an estimate of any contingent loss cannot be made.

NOTE 9 RELATED PARTY TRANSACTIONS

Other than interest earned from the Consolidated Cash Investment Trust Fund, there were no related party transactions in the year ended March 31, 2004.

NOTE 10 FEES AND SALARIES

There were no director's fees or salaries paid during the year. The Company had no employees in 2004 and 2003.

NOTE 11 BUDGET

The Company's annual budget appears in the 2003-04 Government and Lottery Fund Estimates. The budget projected a net excess of revenue over expenses for the year of $80. Since the Company has liquidated almost all of its assets, a detailed budget was not prepared.

GAINERS INC.
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

AUDITORS' REPORT

To the Shareholder of Gainers Inc.

We have audited the consolidated balance sheet of Gainers Inc. as at September 30, 2003 and the consolidated statements of operations and deficit and cash flows 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, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Pricewaterhouse Coopers LLP
Chartered Accountants

Edmonton, Alberta
November 19, 2003

GAINERS INC.
CONSOLIDATED BALANCE SHEET
AS AT SEPTEMBER 30, 2003
(in thousands of dollars)

	2003	2002
ASSETS		
Cash	$ 2	$ 2
LIABILITIES		
Accounts payable and accrued liabilities	228	234
Principal and interest on prior years' income taxes (Note 3)	9,231	8,607
Long-term debt (Note 4)	192,815	192,798
	202,274	201,639
Contingencies (Note 5)		
SHAREHOLDER'S DEFICIENCY		
Share capital (Note 6)	1	1
Contributed surplus	15,002	15,002
Deficit	(217,275)	(216,640)
	(202,272)	(201,637)
	$ 2	$ 2

Approved by the Board of Directors

Dan Harrington, Director

GAINERS INC.
CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(in thousands of dollars)

	2003	2002
Revenue		
Recovery of legal fees	$ -	$ 2
Expenses		
Interest on prior years' income taxes	624	601
General and administrative	11	16
	635	617
Net loss for the year	(635)	(615)
Deficit - Beginning of year	(216,640)	(216,025)
Deficit - End of year	$ (217,275)	$ (216,640)

GAINERS INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(in thousands of dollars)

	2003	2002
Cash provided by (used in)		
Operating activities		
Net loss for the year	$ (635)	$ (615)
Net change in non-cash working capital items	618	573
	(17)	(42)
Financing activities		
Proceeds from long-term debt	17	42
Decrease in cash	-	-
Cash - Beginning of year	2	2
Cash - End of year	$ 2	$ 2
Supplementary information		
Income taxes paid	$ -	$ -
Interest paid	$ -	$ -

GAINERS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

(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 believed 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 Alberta 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 $54,491. The amount of non-capital losses available for carry forward is $3,273. These non-capital losses expire as follows:

	(in thousands of dollars)
2004	$ 1,103
2005	1,983
2007	100
2008	32
2009	38
2010	17
	$ 3,273

NOTE 4 LONG-TERM DEBT

	2003	2002
	(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	13,516	13,499
Accrued interest	34,491	34,491
	$ 192,815	$ 192,798

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, 2003 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.

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 $14,084 (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 or 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 one of the certificates sworn by Mr. Pocklington in 1988. The judgement has been appealed by Mr. Pocklington.

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 $1 per share with cumulative annual dividend compounded semi-annually at 9.6% of the redemption price
Issued

	2003	2002
	(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

NOTE 7 FINANCIAL INSTRUMENTS

The fair value of accounts payable and accrued liabilities and principal and interest on prior years' income taxes has not been estimated as management cannot reasonably estimate when the amount will be paid. The fair value of long-term debt has not been estimated since the debt is not marketable and is not subject to terms and conditions that would otherwise be available with an arm's length party.

SUPPLEMENTARY INFORMATION REQUIRED BY LEGISLATION

STATEMENT OF REMISSIONS, COMPROMISES AND WRITE-OFFS

For the Year Ended March 31, 2004

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	
Farm Credit Stability Act loans	$ 84,277
Gainers Inc. and subsidiaries	75,006
Small Business Term Assistance Act loans	387
	159,670
Alberta Treasury Branches	
Loans and accounts receivable	16,893,075
	$ 17,052,745

SUPPLEMENTARY INFORMATION REQUIRED BY LEGISLATION

STATEMENT OF BORROWINGS MADE UNDER SECTION 56(1) OF THE FINANCIAL ADMINISTRATION ACT

For the Year Ended March 31, 2004

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	$ 10,786,200,000	$ 10,774,742,646

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 2003-04 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, 2004

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	$ 10,786,200,000	$ 10,774,742,646

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 2003-04 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, 2004

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, 2004, 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			
Farm Credit Stability Act loans	$ -	$ 84,277	$ -
Gainers Inc. and subsidiaries	-	75,006	-
Small Business Term Assistance Act loans	-	387	-
Rural utilities loans	-	-	22,964
	-	159,670	22,964
CROWN INDEMNITIES			
Native residential school litigation indemnity payments recoverable from Department of Learning	-	103,296	103,296
	$ -	$ 262,966	$ 126,260

LOCAL AUTHORITIES PENSION PLAN FINANCIAL STATEMENTS DECEMBER 31, 2003

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, 2003 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, 2003 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 27, 2004

LOCAL AUTHORITIES PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS AS AT DECEMBER 31, 2003

	2003	2002
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 9,642,129	$8,419,003
Contributions receivable (Note 6)	15,774	14,419
Accrued investment income	1,286	1,811
	9,659,189	8,435,233
Liabilities		
Accounts payable (Note 7)	3,876	3,913
Net assets available for benefits	9,655,313	8,431,320
Actuarial adjustment for fluctuation in fair value of net assets (Note 2 (c))	42,500	1,160,600
Actuarial value of net assets available for benefits	9,697,813	9,591,920
Accrued Benefits		
Actuarial value of accrued benefits	11,108,800	10,036,900
Actuarial deficiency	$ (1,410,987)	$ (444,980)

See accompanying notes and schedules.

LOCAL AUTHORITIES PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED DECEMBER 31, 2003

	2003	2002
	($ thousands)	
Increase in assets		
Contributions (Note 8)	$ 459,338	$ 388,717
Net investment income (Note 9)	1,155,698	-
Net transfer from the Public Service Pension Plan (Note 10)	13,935	-
	1,628,971	388,717
Decrease in assets		
Net investment loss (Note 9)	-	522,566
Pension benefits	343,733	325,761
Refunds to members	43,625	44,095
Transfers to other plans	541	1,515
Plan expenses (Note 11)	17,079	14,620
	404,978	908,557
Increase (Decrease) in net assets	1,223,993	(519,840)
Net assets available for benefits at beginning of year	8,431,320	8,951,160
Net assets available for benefits at end of year	$ 9,655,313	$ 8,431,320

See accompanying notes and schedules.

LOCAL AUTHORITIES PENSION PLAN
STATEMENT OF CHANGES IN ACCRUED BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2003

	2003	2002
	($ thousands)	
Increase in accrued benefits		
Interest accrued on benefits	$ 754,200	$ 691,900
Benefits earned	479,100	426,200
Net transfer from the Public Service Pension Plan (Note 10)	11,700	-
Changes in actuarial assumptions (Note 12 (a))	131,800	-
Changes in valuation methodology, increase in the maximum pensionable salary permitted and net experience losses (Note 12 (a))	96,400	193,700
	1,473,200	1,311,800
Decrease in accrued benefits		
Benefits paid including interest	401,300	382,800
Net increase in accrued benefits	1,071,900	929,000
Accrued benefits at beginning of year	10,036,900	9,107,900
Accrued benefits at end of year (Note 12)	$ 11,108,800	$ 10,036,900

See accompanying notes and schedules.

LOCAL AUTHORITIES PENSION PLAN
STATEMENT OF CHANGES IN ACTUARIAL DEFICIENCY
FOR THE YEAR ENDED DECEMBER 31, 2003

	2003	2002
	($ thousands)	
Actuarial (deficiency) surplus at beginning of year	$ (444,980)	$ 634,960
Increase (Decrease) in net assets available for benefits	1,223,993	(519,840)
Net change in actuarial adjustment for fluctuation in fair value of net assets	(1,118,100)	368,900
Net increase in accrued benefits	(1,071,900)	(929,000)
Actuarial deficiency at end of year (Note 13)	$ (1,410,987)	$ (444,980)

See accompanying notes and schedules

LOCAL AUTHORITIES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003

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. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0216556.

(b) Funding Policy

Current service costs and the Plan's actuarial deficiency are funded by employers and employees at rates which together with investment earnings 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. The rates in effect at December 31, 2003 were 4.525% (2002: 4.025%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 6.40% (2002: 5.90%) of the excess for employees, and 5.525% (2002: 5.025%) of pensionable earnings up to the YMPE and 7.40% (2002: 6.90%) of the excess for employers.

The rates were reviewed by the Board in 2003 and are to be reviewed at least once every three years based on recommendations of the Plan's actuary. As a result of this review, the rates have increased at January 1, 2004 as follows: 5.602% of pensionable earnings up to the YMPE and 7.477% of the excess for employees, and 6.602% of pensionable earnings up to the YMPE and 8.477% of the excess for employers. The 2004 rates include a special payment of 1.68% of pensionable earnings shared equally between employees and employers towards the Plan's unfunded liabilities at December 31, 2002 (see Note 13).

(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 disbled 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. 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTIN 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 and external managers appointed 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.

(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 using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate.

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 using methods such as replacement cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models as appropriate.

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 income.

(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, credit default swaps 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.

Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields and year-end exchange rates.

Income and expense from derivative contracts are accrued as earned and included in net investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

(g) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. 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 exists in the calculation of the Plan’s actuarial value of accrued benefits. Uncertainty arises because the Plan’s actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Plan’s actuarial value of accrued benefits, 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. Differences between actual results and expectations are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in accrued benefits.

NOTE 3 INVESTMENTS (SCHEDULES A TO E)

	2003		2002	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 192,643	2.0	$ 65,449	0.8
Canadian Dollar Public Bond Pool (b)	1,380,104	14.3	2,094,921	24.9
Canadian Long Term Government Pool (b)	885,240	9.2	-	-
Real rate of return bonds (c)	466,570	4.8	425,674	5.1
Private Mortgage Pool (d)	259,381	2.7	281,934	3.3
Total fixed income securities	3,183,938	33.0	2,867,978	34.1
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (e)	1,489,361	15.5	1,149,571	13.6
Canadian Small Cap Equity Pool (e)	339,307	3.5	231,773	2.7
Domestic Passive Equity Pooled Fund (f)	361,090	3.7	517,839	6.2
Canadian Pooled Equities Fund (g)	147,157	1.5	199,693	2.4
Private Equity Pool (h)	13,627	0.1	18,603	0.2
	2,350,542	24.3	2,117,479	25.1
United States Equities (Schedule C)				
External Managers				
US Large Cap Equity Pool (i)	592,647	6.2	552,055	6.6
US Mid/Small Cap Equity Pool (i)	282,011	2.9	183,515	2.2
US Passive Equity Pool	-	-	44,940	0.5
US Passive Equity Pooled Fund (j)	514,494	5.3	624,541	7.4
United States Pooled Equities Fund	-	-	303	-
	1,389,152	14.4	1,405,354	16.7
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool (k)	1,009,390	10.5	742,193	8.8
EAFE Plus Equity Pool (k)	435,483	4.5	408,117	4.9
EAFE Passive Equity Pool (l)	12,087	0.1	128,212	1.5
EAFE Structured Equity Pooled Fund (l)	345,684	3.6	212,157	2.5
	1,802,644	18.7	1,490,679	17.7
Alternative Investments - Equities				
External Managers				
Absolute Return Strategy Pool (m)	275,909	2.9	-	-
Foreign Private Equity Pool (n)	22,241	0.2	-	-
Private Income Pool (n)	5,646	0.1	-	-
	303,796	3.2	-	-
Total equities	5,846,134	60.6	5,013,512	59.5
Real Estate (Schedule E)				
Private Real Estate Pool (o)	612,057	6.4	537,513	6.4
Total investments	$ 9,642,129	100.0	$ 8,419,003	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 (CDPB) and the Canadian Long Term Government Bond Pool (CLGB) are managed with the objectives of providing competitive returns comparable to the total returns of the Scotia Capital Universe Bond Index and the Scotia Capital Long Term All Government Bond Index respectively over a four-year period while maintaining adequate security and liquidity of participants' capital. The CDPB portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives while the CLGB portfolio invests only in high quality fixed income instruments of the federal, provincial and municipal governments of Canada. 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. To limit investment 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, Australasia 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, Australasia 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 External Managers Absolute Return Strategy Pool is managed by external managers with the objective of providing investment returns comparable to the Consumer Price Index plus 6%. The pool is intended to yield absolute positive investment returns with lower volatility using various investment strategies.

(n) The Foreign Private Equity Pool (FPEP) and the Private Income Pool (PIP) are managed with the objectives of providing investment returns comparable to the Consumer Price Index plus 8% and the Consumer Price Index plus 6% respectively. The FPEP invests in institutionally sponsored international private equity pools managed by experienced advisors with proven records. The PIP invests in infrastructure related projects that are structured to yield high current income. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

(o) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All 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 expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board of Trustees established a long-term policy asset mix of 35% fixed income instruments, 55% equities and 10% 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 may be 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. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. 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:

	2003					2002	
	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	81	19	-	$ 1,084,225	$ 44,356	$ 1,090,633	$ 9,836
Bond index swap contracts	100	-	-	22,227	32	38,109	329
Interest rate swap contracts	34	57	9	500,737	(24,618)	401,195	(23,206)
Forward foreign exchange contracts	100	-	-	347,322	10,347	276,015	1,291
Equity index futures contracts	100	-	-	14,321	1,744	-	-
Credit default swap contracts	-	100	-	19,781	(242)	-	-
Cross-currency interest rate swap contracts	20	47	33	370,966	(37,345)	515,102	(23,206)
				$ 2,359,579	$ (5,726)	$ 2,321,054	$ (34,956)

(a) The method of determining fair value of derivative contracts is described in Note 2 (f).

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

	2003	2002
	($ thousands)	
Employers	$ 8,493	$ 7,854
Employees	7,281	6,565
	$ 15,774	$ 14,419

NOTE 7 ACCOUNTS PAYABLE

	2003	2002
	($ thousands)	
Benefits	$ 149	$ 43
Refunds and transfers	6,577	5,880
Plan expenses	(2,850)	(2,010)
	$ 3,876	$ 3,913

NOTE 8 CONTRIBUTIONS

	2003	2002
	($ thousands)	
Current and optional service		
Employers	$ 245,759	$ 208,662
Employees [a]	212,771	178,090
Transfers from other plans	808	1,965
	$ 459,338	$ 388,717

(a) Includes $9,205,000 (2002 $8,375,000) of optional service contributions.

NOTE 9 NET INVESTMENT INCOME (LOSS)

The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

	2003	2002
	($ thousands)	
Fixed Income Securities	$ 236,997	$ 282,875
Canadian Public Equities	486,980	(239,626)
Foreign Public Equities		
United States	128,401	(357,004)
Non-North American	242,093	(236,900)
Alternative Investments - Equities		
Absolute Return Strategies	6,235	-
Private Equities	667	(4,295)
Real Estate	54,325	32,384
	$ 1,155,698	$ (522,566)

Net investment income (loss) is comprised of the following:

	2003	2002
	($ thousands)	
Net realized and unrealized gains (losses) on investments, including those arising from derivative transactions	$ 855,074	$ (823,250)
Interest income	192,952	208,095
Dividend income	84,258	74,545
Real estate income	32,395	28,257
Securities lending income	2,510	1,855
Pooled funds management and associated custodial fees (Note 11)	(11,491)	(12,068)
	$ 1,155,698	$ (522,566)

The following is a summary of the investment performance results attained by the Plan:

	One Year Return	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return
Time-weighted rates of return*			
Overall Plan	13.6%	1.8%	7.5%
Policy Benchmark**	13.8%	1.5%	7.4%

* 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 and losses (realized and unrealized).

** The policy benchmark is a product of the weighted average policy sector weights and sector returns.

NOTE 10 NET TRANSFER FROM THE PUBLIC SERVICE PENSION PLAN

In accordance with the Public Sector Pension Plans Act and Alberta Regulation 144/2001, eligible former members of the Public Service Pension Plan (PSPP) and the Local Authorities Pension Plan (LAPP) had elected to transfer their pension entitlements after 1993 and before 2001 between PSPP and LAPP. Accordingly the actuaries for the PSPP and the LAPP calculated the transfer amount for each of the PSPP and the LAPP using the transfer basis agreed to by the PSPP and LAPP Boards. Based on these calculations, the Boards and the Minister of Finance reached a tripartite written agreement setting out the details of the transfer and as a result $13,935,000, including investment return from January 1, 2003 to December 11, 2003 was transferred from the PSPP to the LAPP on December 12, 2003. Hence transferred entitlements cease to pertain to the exporting plan and become part of the pension entitlements and accrued benefits under the importing plan.

NOTE 11 PLAN EXPENSES

	2003	2002
	($ thousands)	
General administration costs	$ 11,356	$ 9,026
APEX project costs	2,925	3,502
Investment management costs	1,752	1,329
LAPP Corporation costs	501	512
Process improvements costs	337	-
Actuarial fees	208	251
	$ 17,079	$ 14,620

General administration costs, process improvement costs and business process reengineering costs (APEX project), including Plan Board costs (see Note 14) 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 $11,491,000 (2002 $12,068,000) (see Note 9), which have been included in calculating net investment income, are excluded from plan expenses.

LAPP Corporation costs include remuneration to senior officials of Local Authorities Pension Plan Corporation as follows:

	2003	2002
	($ thousands)	
Chief Executive Officer		
Salary and bonus	$ 185.0	$ 174.5
Benefits	8.1	7.9
Director, Pension Policy		
Salary and bonus	111.2	100.3
Benefits	7.3	6.5
	$ 311.6	$ 289.2

Total Plan expenses, including pooled funds management and associated custodial fees amounted to $197 per member (2002 $192 per member).

Pooled funds management and associated custodial fees amounted to $79 per member (2002 $87 per member). These expenses, which have been deducted in arriving at net investment income 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 0.30% (2002: 0.32%) of assets under administration.

NOTE 12 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2002 by Mercer Human Resource Consulting and was then extrapolated to December 31, 2003. The 2002 valuation was completed after the financial statements of the Plan for 2002 were released. As a result, the differences between the actuarial valuation results and extrapolation results for 2002 are accounted for as net experience losses, change in actuarial assumptions and other changes in 2003.

The net experience losses as revealed in the 2002 actuarial valuation and reported in 2003 were mainly attributed to the following factors:

- Combined salary and Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) increases were other than assumed, and
- Retirement, termination and mortality experiences were less favourable than assumed.

The experience gains due to lower than expected cost-of-living adjustments and changes in valuation methodology have been more than offset by the above losses.

The 2002 valuation was determined using the projected benefit method pro-rated 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, taking into account the impact of increases in the maximum pensionable salary permitted under an amendment to the *Income Tax Act* which received Royal Assent on June 19, 2003. These estimates were, after consultation with the Plan's actuary, adopted by the Board of Trustees.

The major assumptions used were:

	December 31 2002 Valuation & 2003 Extrapolation %	December 31 2001 Valuation & 2002 Extrapolation %
Investment return	7.00	7.25
Inflation rate	3.25	3.5
Salary escalation rate*	4.00	4.25

* In addition to merit and promotion.

The Board of Trustees has authorized a policy to have an actuarial valuation of the Plan carried out every year. As a result, an actuarial valuation of the Plan as at December 31, 2003 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 2004.

(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 actuarial deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2003:

	Sensitivities		
	Changes in Assumptions %	Increase in Actuarial 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%	$ 741	0.9%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	508	1.1%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	1,804	2.6%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2002 valuation was 11.4%.

NOTE 13 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 $42,500,000 (2002 $1,160,600,000) at December 31, 2003. 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.

In accordance with the Public Sector Pension Plans Act, the deficiency of the Plan as determined by an actuarial valuation as at December 31, 2002 is funded by a special payment of 1.68% of pensionable earnings to be shared equally between employers and employees commencing on January 1, 2004 and continuing 15 years from the date of valuation to December 31, 2017.

NOTE 14 REMUNERATION OF BOARD MEMBERS

Remuneration paid with respect to a total of 14 Board members during the year amounted to $92,000 (2002 $106,000).

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2003 presentation.

Schedule A

LOCAL AUTHORITIES PENSION PLAN

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

DECEMBER 31, 2003

	Plan's Share	
	2003	2002
	($ thousands)	
Deposits and short-term securities	$ 201,514	$ 76,312
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	1,263,082	936,157
Provincial		
Alberta, direct and guaranteed	1,055	4,937
Other, direct and guaranteed	640,775	418,202
Municipal	29,306	40,858
Corporate	645,709	883,759
Private		
Corporate	394,483	484,176
	2,974,410	2,768,089
Receivable from sale of investments and accrued investment income	24,911	24,406
Liabilities for investment purchases	(16,897)	(829)
	8,014	23,577
	$ 3,183,938	$ 2,867,978

(a) Fixed income securities held as at December 31, 2003 had an average effective market yield of 4.63% per annum (2002: 4.82% per annum). The following term structure of these securities as at December 31, 2003 was based on principal amount.

	2003	2002
	%	
under 1 year	2	2
1 to 5 years	22	29
6 to 10 years	22	28
11 to 20 years	16	16
over 20 years	38	25
	100	100

Schedule B

LOCAL AUTHORITIES PENSION PLAN
SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES
DECEMBER 31, 2003

	Plan's Share	
	2003	2002
	($ thousands)	
Deposits and short-term securities	$ 33,896	$ 26,949
Public equities (a) (b)		
Consumer discretionary	202,250	182,064
Consumer staples	118,911	90,706
Energy	334,054	312,418
Financials	647,592	595,176
Health care	65,005	71,637
Industrials	276,782	198,297
Information technology	127,169	105,999
Materials	381,501	337,552
Telecommunication services	102,431	98,165
Utilities	31,345	53,942
	2,287,040	2,045,956
Passive index	3,839	11,652
	2,290,879	2,057,608
Private Equity Pool	13,627	18,603
Receivable from sale of investments and accrued investment income	15,850	19,720
Liabilities for investment purchases	(3,710)	(5,401)
	12,140	14,319
	$ 2,350,542	$ 2,117,479

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $235,967,000 (2002 $254,579,000), 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, 2003

	Plan's Share	
	2003	2002
	($ thousands)	
Deposits and short-term securities	$ 44,347	$ 11,225
Public equities (a) (b)		
Consumer discretionary	234,270	191,034
Consumer staples	114,784	120,071
Energy	75,801	84,048
Financials	273,087	293,573
Health care	163,809	209,620
Industrials	155,722	174,048
Information technology	218,833	198,553
Materials	48,436	43,169
Telecommunication services	34,315	48,179
Utilities	35,736	38,820
	1,354,793	1,401,115
Passive index	764	-
	1,355,557	1,401,115
Receivable from sale of investments and accrued investment income	6,840	8,056
Liabilities for investment purchases	(17,592)	(15,042)
	(10,752)	(6,986)
	$ 1,389,152	$ 1,405,354

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $490,427,000 (2002 $626,945,000), 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, 2003

	Plan's Share	
	2003	2002
	($ thousands)	
Deposits and short-term securities	$ 32,381	$ 37,355
Public equities (a) (b)		
Consumer discretionary	267,333	171,022
Consumer staples	138,660	131,979
Energy	129,437	139,590
Financials	428,029	326,109
Health care	139,105	159,483
Industrials	190,706	141,510
Information technology	104,753	83,018
Materials	133,526	109,530
Telecommunication services	158,615	123,594
Utilities	68,141	73,299
	1,758,305	1,459,134
Passive index	252	-
Receivable from sale of investments and accrued investment income	18,627	8,767
Liabilities for investment purchases	(6,921)	(14,577)
	11,706	(5,810)
	$ 1,802,644	$ 1,490,679

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $331,992,000 (2002 $209,109,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. The following is a summary of the Plan's investment in Non-North American public equities by country based on geographic location of stock exchange on which stocks were purchased:

	Plan's Share	
	2003	2002
	($ thousands)	
United Kingdom	$ 412,472	$ 396,070
Japan	295,577	225,157
France	177,169	127,191
Switzerland	141,525	132,591
Germany	127,576	83,684
Netherlands	100,130	95,034
Australia	92,495	68,556
Italy	77,290	58,838
Spain	48,281	30,739
Hong Kong	39,867	41,365
Other	245,923	199,909
	$1,758,305	$1,459,134

Schedule E

LOCAL AUTHORITIES PENSION PLAN
SCHEDULE OF INVESTMENTS IN REAL ESTATE
DECEMBER 31, 2003

	Plan's Share	
	2003	2002
	($ thousands)	
Deposits and short-term securities	$ 497	$ 226
Real estate (a)		
Office	271,419	260,721
Retail	256,942	227,564
Industrial	41,491	26,314
Residential	35,926	18,815
	605,778	533,414
Passive index	4,224	62
Receivable from sale of investments and accrued investment income	1,558	3,811
	$ 612,057	$ 537,513

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share	
	2003	2002
	($ thousands)	
Ontario	$ 442,734	$ 400,827
Alberta	150,624	120,982
British Columbia	12,420	11,605
	$ 605,778	$ 533,414

MANAGEMENT EMPLOYEES PENSION PLAN FINANCIAL STATEMENTS DECEMBER 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 Management Employees Pension Plan (the Plan) as at December 31, 2003 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, 2003 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 9, 2004

MANAGEMENT EMPLOYEES PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS AS AT DECEMBER 31, 2003

	2003	2002
	($ thousands)	
Net Assets Available For Benefits		
Assets		
Investments (Note 3)	$ 1,566,939	$ 1,386,573
Accrued investment income and accounts receivable	451	375
Contributions receivable		
Employees	2,003	1,818
Employers	2,761	2,523
	1,572,154	1,391,289
Liabilities		
Accounts payable	240	708
Net assets available for benefits	1,571,914	1,390,581
Accrued Benefits		
Actuarial value of accrued benefits	1,861,928	1,692,549
Deficiency	$ (290,014)	$ (301,968)

See accompanying notes and schedules.

MANAGEMENT EMPLOYEES PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED DECEMBER 31, 2003

	2003	2002
	($ thousands)	
Net investment income (loss) (Note 6)		
Investment income (loss)	$ 190,938	$ (76,107)
Investment expenses	(1,930)	(1,868)
	189,008	(77,975)
Member service operations		
Contributions		
Current and optional service		
Employees	23,782	20,241
Employers	32,515	25,989
Pension benefits	(61,296)	(54,714)
Refunds to members	(1,143)	(1,603)
Transfers to other plans, net	(170)	(293)
Member service expenses (Note 7)	(1,363)	(1,105)
	(7,675)	(11,485)
Increase (Decrease) in net assets	181,333	(89,460)
Net assets available for benefits at beginning of year	1,390,581	1,480,041
Net assets available for benefits at end of year	$ 1,571,914	$ 1,390,581

See accompanying notes and schedules.

MANAGEMENT EMPLOYEES PENSION PLAN
STATEMENT OF CHANGES IN ACCRUED BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2003

	2003	2002
	($ thousands)	
Increase in accrued benefits		
Interest accrued on benefits	$ 114,351	$ 112,587
Benefits earned	56,524	47,500
	170,875	160,087
Decrease in accrued benefits		
Benefits paid and transfers	(62,608)	(56,853)
Other changes in accrued benefits (Note 8)		
Changes in actuarial assumptions	60,165	71,896
Net experience (gains) losses	(14,493)	42,716
Change in the maximum pensionable salary limit	15,440	-
	61,112	114,612
Net increase in accrued benefits	169,379	217,846
Accrued benefits at beginning of year	1,692,549	1,474,703
Accrued benefits at end of year (Note 8)	$ 1,861,928	$ 1,692,549

See accompanying notes and schedules.

MANAGEMENT EMPLOYEES PENSION PLAN
STATEMENT OF CHANGES IN DEFICIENCY
FOR THE YEAR ENDED DECEMBER 31, 2003

	2003	2002
	($ thousands)	
(Deficiency) surplus at beginning of year	$ (301,968)	$ 5,338
Increase (Decrease) in net assets available for benefits	181,333	(89,460)
Net increase in accrued benefits	(169,379)	(217,846)
Deficiency at end of year	$ (290,014)	$ (301,968)

See accompanying notes and schedules.

MANAGEMENT EMPLOYEES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003

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. The Plan is a registered pension plan as defined in the *Income Tax Act.* The Plan's registration number is 0570887.

(b) Funding Policy

Current service costs and the Plan's actuarial deficiency (see Note 9) 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. The rates in effect at December 31, 2003 were 9.5% (2002: 7.75%) of pensionable salary for employees and 13.1% (2002: 10.75%) for employers. The rates are reviewed at least once every three years by the Minister of Finance based on recommendations of the Plan's actuary.

(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 the yearly maximum pensionable earnings limit as defined 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) 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 on January 1st of each year by an amount equal to at least 60% of the average of the increases in the Alberta Consumer Price Index in the twelve-month period ending on October 31st of the previous year.

(i) Guarantee

The Province of Alberta guarantees payment of all benefits arising from service before 1994.

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 or external managers appointed 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.

(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 using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate.

(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 using methods such as replacement cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models as appropriate.

(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 income.

(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, credit default swaps 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) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

(v) Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields and year-end exchange rates.

Income and expense from derivative contracts are accrued as earned and included in net investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

(f) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. 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 exists in the calculation of the Plan's actuarial value of accrued benefits. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Plan's actuarial value of accrued benefits, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts. Differences between actual results and expectations are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in accrued benefits.

NOTE 3 INVESTMENTS (SCHEDULES A TO E)

	2003		2002	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 17,784	1.1	$ 9,889	0.7
Canadian Dollar Public Bond Pool (b)	416,281	26.6	405,698	29.3
Real rate of return bonds (c)	76,810	4.9	69,627	5.0
Private Mortgage Pool (d)	74,164	4.7	54,599	3.9
Total fixed income securities	585,039	37.3	539,813	38.9
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (e)	176,303	11.3	132,203	9.6
Canadian Small Cap Equity Pool (e)	47,117	3.0	20,503	1.5
Domestic Passive Equity Pooled Fund (f)	123,569	7.9	106,634	7.7
Canadian Pooled Equities Fund (g)	71,618	4.6	91,714	6.6
Private Equity Pool (h)	1,928	0.1	2,632	0.2
	420,535	26.8	353,686	25.6
United States Equities (Schedule C)				
External Managers				
US Large Cap Equity Pool (i)	99,316	6.3	93,373	6.7
US Passive Equity Pool	-	-	52,573	3.8
US Mid/Small Cap Equity Pool (i)	29,816	1.9	13,839	1.0
S&P 500 Pooled Index Fund (j)	53,493	3.4	-	-
US Passive Equity Pooled Fund (j)	47,599	3.1	52,361	3.8
United States Pooled Equities Fund	-	-	47	-
	230,224	14.7	212,193	15.3
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool (k)	132,448	8.5	101,308	7.3
EAFE Plus Equity Pool (k)	59,305	3.8	50,460	3.6
EAFE Passive Equity Pool (l)	31,954	2.0	35,825	2.6
EAFE Structured Equity Pooled Fund (l)	31,544	2.0	22,986	1.7
	255,251	16.3	210,579	15.2
Alternative Investments - Equities				
Private Equity 2002 and Income Pools (m)	2,978	0.2	522	-
Real Estate Equities (Schedule E)				
Private Real Estate Pool (n)	72,912	4.7	69,780	5.0
Total equities	981,900	62.7	846,760	61.1
Total investments	$ 1,566,939	100.0	$ 1,386,573	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) 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. To limit investment 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 S&P 500 Pooled Index Fund and the US Passive Equity Pooled Fund are passively managed. The portfolios are comprised of publicly traded United States equities similar in weights to the S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pools utilize a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pools also invest in futures, swaps and other structured investments.

(k) The External Managers EAFE (Europe, Australasia 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, Australasia 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 Equity Pool 2002 is managed with the objective of providing investment return comparable to the S&P/TSX Composite Index plus 2.5% over the long term. The pool invests in institutionally sponsored Canadian private equity pools managed by experienced advisors with proven records. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.The Private Income Pool is managed with the objective of providing investment return comparable to the Consumer Price Index plus 6% over the long term. The pool invests in infrastructure related projects that are structured to provide high current income.

(n) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All 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 expected to be earned on investments. The expected rate of return on investments, together with the expected long term inflation rate, form the basis for determining the economic assumptions used in calculating the actuarial liabilities. 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 may be 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 credit, 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. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. 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, 2003:

	2003					2002	
	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	79	21	-	$ 173,631	$ 6,901	$ 127,642	$ 2,330
Interest rate swap contracts	37	57	6	91,375	(4,039)	53,492	(2,845)
Cross-currency interest rate swap contracts	12	40	48	59,519	(5,038)	62,568	(10,777)
Bond index swap contracts	100	-	-	6,704	10	7,380	64
Forward foreign exchange contracts	100	-	-	6,070	42	39,817	184
Credit default swap contracts	-	100	-	3,812	(47)	-	-
Equity index futures contracts	100	-	-	1,895	205	-	-
				$ 343,006	$ (1,966)	$ 290,899	$ (11,044)

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

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 NET INVESTMENT INCOME (LOSS)

Net investment income (loss) of the Plan is comprised of the following:

	2003	2002
	($ thousands)	
Investment income (loss)		
Net realized and unrealized gains (losses) on investments, including those arising from derivative transactions	$ 135,925	$ (129,533)
Interest income	36,992	38,275
Dividend income	13,664	12,019
Real estate income	3,958	2,836
Securities lending income	399	296
	190,938	(76,107)
Investment expenses	(1,930)	(1,868)
Net investment income (loss)	$ 189,008	$ (77,975)

The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

	2003	2002
	($ thousands)	
Fixed Income Securities	$ 44,055	$ 53,384
Canadian Equities	88,091	(49,624)
Foreign Equities		
United States	15,924	(51,122)
Non-North American	34,008	(32,878)
Alternative Investments - Equities	121	(611)
Real Estate Equities	6,809	2,876
	$ 189,008	$ (77,975)

Investment expenses totalling $1,930,000 (2002 $1,868,000) are included in the calculation of Plan's investment performance results, which are as follows:

	One-Year Return	Two-Year Compound Annualized Return	Four-Year Compound Annualized Return	Eight -Year Compound Annualized Return
Time-weighted rates of return*				
Overall Plan	13.7%	3.8%	2.7%	8.1%
Policy Benchmark**	12.9%	3.2%	2.3%	7.8%

* The measure involves the calculation of the net 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 and losses (realized and unrealized).
** The policy benchmark return is a product of the weighted average policy sector weights and sector returns.

NOTE 7 MEMBER SERVICE EXPENSES

Member service expenses including Board costs in the amount of $48,000 (2002 $51,000) were charged to the Plan on a cost-recovery basis.

NOTE 8 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2002 by Aon Consulting Inc. and was extrapolated to December 31, 2003. The 2002 valuation was completed after the financial statements of the Plan for 2002 were released. As a result, the differences between the actuarial valuation and extrapolation results for 2002 are accounted for as changes in actuarial assumptions, change in the maximum pensionable salary limit and net experience gains in 2003.

Actuarial valuations were determined using the projected benefit method prorated on service. The assumptions used in the valuations and extrapolations were developed as the best estimates of expected short term and long term market conditions and other future events. The 2002 valuation took into account the impact of increases in the maximum pensionable salary permitted under an amendment to the *Income Tax Act* which received Royal Assent on June 19, 2003. After consultation with the Plan's actuary, the Board approved these best estimates.

The major assumptions used were:

	2002 Valuation and 2003 Extrapolation %	2001 Valuation and 2002 Extrapolation %
Asset real rate of return	4.0	4.25
Inflation rate	2.75	2.75
Investment rate of return	6.75	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, 2003:

	Sensitivities		
	Changes in Assumptions %	Increase in Plan Deficiency ($ millions)	Increase in Current Service Cost as a % Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 143	1.5%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	39	1.0%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	301	4.3%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2002 valuation w as 21.9%

NOTE 9 FUNDING VALUATION AND EXTRAPOLATION

The Plan's deficiency is determined on the fair value basis for accounting purposes. For funding valuation and extrapolation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation and extrapolation purposes amounted to $1,536.9 million at December 31, 2003 (2002 $1,498.9 million).

In accordance with the Public Sector Pension Plans Act, the actuarial deficiency of $49.2 million as determined by an actuarial funding valuation as at December 31, 2001 is funded by a special payment of 2.1% of pensionable earnings shared between employees and employers commencing on April 1, 2003 and continuing for 15 years from the date of valuation to December 31, 2016. The special payment is included in the rates in effect at December 31, 2003 (see Note 1(b)).

An actuarial valuation as at December 31, 2002 indicated an increase in annual funding of approximately $21 million commencing in 2004 and continuing until 2017. The next actuarial funding valuation is required no later than December 31, 2004 (see Note 1(b)). The Board will continue to monitor the Plan's financial position on an annual basis.

NOTE 10 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2003 presentation.

NOTE 11 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, 2003

	Plan's Share	
	2003	2002
	($ thousands)	
Deposits and short-term securities	$ 20,065	$ 11,992
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	182,515	168,486
Provincial		
Alberta, direct and guaranteed	318	956
Other, direct and guaranteed	66,990	80,988
Municipal	6,383	7,912
Corporate	193,278	171,147
Private		
Corporate	115,177	93,767
	564,661	523,256
Receivable from sale of investments and accrued investment income	5,410	4,726
Liabilities for investment purchases	(5,097)	(161)
	313	4,565
	$ 585,039	$ 539,813

(a) Fixed income securities held as at December 31, 2003 had an average effective market yield of 4.52% per annum (2002: 4.86% per annum). The following term structure of these securities as at December 31, 2003 was based on principal amount:

	2003	2002
	%	
under 1 year	3	2
1 to 5 years	33	30
6 to 10 years	27	28
11 to 20 years	11	16
over 20 years	26	24
	100	100

Schedule B

MANAGEMENT EMPLOYEES PENSION PLAN
SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES
DECEMBER 31, 2003

	Plan's Share	
	2003	2002
	($ thousands)	
Deposits and short-term securities	$ 4,328	$ 3,792
Public equities (a) (b)		
Consumer discretionary	34,514	28,416
Consumer staples	20,262	14,457
Energy	59,460	52,365
Financials	118,917	104,344
Health care	10,564	10,394
Industrials	44,418	29,745
Information technology	23,839	17,178
Materials	68,922	56,451
Telecommunication services	19,096	17,539
Utilities	9,484	11,099
	409,476	341,988
Passive index	745	2,308
	410,221	344,296
Private Equity Pool	1,928	2,632
Receivable from sale of investments and accrued investment income	4,845	4,026
Liabilities for investment purchases	(787)	(1,060)
	4,058	2,966
	$ 420,535	$ 353,686

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $80,751,000 (2002 $52,423,000), 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, 2003

	Plan's Share	
	2003	2002
	($ thousands)	
Deposits and short-term securities	$ 4,570	$ 1,380
Public equities (a) (b)		
Consumer discretionary	37,621	27,883
Consumer staples	20,513	19,091
Energy	12,947	12,881
Financials	45,279	43,951
Health care	27,459	32,300
Industrials	25,922	26,194
Information technology	36,538	29,712
Materials	8,083	6,238
Telecommunication services	6,010	7,642
Utilities	5,675	5,505
	226,047	211,397
Passive index	81	-
	226,128	211,397
Receivable from sale of investments and accrued investment income	1,198	913
Liabilities for investment purchases	(1,672)	(1,497)
	(474)	(584)
	$ 230,224	$ 212,193

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $60,812,000 (2002 $52,563,000), 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, 2003

	Plan's Share	
	2003	2002
	($ thousands)	
Deposits and short-term securities	$ 4,459	$ 5,019
Public equities (a) (b)		
Consumer discretionary	37,769	24,470
Consumer staples	19,582	18,658
Energy	18,522	19,818
Financials	61,186	46,298
Health care	19,885	22,542
Industrials	27,101	20,028
Information technology	14,901	11,728
Materials	18,730	15,103
Telecommunications services	22,282	17,378
Utilities	9,788	10,365
	249,746	206,388
Passive index	33	-
Receivable from sale of investments and accrued investment income	1,971	1,080
Liabilities for investment purchases	(958)	(1,908)
	1,013	(828)
	$ 255,251	$ 210,579

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $30,294,000 (2002 $22,656,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. The following is a summary of the Plan's investment in Non-North American public equities by country based on geographic location of stock exchange on which stocks were purchased.

	Plan's Share	
	2003	2002
	($ thousands)	
United Kingdom	$ 58,892	$ 56,042
Japan	42,905	32,551
France	24,951	17,976
Switzerland	20,024	18,719
Germany	18,155	11,927
Netherlands	14,201	13,324
Australia	13,055	9,743
Italy	10,860	8,336
Spain	6,988	4,475
Hong Kong	5,519	5,741
Other	34,196	27,554
	$ 249,746	$ 206,388

Schedule E

MANAGEMENT EMPLOYEES PENSION PLAN
SCHEDULE OF INVESTMENTS IN REAL ESTATE
DECEMBER 31, 2003

	Plan's Share 2003	Plan's Share 2002
	($ thousands)	
Deposits and short-term securities	$ 59	$ 29
Real estate (a)		
Office	32,332	33,847
Retail	30,609	29,542
Industrial	4,943	3,416
Residential	4,280	2,443
	72,164	69,248
Passive index	503	8
Receivable from sale of investments and accrued investment income	186	495
	$ 72,912	$ 69,780

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share 2003	Plan's Share 2002
	($ thousands)	
Ontario	$ 52,741	$ 52,036
Alberta	17,943	15,706
British Columbia	1,480	1,506
	$ 72,164	$ 69,248

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN FINANCIAL STATEMENTS MARCH 31, 2004

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, 2004 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, 2004 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
May 21, 2004

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS AS AT MARCH 31, 2004

	2004	2003
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 77,926	$ 64,496
Contributions receivable	169	121
Accrued investment income	-	48
	78,095	64,665
Liabilities		
Accounts payable	14	29
Net assets available for benefits	78,081	64,636
Accrued Benefits		
Accrued benefits (Note 7)	79,453	75,652
Actuarial Deficiency (Note 8)	$ (1,372)	$ (11,016)

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, 2004

	2004	2003
	($ thousands)	
Increase in assets		
Net investment income (Note 9)	$ 14,014	$ -
Contributions		
Current and optional service		
Provincial Judges and Masters in Chambers	655	603
Province of Alberta	1,280	791
Unfunded liabilities (Note 8)		
Province of Alberta	1,172	-
	3,107	1,394
	17,121	1,394
Decrease in assets		
Pension benefits		
Administration expenses (Note 10)	3,590	3,140
Net investment loss (Note 9)	86	103
	-	6,103
	3,676	9,346
Increase (Decrease) in net assets	13,445	(7,952)
Net assets available for benefits at beginning of year	64,636	72,588
Net assets available for benefits at end of year	$ 78,081	$ 64,636

See accompanying notes and schedules.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED)

PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2004

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 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.

(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, 2004 were 7.0% (2003: 7.0%) of capped earnings for plan members and 14.03% (2003: 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.

(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. Pensionable earnings after December 31, 1991 are capped at the yearly maximum pensionable earnings limit as defined by the federal *Income Tax Act*. 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 average of the increases in the Alberta Consumer Price Index in the twelve-month period ending on October 31st of the previous year.

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 or external managers appointed 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.

(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 investment managers of Alberta Revenue.

The fair value of private equities is estimated by Alberta Revenue using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate.

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 using methods such as replacement cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models as appropriate.

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, credit default swaps 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.

Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields and year-end exchange rates.

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.

(f) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. 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 exists in the calculation of the Plan's accrued benefits. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Plan's accrued benefits, 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. Differences between actual results and expectations are disclosed as assumption changes and net experience gains or losses in the statement showing the changes in the value of accrued benefits (see Note 7).

NOTE 3 INVESTMENTS (SCHEDULES B TO F)

	2004		2003	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule B)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 1,345	1.7	$ 1,058	1.6
Canadian Dollar Public Bond Pool (b)	28,160	36.1	23,446	36.4
Private Mortgage Pool (c)	4,731	6.1	3,638	5.6
Total fixed income securities	34,236	43.9	28,142	43.6
Canadian Equities (Schedule C)				
Domestic Passive Equity Pooled Fund (d)	6,995	9.0	5,271	8.2
External Managers				
Canadian Large Cap Equity Pool (f)	4,141	5.3	3,457	5.4
Canadian Small Cap Equity Pool (f)	499	0.6	601	0.9
Canadian Pooled Equities Fund (e)	3,871	5.0	3,438	5.3
Private Equity Pool (g)	128	0.2	188	0.3
	15,634	20.1	12,955	20.1
United States Equities (Schedule D)				
External Managers				
US Large Cap Equity Pool (h)	4,747	6.1	3,686	5.7
US Mid/Small Cap Equity Pool (h)	767	1.0	563	0.9
US Passive Equity Pool (i)	-	-	2,511	3.9
US Passive Equity Pooled Fund (i)	2,952	3.8	2,800	4.3
S&P 500 Pooled Index Fund (i)	2,810	3.6	-	-
United States Pooled Equities Fund	-	-	2	-
	11,276	14.5	9,562	14.8
Non-North American Equities (Schedule E)				
External Managers				
EAFE Core Equity Pool (j)	6,398	8.2	4,820	7.5
EAFE Plus Equity Pool (j)	2,964	3.8	2,268	3.5
EAFE Passive Equity Pool (k)	1,520	1.9	1,365	2.1
EAFE Structured Equity Pooled Fund (k)	1,525	2.0	1,081	1.7
	12,407	15.9	9,534	14.8
Real Estate Equities (Shedule F)				
Private Real Estate Pool (l)	4,373	5.6	4,303	6.7
Total equities	43,690	56.1	36,354	56.4
Total investments	$ 77,926	100.0	$ 64,496	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 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 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 managers, each of whom has a different investment style and 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 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 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 S&P 500 Pooled Index Fund and the US Passive Equity Pooled Fund are passively managed. The portfolios are comprised of publicly traded United States equities similar in weights to the S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pools utilize a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pools also invests in futures, swaps and other structured investments.

(j) The External Managers EAFE (Europe, Australasia 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, Australasia 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 Investment Property Databank (IPD) Large Institutional All 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 may be 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, credit 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. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. 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, 2004:

	2004					2003	
	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	88	12	-	$ 10,400	$ (69)	$ 6,706	$ (159)
Interest rate swap contracts	40	47	13	5,591	(279)	3,664	(142)
Cross-currency interest rate swap contracts	13	30	57	4,447	(578)	3,402	(525)
Forward foreign exchange contracts	100	-	-	539	(2)	2,128	88
Credit default swap contracts	-	63	37	483	(3)	-	-
Bond index swap contracts	100	-	-	398	10	408	(1)
Equity index futures contracts	100	-	-	108	14	38	1
				$ 21,966	$ (907)	$ 16,346	$ (738)

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

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 separately. 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, 2004 were unchanged at 7.0% of pensionable salary in excess of the yearly maximum pensionable earnings limit 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, 2004 and changes in net assets available for benefits for the year then ended is as follows:

	2004	2003
	($ thousands)	
Net Assets Available For Benefits		
Cash and cash equivalents	$ 2,931	$ 2,572
Income tax refundable	3,578	2,974
Accounts receivable, net	761	6
	7,270	5,552
Reserve Fund (a)	31,325	26,485
Net assets available for benefits	38,595	32,037
Accrued Benefits		
Actuarial value of accrued benefits	38,295	31,458
Actuarial surplus	$ 300	$ 579

(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

	2004	2003
	($ thousands)	
Increase in assets		
Current and optional service		
Provincial Judges and Masters in Chambers	$ 806	$ 672
Province of Alberta	806	672
Additional contribution by Province of Alberta	521	-
Investment income	83	57
	2,216	1,401
Decrease in assets		
Pension benefits	431	389
Administration costs	67	62
	498	451
	1,718	950
Increase in the Reserve Fund	4,840	4,274
Increase in net assets	6,558	5,224
Net assets available for benefits at beginning of year	32,037	26,813
Net assets available for benefits at end of year	$ 38,595	$ 32,037

An actuarial valuation for the Unregistered Plan was carried out as at March 31, 2003 by Johnson Inc. and was extrapolated to March 31, 2004. The 2003 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, taking into account the impact of the increase in the yearly maximum pension accruals limit for defined benefit pension under an amendment to the *Income Tax Act* which received Royal Assent on June 19, 2003. After consultation with the Unregistered Plan's actuary, the Plan's management approved these best estimates.

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 Inc. and was then extrapolated to March 31, 2004. 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 impact of the increase in the yearly maximum pension accruals limit for defined benefit pension under an amendment to the *Income Tax Act* which received Royal Assent on June 19, 2003. After consultation with the Registered Plan's actuary, the Plan's management approved these best estimates.

The major assumptions used were:

	March 31	
	2004 Extrapolation %	2003 Valuation %
Asset real rate of return	3.5	3.5
Inflation rate	3.0	3.0
Investment return	6.5	6.5
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.

	2004	2003
	($ thousands)	
Accrued pension benefits at beginning of year	$75,652	$69,079
Interest accrued on benefits	4,917	4,835
Additional cost due to increased salaries	1,717	-
Other experience (gains) losses, net	(1,651)	1,234
Change in actuarial assumptions	-	36
Change to the yearly maximum pension accruals limit	-	1,580
Benefits earned	2,408	2,028
Net benefits paid	(3,590)	(3,140)
Accrued pension benefits at end of year	$79,453	$75,652

(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, 2004:

	Sensitivities		
	Changes in Assumptions %	Increase 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%	$ 4.1	1.2%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	0.2	0.0%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	8.9	1.7%

* 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 an 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:

	2004	2003
	($ thousands)	
Interest income	$ 2,078	$ 1,994
Dividend income	579	539
Real estate income	243	219
Securities lending income	17	14
Net realized and unrealized gains (losses) on investments including those arising from derivative transactions	11,171	(8,797)
Pooled funds management and associated custodial fees	(74)	(72)
	$ 14,014	$ (6,103)

The following is a summary of the Registered Plan's net investment income (loss) by type of investments:

	2004	2003
	($ thousands)	
Fixed Income Securities	$ 3,286	$ 2,689
Canadian Equities	4,526	(2,503)
Foreign Equities		
United States	2,091	(3,433)
Non-North American	3,798	(3,247)
Real Estate	313	391
	$ 14,014	$ (6,103)

NOTE 10 ADMINISTRATION EXPENSES

Administration expenses comprise $23,000 (2003 $20,000) investment management and $63,000 (2003 $83,000) 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 $74,000 (2003 $72,000), which have been deducted from investment income of the pools, are excluded from administration expenses (see Note 9).

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2004 presentation.

NOTE 12 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, 2004

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, 2004 are as follows:

	One Year Return				4 Year Compound Annualized Return
	2004	2003	2002	2001	
Time-weighted rates of return					
Short-term fixed income	3.0	2.9	3.9	5.7	3.9
Scotia Capital 91-Day T-Bill Index	*3.0*	*2.7*	*3.7*	*5.7*	*3.8*
Long-term fixed income	11.7	9.6	5.9	9.5	9.1
Scotia Capital Universe Bond Index	*10.8*	*9.2*	*5.1*	*8.7*	*8.4*
Canadian equities	36.7	(17.2)	3.7	(17.1)	(0.6)
S&P/TSX Composite Index	*37.7*	*(17.6)*	*4.9*	*(18.6)*	*(0.8)*
United States equities	22.2	(30.4)	2.1	(15.2)	(7.4)
Standard & Poor's 500 Index	*20.5*	*(30.7)*	*1.6*	*(15.1)*	*(7.9)*
Non-North American equities	40.9	(29.0)	(5.7)	(23.1)	(8.0)
MSCI EAFE Index	*40.5*	*(29.3)*	*(7.3)*	*(19.6)*	*(7.2)*
Real estate	7.5	9.8	7.2	9.7	8.5
*Real Estate Index**	*8.0*	*11.5*	*9.1*	*11.9*	*10.1*
Overall	21.8	(8.6)	3.3	(5.4)	2.1
Policy Benchmark	*21.3*	*(9.3)*	3.1	*(4.9)*	*1.9*

* Russell Canadian Property Index to December 31, 2002 and the IPD Large Institutional 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, 2004

	Plan's Share 2004	Plan's Share 2003
	($ thousands)	
Deposits and short-term securities	$ 1,390	$ 1,124
Fixed Income Securities (a)		
Public		
Government of Canada, direct and guaranteed	6,710	4,813
Provincial		
Alberta, direct and guaranteed	21	58
Other, direct and guaranteed	6,996	4,566
Municipal	382	494
Corporate, public and private	18,783	16,815
	32,892	26,746
Receivable from sale of investments and accrued investment income	353	324
Liabilities for investment purchases	(399)	(52)
	(46)	272
	$ 34,236	$ 28,142

(a) Fixed income securities held as at March 31, 2004 had an average effective market yield of 4.39% (2003 5.55%) per annum. The following term structure of these securities as at March 31, 2004 is based on principal amount:

	2004	2003
	%	
under 1 year	3	2
1 to 5 years	37	36
6 to 10 years	30	29
11 to 20 years	11	13
over 20 years	19	20
	100	100

Schedule C

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES
MARCH 31, 2004

	Plan's Share	
	2004	2003
	($ thousands)	
Deposits and short-term securities	$ 122	$ 123
Public Equities (a) (b)		
Consumer discretionary	1,124	944
Consumer staples	634	554
Energy	2,260	1,984
Financials	4,873	4,032
Health care	346	464
Industrials	1,219	951
Information technology	1,223	664
Materials	2,589	1,932
Telecommunication services	726	642
Utilities	506	441
	15,500	12,608
Passive index	6	96
	15,506	12,704
Private Equities	128	188
Receivable from sale of investments and accrued investment income	64	36
Liabilities for investment purchases	(186)	(96)
	(122)	(60)
	$ 15,634	$ 12,955

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $4,914,000 (2003 $2,765,000), 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, 2004

	Plan's Share	
	2004	2003
	($ thousands)	
Deposits and short-term securities	$ 308	$ 147
Public Equities (a) (b)		
Consumer discretionary	1,800	1,572
Consumer staples	1,099	884
Energy	653	610
Financial	2,302	1,868
Health care	1,359	1,421
Industrials	1,269	1,056
Information technology	1,762	1,306
Materials	417	265
Telecommunication services	324	279
Utilities	260	243
	11,245	9,504
Receivable from sale of investments and accrued investment income	70	30
Liabilities for investment purchases	(347)	(119)
	(277)	(89)
	$ 11,276	$ 9,562

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $3,838,000 (2003 $2,856,000), 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 Toronto Stock Exchange 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, 2004

	Plan's Share	
	2004	2003
	($ thousands)	
Deposits and short-term securities	$ 354	$ 389
Public Equities (a) (b)		
Consumer discretionary	1,885	1,313
Consumer staples	918	844
Energy	928	814
Financial	2,911	1,992
Health care	941	940
Industrials	1,384	829
Information technology	759	493
Materials	949	652
Telecommunication services	963	904
Utilities	475	519
	12,113	9,300
Receivable from sale of investments and accrued investment income	261	66
Liabilities for investment purchases	(321)	(221)
	(60)	(155)
	$ 12,407	$ 9,534

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $1,755,000 (2003 $1,123,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index. The following is a summary of the Plan's share of Non-North American public equities by country based on geographic location of stock exchange on which stocks were purchased:

	Plan's Share	
	2004	2003
	($ thousands)	
United Kingdom	$ 2,786	$ 2,544
Japan	2,308	1,514
France	1,141	850
Switzerland	953	729
Germany	820	454
Netherlands	659	580
Australia	593	500
Italy	536	422
Spain	322	258
Hong Kong	267	274
Other	1,728	1,175
	$ 12,113	$ 9,300

Schedule F

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (REGISTERED) PENSION PLAN

SCHEDULE OF INVESTMENTS IN REAL ESTATE

MARCH 31, 2004

	2004	2003
	($ thousands)	
Deposits and short-term securities	$ 5	$ 6
Real estate (a)		
Office	1,946	2,008
Retail	1,852	1,905
Industrial	291	203
Residential	229	149
	4,318	4,265
Passive index	39	3
Receivable from sale of investments and accrued investment income	11	29
	$ 4,373	$ 4,303

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share	
	2004	2003
	($ thousands)	
Ontario	$ 3,195	$ 3,240
Alberta	1,034	932
British Columbia	89	93
	$ 4,318	$ 4,265

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN FINANCIAL STATEMENTS DECEMBER 31, 2003

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, 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 Accrued Benefits and Net Assets Available for Benefits of the Plan as at December 31, 2003 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 9, 2004

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN
STATEMENT OF ACCRUED BENEFITS AND NET ASSETS AVAILABLE FOR BENEFITS AS AT DECEMBER 31, 2003

	2003	2002
	($ thousands)	
Accrued Benefits		
Actuarial value of accrued pension benefits (Note 5)	$ 680,472	$ 622,461
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 3)	2,073	2,449
Accounts receivable	119	79
	2,192	2,528
Liabilities		
Accounts payable	2	4
Net assets available for benefits	2,190	2,524
Excess of actuarial value of accrued pension benefits over net assets	$ 678,282	$ 619,937

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, 2003

	2003	2002
	($ thousands)	
Increase in assets		
Contributions from the Province of Alberta	$ 57,057	$ 56,300
Investment income	60	69
	57,117	56,369
Decrease in assets		
Pension benefits	56,980	56,622
Refunds and transfer to members	62	37
Administration expenses (Note 4)	409	295
	57,451	56,954
Decrease in net assets	(334)	(585)
Net assets available for benefits at beginning of year	2,524	3,109
Net assets available for benefits at end of year	$ 2,190	$ 2,524

See accompanying notes.

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003

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. 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.

(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 on January 1st of each year by an amount equal to at least 60 percent of the average of the increases in the Alberta Consumer Price Index in the twelve-month period ending on October 31st of the previous year.

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.

(d) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. 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 exists in the calculation of the Plan's actuarial value of accrued pension benefits. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Plan's actuarial value of accrued pension benefits, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts. Differences between actual results and expectations are disclosed as changes in actuarial assumptions and net experience gains or losses in the note describing changes in the actuarial value of accrued pension benefits (see Note 5(a)).

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 three years. As at December 31, 2003, securities held by the Fund have an average effective market yield of 2.38% per annum (2002: 2.90% per annum) and an average duration of 98 days (2002: 80 days).

NOTE 4 ADMINISTRATION EXPENSES

	2003	2002
	($ thousands)	
General administration costs	$ 377	$ 283
Investment management costs	17	9
Actuarial fees	15	3
	$ 409	$ 295

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 $155 per member (2002 $111 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, 2002 by Aon Consulting Inc. and was extrapolated to December 31, 2003. The 2002 valuation was completed after the financial statements of the Plan for 2002 were released. As a result, the differences between the actuarial valuation and extrapolation results for 2002 are accounted for as changes in actuarial assumptions and net experience losses in 2003.

Actuarial valuations were determined using the projected benefit method prorated on service. The assumptions used in the valuations and extrapolations 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 Board approved these best estimates.

The major assumptions used were as follows:

	2002 Valuation and 2003 Extrapolation %	2002 Extrapolation %	1999 Valuation %
Asset real rate of return	3.0	4.25	4.25
Inflation rate	3.0	2.75	3.0
Investment rate of return	6.0	7.0	7.25
Mortality rate			
	1994 Uninsured Pensioner Table	1983 Group Basic Table	

The following statement shows the principal components of the change in the actuarial value of accrued pension benefits.

	2003	2002
	($ thousands)	
Actuarial value of accrued pension benefits at beginning of year	$ 622,461	$ 633,268
Interest accrued on benefits	40,132	42,575
Changes in actuarial assumptions	78,181	3,277
Net experience gains	(3,261)	-
Net benefits paid	(57,041)	(56,659)
Actuarial value of accrued pension benefits at end of year	$ 680,472	$ 622,461

(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, 2003:

	Sensitivities	
	Changes in Assumptions %	Increase in Plan Deficiency ($ million)
Inflation rate increase holding the nominal investment return assumption constant	1.0%	$ 43
Investment rate of return decrease holding the inflation rate assumption constant	(1.0%)	70

NOTE 6 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, 2003

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, 2003 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, 2003 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 15, 2004

PUBLIC SERVICE PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND LIABILITY FOR ACCRUED BENEFITS AS AT DECEMBER 31, 2003

	2003	2002
	($ thousands)	
Net assets available for benefits		
Assets		
Investments (Note 3)	$4,052,748	$3,553,712
Accounts receivable (Note 6)	16,041	10,771
Accrued investment income	3,352	640
	4,072,141	3,565,123
Liabilities		
Accounts payable	1,354	3,651
Net assets available for benefits	4,070,787	3,561,472
Actuarial adjustment for fluctuation in fair value of net assets (Notes 2 (c))	(12,000)	356,000
Actuarial value of net assets available for benefits	4,058,787	3,917,472
Liability for accrued benefits		
Actuarial value of accrued benefits	4,655,000	4,093,000
Actuarial deficiency	$ (596,213)	$ (175,528)

See accompanying notes and schedules.

PUBLIC SERVICE PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED DECEMBER 31, 2003

	2003	2002
	($ thousands)	
Increase in assets		
Net investment income (Note 8)	$ 541,156	$ -
Contributions		
Current and optional service		
Employers	82,062	68,956
Employees	83,387	70,777
Transfers from other plans	425	1,140
	707,030	140,873
Decrease in assets		
Pension benefits	162,700	155,407
Refunds to members	13,357	16,870
Net transfer to the Local Authorities Pension Plan (Note 10)	13,935	-
Transfers to other plans	423	1,131
Net investment loss (Note 8)	-	236,270
Plan expenses (Note 9)	7,300	6,210
	197,715	415,888
Increase (Decrease) in net assets	509,315	(275,015)
Net assets available for benefits at beginning of year	3,561,472	3,836,487
Net assets available for benefits at end of year	$4,070,787	$3,561,472

See accompanying notes and schedules.

PUBLIC SERVICE PENSION PLAN
STATEMENT OF CHANGES IN LIABILITY FOR ACCRUED BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2003

	2003	2002
	($ thousands)	
Increase in liability for accrued benefits		
Interest accrued on benefits	$ 303,000	$ 278,000
Benefits earned	154,000	139,000
Changes in actuarial assumptions (Note 7)	145,000	-
Net experience losses (Note 7)	121,000	4,000
Adjustment for higher than assumed cost-of-living increases in 2004	28,000	-
	751,000	421,000
Decrease in liability for accrued benefits		
Benefits paid	176,000	173,000
Transfer to the Local Authorities Pension Plan (Note 10)	13,000	-
	189,000	173,000
Net increase in liability for accrued benefits	562,000	248,000
Liability for accrued benefits at beginning of year	4,093,000	3,845,000
Liability for accrued benefits at end of year (Note 7)	$ 4,655,000	$ 4,093,000

See accompanying notes and schedules.

PUBLIC SERVICE PENSION PLAN
STATEMENT OF CHANGES IN ACTUARIAL DEFICIENCY
FOR THE YEAR ENDED DECEMBER 31, 2003

	2003	2002
	($ thousands)	
Actuarial (deficiency) surplus at beginning of year	$ (175,528)	$ 320,487
Increase (Decrease) in net assets available for benefits	509,315	(275,015)
Net change in actuarial adjustment for fluctuation in fair value of net assets	(368,000)	27,000
Net increase in liability for accrued benefits	(562,000)	(248,000)
Actuarial deficiency at end of year (Note 11)	$ (596,213)	$ (175,528)

See accompanying notes and schedules

PUBLIC SERVICE PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003

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. 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.

(b) Funding Policy

Current service costs and the Plan's actuarial deficiency (see Note 11) are funded equally by employers and employees at rates, which together with investment earnings are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 2003 were 6.17% (2002: 4.675%) of pensionable salary up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 8.81% (2002: 6.55%) of the excess for employees. Employers provide matching contributions. 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 average of the increases in the Alberta Consumer Price Index in the twelve-month period ending on October 31st of the previous year.

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 or external managers appointed 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.

(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 using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate.

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 using methods such as replacement cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models as appropriate.

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. A policy constraint is then applied limiting the Plan’s actuarial value of net assets available for benefits to between 110% and 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 income.

(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, credit default swaps 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.

Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields and year-end exchange rates.

Income and expense from derivative contracts are accrued as earned and included in net investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

(g) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. 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 exists in the calculation of the Plan's liability for accrued benefits. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Plan's liability for accrued benefits, 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. Differences between actual results and expectations are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in liability for accrued benefits.

NOTE 3 INVESTMENTS (SCHEDULES A TO E)

	2003		2002	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 62,826	1.6	$ 25,485	0.7
Canadian Dollar Public Bond Pool (b)	875,253	21.6	855,770	24.1
Real rate of return bonds (c)	237,233	5.8	213,799	6.0
Private Mortgage Pool (d)	156,768	3.9	115,169	3.3
Total fixed income securities	1,332,080	32.9	1,210,223	34.1
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (e)	374,263	9.2	242,510	6.8
Canadian Small Cap Equity Pool (e)	63,886	1.6	60,286	1.7
Canadian Pooled Equities Fund (f)	131,234	3.2	203,248	5.7
Domestic Passive Equity Pooled Fund (g)	255,526	6.3	181,641	5.1
	824,909	20.3	687,685	19.3
United States Equities (Schedule C)				
US Passive Equity Pooled Fund (h)	411,461	10.2	422,478	11.9
External Managers				
US Large Cap Equity Pool (i)	327,798	8.1	248,526	7.0
US Mid/Small Cap Equity Pool (i)	52,654	1.3	45,304	1.3
US Passive Equity Pool	-	-	797	-
S&P 500 Pooled Index Fund (h)	836	-	-	-
United States Pooled Equities Fund	-	-	118	-
	792,749	19.6	717,223	20.2
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool (j)	486,188	12.0	376,516	10.6
EAFE Plus Equity Pool (j)	218,803	5.4	198,535	5.6
EAFE Passive Equity Pool (k)	901	-	3,830	0.1
EAFE Structured Equity Pooled Fund (k)	158,699	3.9	134,466	3.8
	864,591	21.3	713,347	20.1
Alternative Investments - Equities				
Private Equity 2002 and Income Pools (l)	3,465	0.1	373	-
Real Estate Equities (Schedule E)				
Private Real Estate Pool (m)	234,954	5.8	224,861	6.3
Total equities	2,720,668	67.1	2,343,489	65.9
Total investments	$ 4,052,748	100.0	$ 3,553,712	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) 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. To limit investment 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 US Passive Equity Pooled Fund and the S&P 500 Pooled Index Fund are passively managed. The portfolios are comprised of publicly traded United States equities similar in weights to the Standard & Poor's S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pools utilize a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pools also invest 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, Australasia 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, Australasia 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 Equity Pool 2002 is managed with the objective of providing investment return comparable to the S&P/TSX Composite Index plus 2.5% over the long term. The pool invests in institutionally sponsored Canadian private equity pools managed by experienced advisors with proven records. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool. The Private Income Pool is managed with the objective of providing investment return comparable to the Consumer Price Index plus 6% over the long term. The pool invests in infrastructure related projects that are structured to provide high current income.

(m) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All 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 expected to be earned 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 may be 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 credit, 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. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. 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:

	2003					2002	
	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	80	20	-	$ 718,889	$ 30,463	$ 645,937	$ 2,670
Interest rate swap contracts	34	56	10	319,818	(16,567)	221,264	(13,431)
Cross-currency interest rate swap contracts	22	49	29	266,404	(28,887)	300,474	(31,906)
Forward foreign exchange contracts	100	-	-	224,034	2,713	486,087	(1,326)
Bond index swap contracts	100	-	-	14,096	20	15,568	134
Credit default swap contracts	-	100	-	12,150	(149)	-	-
Equity index futures contracts	100	-	-	11,402	1,394	-	-
				$ 1,566,793	$ (11,013)	$ 1,669,330	$ (43,859)

(a) The method of determining fair value of derivative contracts is described in Note 2 (f).

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

	2003	2002
	($ thousands)	
Contributions receivable		
Employers	$ 7,278	$ 4,900
Employees	7,253	4,884
Receivable from Alberta Pensions Administration Corporation	1,510	987
	$ 16,041	$ 10,771

NOTE 7 ACTUARIAL VALUE OF ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2002 by Aon Consulting Inc. and was then extrapolated to December 31, 2003. The 2002 valuation was completed after the financial statements of the Plan for 2002 were released. As a result, the differences between the actuarial valuation results and extrapolation results for 2002 are accounted for as changes in actuarial assumptions and net experience losses in 2003.

The net experience losses as revealed in the December 31, 2002 actuarial valuation and reported in 2003 were mainly attributed to the following factors:

- Combined salary and Canada Pension Plan's Year's Maximum Pensionable Earnings increases were greater than assumed, and
- Retirement and termination experiences were less favourable than assumed.

The experience gains due to elimination of reserve for additional benefits and cancellation of anticipated benefit improvements have been more than offset by the above losses.

The 2002 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, taking into account the impact of increases in the maximum pensionable salary permitted under an amendment to the Income Tax Act which received Royal Assent on June 19, 2003. 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 Valuation and 2003 Extrapolation	2000 Valuation and 2002 Extrapolation
	%	%
Investment return	7.00	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	60.00	60.00

* In addition to merit and promotion.

(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, 2003:

	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%	$ 279	0.55%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	217	1.05%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	753	2.57%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2002 valuation w as 10.46%.

NOTE 8 NET INVESTMENT INCOME (LOSS)

The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

	2003	2002
	($ thousands)	
Fixed Income Securities	$ 101,117	$ 124,598
Canadian Equities	172,446	(85,688)
Foreign Equities		
United States	130,639	(172,765)
Non-North American	114,968	(115,751)
Alternative Investments - Equities	(1)	(2)
Real Estate Equities	21,987	13,338
	$ 541,156	$ (236,270)

Net investment income (loss) is comprised of the following:

	2003	2002
	($ thousands)	
Net realized and unrealized gains (losses) on investments, including those arising from derivative transactions	$ 406,551	$ (367,779)
Interest income	92,827	94,215
Dividend income	32,478	29,764
Real estate income	12,753	11,664
Securities lending income	1,058	753
Pooled funds management and associated custodial fees	(4,511)	(4,887)
	$ 541,156	$ (236,270)

The following is a summary of the investment performance results attained by the Plan:

	One Year Return	Four-Year Compound Annualised Return	Eight-Year Compound Annualised Return
Time-weighted rates of return*			
Overall Plan	15.3%	2.4%	7.8%
Policy Benchmark**	14.5%	2.0%	7.8%

* 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 and losses (realized and unrealized).

** The policy benchmark is a product of the weighted average policy sector weights and sector returns.

NOTE 9 PLAN EXPENSES

	2003	2002
	($ thousands)	
General administration costs	$ 6,118	$ 5,340
Investment management costs	721	534
Board costs	192	140
Actuarial fees	112	150
Other professional fees	157	46
	$ 7,300	$ 6,210

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 income (see Note 8).

In 2003, total Plan expenses of $7,300,000 amounted to $117 per member (2002 $102 per member).

NOTE 10 NET TRANSFER TO THE LOCAL AUTHORITIES PENSION PLAN

In accordance with the Public Sector Pension Plans Act and Alberta Regulation 144/2001, eligible former members of the Public Service Pension Plan (PSPP) and the Local Authorities Pension Plan (LAPP) elected to transfer their pension entitlements after 1993 and before 2001 between PSPP and LAPP. Accordingly the actuaries for the PSPP and the actuary for the LAPP calculated the transfer amount for each of the PSPP and the LAPP using the transfer basis agreed to by the PSPP and LAPP Boards. Based on these calculations, the Boards and the Minister of Finance reached a tripartite written agreement setting out the details of the transfer and as a result $13,935,000, including investment return from January 1, 2003 to December 11, 2003 was transferred from the PSPP to the LAPP on December 12, 2003. Hence, transferred entitlements cease to pertain to the exporting Plan and become part of the pension entitlements and accrued benefits under the importing Plan.

NOTE 11 ACTUARIAL DEFICIENCY

In accordance with the Public Sector Pension Plans Act, the deficiency of the Plan as determined by an actuarial valuation as at December 31, 2002 is funded by a special payment of 2.76% of pensionable earnings to be shared equally between employers and employees commencing on September 1, 2003 and continuing 15 years from the date of valuation to December 31, 2017. The special payment has been included in the rates in effect at December 31, 2003 (see Note 1(b)).

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 Public Service Pension Board.

Schedule A

PUBLIC SERVICE PENSION PLAN
SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES
DECEMBER 31, 2003

	Plan's Share	
	2003	2002
	($ thousands)	
Deposits and short-term securities	$ 67,624	$ 29,922
Fixed Income Securities (a)		
Public		
Government of Canada, direct and guaranteed	459,480	422,330
Provincial		
Alberta, direct and guaranteed	669	2,017
Other, direct and guaranteed	140,900	170,835
Municipal	13,421	16,690
Corporate	406,378	361,013
Private		
Corporate	242,947	197,785
	1,263,795	1,170,670
Receivable from sale of investments and accrued investment income	11,378	9,970
Liabilities for investment purchases	(10,717)	(339)
	661	9,631
	$1,332,080	$1,210,223

(a) Fixed income securities held as at December 31, 2003 had an average effective market yield of 4.41% per annum (2002: 4.77% per annum). The following term structure of these securities as at December 31, 2003 was based on principal amount:

	2003 %	2002 %
under 1 year	2	2
1 to 5 years	32	28
6 to 10 years	26	27
11 to 20 years	12	16
over 20 years	28	27
	100	100

Schedule B

PUBLIC SERVICE PENSION PLAN
SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES
DECEMBER 31, 2003

	Plan's Share	
	2003	2002
	($ thousands)	
Deposits and short-term securities	$ 8,645	$ 7,540
Public Equities (a) (b)		
Consumer discretionary	64,610	57,549
Consumer staples	38,197	29,452
Energy	117,168	102,224
Financials	240,101	200,008
Health care	20,295	20,506
Industrials	84,406	60,069
Information technology	46,869	34,350
Materials	137,847	109,630
Telecommunication services	38,478	33,528
Utilities	18,807	22,264
	806,778	669,580
Passive Index	1,152	5,466
	807,930	675,046
Receivable from sale of investments and accrued investment income	9,740	7,229
Liabilities for investment purchases	(1,406)	(2,130)
	8,334	5,099
	$ 824,909	$ 687,685

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $166,983,000 (2002 $89,298,000) 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, 2003

	Plan's Share	
	2003	2002
	($ thousands)	
Deposits and short-term securities	$ 31,676	$ 5,628
Public Equities (a) (b)		
Consumer discretionary	122,793	95,505
Consumer staples	73,904	64,537
Energy	45,031	43,431
Financials	153,400	148,540
Health care	94,123	108,359
Industrials	87,851	87,692
Information technology	124,867	101,133
Materials	27,320	21,007
Telecommunication services	21,418	26,541
Utilities	18,760	19,549
	769,467	716,294
Passive Index	143	-
	769,610	716,294
Receivable from sale of investments and accrued investment income	4,985	4,691
Liabilities for investment purchases	(13,522)	(9,390)
	(8,537)	(4,699)
	$ 792,749	$ 717,223

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $392,455,000 (2002 $424,105,000), 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, 2003

	Plan's Share	
	2003	2002
	($ thousands)	
Deposits and short-term securities	$ 15,807	$ 18,427
Public Equities (a) (b)		
Consumer discretionary	128,427	81,053
Consumer staples	66,401	63,272
Energy	61,864	66,834
Financials	205,385	155,473
Health care	66,407	76,535
Industrials	91,668	67,271
Information technology	50,116	39,654
Materials	64,445	52,812
Telecommunications services	76,088	59,481
Utilities	32,527	35,089
	843,328	697,474
Passive Index	121	-
Receivable from sale of investments and accrued investment income	8,703	4,731
Liabilities for investment purchases	(3,368)	(7,285)
	5,335	(2,554)
	$ 864,591	$ 713,347

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $152,413,000 (2002 $132,534,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. The following is a summary of the Plan's investment in Non-North American public equities by country based on geographic location of stock exchange on which stocks were purchased:

	Plan's Share	
	2003	2002
	($ thousands)	
United Kingdom	$ 197,395	$ 189,072
Japan	141,644	105,645
France	84,809	60,852
Switzerland	68,020	63,828
Germany	61,421	40,096
Netherlands	47,916	45,489
Australia	44,199	32,890
Italy	37,017	28,215
Spain	22,920	14,268
Hong Kong	19,290	20,320
Other	118,697	96,799
	$ 843,328	$ 697,474

Schedule E

PUBLIC SERVICE PENSION PLAN
SCHEDULE OF INVESTMENTS IN REAL ESTATE
DECEMBER 31, 2003

	Plan's Share	
	2003	2002
	($ thousands)	
Deposits and short-term securities	$ 191	$ 94
Real Estate (a)		
Office	104,191	109,068
Retail	98,633	95,199
Industrial	15,927	11,008
Residential	13,791	7,871
	232,542	223,146
Passive Index	1,622	26
Receivable from sale of investments and accrued investment income	599	1,595
	$ 234,954	$ 224,861

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share	
	2003	2002
	($ thousands)	
Ontario	$ 169,954	$ 167,680
Alberta	57,820	50,611
British Columbia	4,768	4,855
	$ 232,542	$ 223,146

SPECIAL FORCES PENSION PLAN
FINANCIAL STATEMENTS
DECEMBER 31, 2003

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, 2003, 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, 2003 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 18, 2004

SPECIAL FORCES PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS
AS AT DECEMBER 31, 2003

	2003	2002
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 1,059,607	$ 942,850
Accounts receivable (Note 6)	2,400	2,051
	1,062,007	944,901
Liabilities		
Benefits and refunds	175	68
Net assets available for benefits	1,061,832	944,833
Actuarial adjustment for fluctuation in fair value of net assets (Note 2 (c))	(13,056)	61,431
Actuarial value of net assets available for benefits	1,048,776	1,006,264
Accrued Benefits		
Actuarial value of accrued benefits (Note 7)		
Plan Fund	1,275,387	1,201,220
Indexing Fund	13,672	9,458
	1,289,059	1,210,678
Actuarial Deficiency (Note 7)		
Plan Fund *	(240,283)	(204,414)
Indexing Fund	-	-
	$ (240,283)	$ (204,414)

* The actuarial deficiency of the Plan Fund is comprised of a pre-1992 deficiency of $172,277,000 (2002 - $149,161,000) and a post-1991 deficiency of $68,006,000 (2002 $55,253,000).

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2003

	2003			2002
	Plan Fund	Indexing Fund	Total	Total
	($ thousands)			
Increase in assets				
Net investment income (Note 9)	$ 120,528	$ 1,453	$ 121,981	$ -
Contributions (Note 8)	39,448	2,761	42,209	35,881
	159,976	4,214	164,190	35,881
Decrease in assets				
Net investment loss (Note 9)	-	-	-	58,936
Pension benefits	45,509	-	45,509	42,883
Refunds and transfers	486	-	486	668
Administration expenses (Note 10)	1,196	-	1,196	1,017
	47,191	-	47,191	103,504
Increase (Decrease) in net assets	112,785	4,214	116,999	(67,623)
Net assets available for benefits at beginning of year	935,375	9,458	944,833	1,012,456
Net assets available for benefits at end of year	$ 1,048,160	$ 13,672	$ 1,061,832	$ 944,833

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN
STATEMENT OF CHANGES IN ACCRUED BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2003

	2003			2002
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
Increase in accrued benefits				
Interest accrued on benefits	$ 53,506	$ 30,122	$ 83,628	$ 79,030
Benefits earned	144	32,552	32,696	30,147
Net experience losses	-	-	-	36,667
Cost-of-living indexing adjustments and interest	3,351	4,701	8,052	2,213
	57,001	67,375	124,376	148,057
Decrease in accrued benefits				
Benefits, transfers and interest	39,192	6,803	45,995	43,551
Net increase in accrued benefits	17,809	60,572	78,381	104,506
Accrued benefits at beginning of year	783,568	427,110	1,210,678	1,106,172
Accrued benefits at end of year (Note 7)	$ 801,377	$ 487,682	$ 1,289,059	$ 1,210,678

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN
STATEMENT OF CHANGES IN ACTUARIAL DEFICIENCY
FOR THE YEAR ENDED DECEMBER 31, 2003

	2003			2002
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
Actuarial deficiency at beginning of year	$ (149,161)	$ (55,253)	$ (204,414)	$ (68,528)
Increase (Decrease) in net assets available for benefits	42,582	74,417	116,999	(67,623)
Net change in actuarial adjustment for fluctuation in fair value of net assets	(47,889)	(26,598)	(74,487)	36,243
Net increase in accrued benefits	(17,809)	(60,572)	(78,381)	(104,506)
Actuarial deficiency at end of year	$ (172,277)	$ (68,006)	$ (240,283)	$ (204,414)

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003

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. 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.

(b) Funding Policy

Plan Fund

Current service costs and the Plan's actuarial deficiency are funded by employers and employees contributions at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 2003 were 9.61% (2002: 8.30%) of pensionable salary for employers and 8.51% (2002: 7.20%) for employees. The rates are 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, 2003 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

In accordance with the *Public Sector Pension Plans Act*, the unfunded liability for post-1991 service as determined by an actuarial valuation at December 31, 2001 is financed by a special payment of 0.92% of pensionable salary shared equally between employees and employers effective January 1, 2003 and continuing 15 years from the date of valuation until December 31, 2016. The special payment is included in the rates in effect at December 31, 2003.

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, 2003 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)

Cost-of-living adjustments for service before 1992 payable by the Plan Fund are increased each year by 60% of the average of the increases in the Alberta Consumer Price Index in the twelve-month period ending on October 31st of the previous year. Cost-of-living adjustments for service after 1991 are payable by the Indexing Fund at rates determined by the Board.

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 or external managers appointed 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.

(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 using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate.
>
> 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 using methods such as replacement cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models as appropriate.
>
> 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 income.

(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, credit default swaps 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.

Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields and year-end exchange rates.

Income and expense from derivative contracts are accrued as earned and included in net investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

(g) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. 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 exists in the calculation of the Plan’s actuarial value of accrued benefits. Uncertainty arises because the Plan’s actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Plan’s actuarial value of accrued benefits, 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. Differences between actual results and expectations are disclosed as net experience gains or losses in the statement of changes in accrued benefits.

NOTE 3 INVESTMENTS (SCHEDULES A TO E)

	2003		2002	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 6,713	0.6	$ 6,110	0.6
Canadian Dollar Public Bond Pool (b)	307,380	29.0	300,733	31.9
Private Mortgage Pool (c)	54,733	5.2	40,473	4.3
Total fixed income securities	368,826	34.8	347,316	36.8
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (d)	93,139	8.8	74,363	7.9
Canadian Small Cap Equity Pool (d)	27,406	2.6	25,552	2.7
Domestic Passive Equity Pooled Fund (e)	74,959	7.1	64,962	6.9
Canadian Pooled Equities Fund (f)	27,472	2.6	23,487	2.5
Private Equity Pool (g)	1,621	0.2	2,213	0.2
	224,597	21.3	190,577	20.2
United States Equities (Schedule C)				
US Passive Equity Pooled Fund (h)	109,491	10.3	104,077	11.0
External Managers				
US Large Cap Equity Pool (i)	45,624	4.3	34,380	3.7
US Mid/Small Cap Equity Pool (i)	30,955	2.9	24,434	2.6
US Passive Equity Pool	-	-	10,035	1.1
S&P 500 Pooled Index Fund (h)	10,769	1.0	-	-
United States Pooled Equities Fund	-	-	33	-
	196,839	18.5	172,959	18.4
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool (j)	112,978	10.7	82,201	8.7
EAFE Plus Equity Pool (j)	47,819	4.5	43,518	4.6
EAFE Passive Equity Pool (k)	15,217	1.4	23,417	2.5
EAFE Structured Equity Pooled Fund (k)	40,225	3.8	32,660	3.5
	216,239	20.4	181,796	19.3
Alternative Investments - Equities				
Private Income Pools (l)	493	-	-	-
Real Estate Equities (Schedule E)				
Private Real Estate Pool (m)	52,613	5.0	50,202	5.3
Total equities	690,781	65.2	595,534	63.2
Total investments	$ 1,059,607	100.0	$ 942,850	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 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 US Passive Equity Pooled Fund and the S&P 500 Pooled Index Fund are passively managed. The portfolios are comprised of publicly traded United States equities similar in weights to the Standard & Poor's S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index over a four-year period. The pools utilize a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pools also invest 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, Australasia 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, Australasia 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 Income Pool is managed with the objective of providing investment return comparable to the Consumer Price Index plus 6% over the long term. The pool invests in infrastructure related projects that are structured to yield high current income.

(m) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All 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 expected to be earned 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 may be 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 credit, 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. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. 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, 2003:

	2003					2002	
	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	80	20	-	$ 196,640	$ 8,306	$ 168,605	$ 1,125
Interest rate swap contracts	34	56	10	88,701	(4,559)	59,952	(3,560)
Cross-currency interest rate swap contracts	21	48	31	75,614	(8,141)	80,659	(9,758)
Forward foreign exchange contracts	100	-	-	8,526	(6)	33,679	150
Credit default swap contracts	-	100	-	3,380	(41)	-	-
Equity index futures contracts	100	-	-	3,128	379	-	-
Bond index swap contracts	100	-	-	4,951	7	5,471	47
				$ 380,940	$ (4,055)	$ 348,366	$ (11,996)

(a) The method of determining fair value of derivative contracts is described in Note 2 (f).

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

	2003	2002
	($ thousands)	
Contributions receivable		
Employers	$ 1,063	$ 905
Employees	983	830
Province of Alberta	185	173
	2,231	1,908
Receivable from Alberta Pensions Administration Corporation	169	82
Accrued investment income	-	61
	$ 2,400	$ 2,051

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, 2003.

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, taking into account the impact of increases in the maximum pensionable salary permitted under an amendment to the *Income Tax Act* which received Royal Assent on June 19, 2003. This estimate was, after consultation with the Plan's actuary, adopted by the Board.

The major assumptions used were:

	December 31	
	2003 and 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, 2003:

	2003			2002
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
Plan Fund net assets available for benefits	$ 636,668	$ 411,492	$ 1,048,160	$ 935,375
Actuarial adjustment for fluctuation in fair value of net assets	(7,568)	(5,488)	(13,056)	61,431
Plan Fund actuarial value of net assets available for benefits	629,100	406,004	1,035,104	996,806
Plan Fund accrued benefits	801,377	474,010	1,275,387	1,201,220
Plan Fund actuarial deficiency	$ (172,277)	$ (68,006)	$ (240,283)	$ (204,414)

As at December 31, 2003, the Indexing Fund held investments of $13,672,000 (2002 $9,458,000) 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, 2003:

	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%	$ 80	0.0%	**
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	28	1.0%	
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	178	2.8%	

* The current service cost as a % of pensionable earnings as determined by the December 31, 2001 valuation w as 17.2%.
** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

NOTE 8 CONTRIBUTIONS

	2003	2002
	($ thousands)	
Current and optional service		
Employers	$ 18,387	$ 16,033
Employees	17,051	14,934
Unfunded liability		
Employers	2,226	1,324
Employees	2,226	1,324
Province of Alberta	2,300	2,206
Transfers from other plans	19	60
	$ 42,209	$ 35,881

NOTE 9 NET INVESTMENT INCOME (LOSS)

The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

	2003	2002
	($ thousands)	
Fixed Income Securities	$ 24,808	$ 32,094
Canadian Equities	47,613	(22,374)
Foreign Equities		
United States	15,761	(43,145)
Non-North American	28,778	(28,525)
Alternative Investments - Equities	107	-
Real Estate Equities	4,914	3,014
	$ 121,981	$ (58,936)

Net investment income (loss) is comprised of the following:

	2003	2002
	($ thousands)	
Net realized and unrealized gains (losses) on investments, including those arising from derivative transactions	$ 84,882	$ (93,967)
Interest income	26,590	25,905
Dividend income	8,547	7,468
Real estate income	2,852	2,631
Securities lending income	272	206
Pooled funds management and associated custodial fees	(1,162)	(1,179)
	$ 121,981	$ (58,936)

The following is a summary of the investment performance results attained by the Plan:

	One-Year Return	Four-Year Compound Annualised Return	Eight -Year Compound Annualised Return
Time-weighted rates of return*			
Overall Plan	13.0%	2.7%	7.9%
Policy Benchmark**	12.6%	1.8%	7.8%

* 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 and losses (realized and unrealized).

** The policy benchmark return is a product of the w eighted average policy sector w eights and sector returns.

NOTE 10 ADMINISTRATION EXPENSES

	2003	2002
	($ thousands)	
General administration costs	$ 951	$ 804
Investment management costs	221	190
Actuarial fees	24	23
	$ 1,196	$ 1,017

Total administration expenses amounted to $267 per member (2002 $230 per member).

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 income (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

	2003	2002
During 2003, the following amounts were paid:		
Remuneration		
Chair	$ 3,536	$ 3,370
Members (5)*	14,962	16,044
Travel expenses		
Chair	673	2,275
Members (5)	17,216	23,635

* Crown representative nominated by the Government of Alberta receives no remuneration.

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 prepared by management and approved by the Board.

Schedule A

SPECIAL FORCES PENSION PLAN

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

DECEMBER 31, 2003

	Plan's Share	
	2003	2002
	($ thousands)	
Deposits and short-term securities	$ 8,397	$ 7,670
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	78,051	73,282
Provincial		
Alberta, direct and guaranteed	235	709
Other, direct and guaranteed	49,464	60,034
Municipal	4,713	5,865
Corporate	142,716	126,866
Private		
Corporate	85,019	69,505
	360,198	336,261
Receivable from sale of investments and accrued investment income	3,994	3,504
Liabilities for investment purchases	(3,763)	(119)
	231	3,385
	$ 368,826	$ 347,316

(a) Fixed income securities held as at December 31, 2003 had an average effective market yield of 4.79% per annum (2002: 5.10% per annum). The following term structure of these securities as at December 31, 2003 was based on principal amount.

	2003	2002
	%	
under 1 year	3	2
1 to 5 years	38	34
6 to 10 years	30	32
11 to 20 years	9	13
over 20 years	20	19
	100	100

Schedule B

SPECIAL FORCES PENSION PLAN
SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES
DECEMBER 31, 2003

	Plan's Share 2003	Plan's Share 2002
	($ thousands)	
Deposits and short-term securities	$ 2,274	$ 1,995
Public equities (a) (b)		
Consumer discretionary	18,656	16,646
Consumer staples	10,977	8,627
Energy	31,628	27,761
Financials	62,762	52,582
Health care	5,725	6,097
Industrials	23,894	17,676
Information technology	12,670	9,640
Materials	36,550	29,736
Telecommunication services	10,096	8,780
Utilities	5,007	5,807
	217,965	183,352
Passive index	375	1,325
	218,340	184,677
Private Equity Pool	1,621	2,213
Receivable from sale of investments and accrued investment income	2,751	2,258
Liabilities for investment purchases	(389)	(566)
	2,362	1,692
	$ 224,597	$ 190,577

(a) The Plan’s net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $48,985,000 (2002 $31,936,000) 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, 2003

	Plan's Share	
	2003	2002
	($ thousands)	
Deposits and short-term securities	$ 8,279	$ 1,307
Public equities (a) (b)		
Consumer discretionary	28,571	24,039
Consumer staples	17,595	14,790
Energy	10,720	10,205
Financials	39,026	36,220
Health care	24,040	25,364
Industrials	21,403	20,848
Information technology	32,119	24,765
Materials	6,364	5,370
Telecommunication services	5,466	6,153
Utilities	5,368	5,039
	190,672	172,793
Passive index	84	-
	190,756	172,793
Receivable from sale of investments and accrued investment income	1,412	1,070
Liabilities for investment purchases	(3,608)	(2,211)
	(2,196)	(1,141)
	$ 196,839	$ 172,959

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $107,477,000 (2002 $104,478,000), 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, 2003

	Plan's Share	
	2003	2002
	($ thousands)	
Deposits and short-term securities	$ 3,671	$ 4,136
Public equities (a) (b)		
Consumer discretionary	31,840	21,182
Consumer staples	16,661	16,164
Energy	15,699	17,080
Financials	51,669	40,101
Health care	16,881	19,391
Industrials	22,761	17,145
Information technology	12,661	10,168
Materials	15,811	13,073
Telecommunication services	18,872	14,913
Utilities	8,306	8,946
	211,161	178,163
Passive index	28	-
Receivable from sale of investments and accrued investment income	2,169	1,112
Liabilities for investment purchases	(790)	(1,615)
	1,379	(503)
	$ 216,239	$ 181,796

(a) The Plan’s net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $38,632,000 (2002 $32,191,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard and Poor’s. The following is a summary of the Plan’s investment in Non-North American public equities by country based on geographic location of stock exchange on which stocks were purchased:

	Plan's Share	
	2003	2002
	($ thousands)	
United Kingdom	$ 49,923	$ 48,444
Japan	36,166	28,537
France	21,208	15,589
Switzerland	16,897	16,044
Germany	15,285	10,262
Netherlands	12,008	11,435
Australia	11,095	8,387
Italy	9,214	7,171
Spain	5,953	3,961
Hong Kong	4,656	4,839
Other	28,756	23,494
	$ 211,161	$ 178,163

Schedule E

SPECIAL FORCES PENSION PLAN
SCHEDULE OF INVESTMENTS IN REAL ESTATE
DECEMBER 31, 2003

	Plan's Share 2003	Plan's Share 2002
	($ thousands)	
Deposits and short-term securities	$ 43	$ 21
Real estate (a)		
Office	23,331	24,350
Retail	22,087	21,255
Industrial	3,567	2,458
Residential	3,089	1,757
	52,074	49,820
Passive index	362	6
Receivable from sale of investments and accrued investment income	134	355
	$ 52,613	$ 50,202

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share 2003	Plan's Share 2002
	($ thousands)	
Ontario	$ 38,058	$ 37,436
Alberta	12,948	11,300
British Columbia	1,068	1,084
	$ 52,074	$ 49,820

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS
FINANCIAL STATEMENTS
DECEMBER 31, 2003

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, 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 December 31, 2003 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

April 16, 2004

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS
AS AT DECEMBER 31, 2003

	2003	2002
Net Assets Available for Benefits	($ thousands)	
Assets		
Cash and cash equivalents (Note 3)	$ 2,813	$ 1,724
Refundable income tax	3,707	2,319
Contributions receivable	4	5
	6,524	4,048
Liabilities		
Income tax payable	190	119
Other payables	87	86
	277	205
	6,247	3,843
SRP Reserve Fund (Note 4)	17,226	12,912
Net assets available for benefits	23,473	16,755
Accrued Benefits		
Actuarial value of accrued benefits (Note 5)	14,161	10,283
Actuarial surplus	$ 9,312	$ 6,472

The accompanying notes are part of these financial statements.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS
STATEMENT OF CHANGE IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2003

	2003	2002
	($ thousands)	
Increase in assets		
Contributions		
Employees	$ 1,376	$ 1,083
Employers	1,376	1,083
Investment income	64	34
	2,816	2,200
Decrease in assets		
Benefits and refunds	44	46
Administration expenses (Note 6)	368	330
	412	376
	2,404	1,824
Increase in the SRP Reserve Fund (Note 4)	4,314	6,534
Increase in net assets	6,718	8,358
Net assets available for benefits at beginning of year	16,755	8,397
Net assets available for benefits at end of year	$ 23,473	$ 16,755

The accompanying notes are part of these financial statements.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003

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 the yearly maximum pensionable earnings limit as defined by the federal *Income Tax Act*. 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 at the Plan's inception 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 rate for designated employers equals or exceeds the rate for eligible employees. The contribution rates in effect at December 31, 2003 were 9.5% (2002: 7.75%) of pensionable salary in excess of the yearly maximum pensionable earnings limit for eligible employees and designated employers. An actuarial valuation of the Plan is required to be performed at least once every three years. The rates are to be reviewed periodically by the Minister of Finance.

(c) Benefits

The Plan provides a pension of 2.0% of pensionable earnings that are in excess of the *Income Tax Act's* 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 plan members and beneficiaries.

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.

(d) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. 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 exists in the calculation of the Plan's actuarial value of accrued benefits. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation, 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. Differences between actual results and expectations are disclosed as assumption or other changes and net experience gains or losses in the note describing changes in the actuarial value of accrued benefits (see Note 5(a)).

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, 2003, securities held by the Fund have an average effective market yield of 2.38% (2002: 2.90%) per annum and an average duration of 98 days (2002: 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. The rate in effect at December 31, 2003, as recommended by the Plan's actuary, was 6.8% (2002: 42.5%) of pensionable salary of eligible employees that was in excess of the yearly maximum pensionable earnings limit as defined by the *Income Tax Act*. The actuary has advised that any impairment of the Plan's actuarial 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, 2003, the Reserve Fund had net assets with fair value totalling $17,226,000 (2002 $12,912,000), comprising $17,792,000 (2002 $12,402,000) in cash and cash equivalents (see Note 3), $117,000 (2002 $510,000) in contributions receivable and $683,000 in payables (2002 $nil). The increase during the year of $4,314,000 (2002 $6,534,000) is attributed to contributions from employers of $3,837,000 (2002 $6,284,000) and investment income of $477,000 (2002 $250,000).

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. and was then extrapolated to December 31, 2003. The 2002 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 under an amendment to the Income Tax Act which received Royal Assent on June 19, 2003. After consultation with the Plan's actuary, the Plan's management approved this best estimate.

The major assumptions used were:

	2003 Extrapolation %	2002 Valuation %
Discount rate *	4.50	4.50
Inflation rate	3.00	3.00
Investment rate of return	6.00	6.00
Salary escalation rate **	3.50	3.50
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.

** In addition to merit and promotion which averages 1.5%.

The following table shows the principal components of the change in the actuarial value of accrued benefits:

	2003 ($ thousands)	2002
Actuarial value of accrued pension benefits at beginning of year	$10,283	$ 8,796
Interest accrued on benefits	611	444
Benefits earned	3,311	3,153
Benefits and refunds	(44)	(46)
Changes in actuarial assumptions and experience gains and losses, net	-	1,744
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	$14,161	$10,283

(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, 2003:

		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%	$ 1.1	$ 0.3
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	0.7	0.2
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant*	(1.0%)	3.7	0.9

* 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 $373 (2002 $362) per member.

NOTE 7 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Advisory Committee for the Supplementary Retirement Plan for Public Service Managers.

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[1]	Agriculture, Food and Rural Development
Alberta Alcohol and Drug Abuse Commission	Health and Wellness
Alberta Capital Finance Authority	Finance
Alberta Dairy Control Board[2]	Agriculture, Food and Rural Development
Alberta Energy and Utilities Board	Energy
Alberta Foundation for the Arts	Community Development
Alberta Gaming and Liquor Commission	Gaming
Alberta Government Telephones Commission	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 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	Finance
ATB Investment Services Inc.	Finance
Child and Family Services Authorities: Calgary and Area Child and Family Services Authority Central Alberta Child and Family Services Authority East Central Alberta Child and Family Services Authority Edmonton and Area Child and Family Services Authority North Central Alberta Child and Family Services Authority Northeast Alberta Child and Family Services Authority Northwest Alberta Child and Family Services Authority Southeast Alberta Child and Family Services Authority Southwest Alberta Child and Family Services Authority Metis Settlements Child and Family Services Authority	Children's Services

1 The Crop Reinsurance Fund of Alberta was merged into the Agriculture Financial Services Corporation, effective April 1, 2003.

2 Dissolved August 1, 2003.

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[1]	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[3]	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[3]	Economic Development
Ministry of Energy	Energy
Ministry of Environment[3]	Environment
Ministry of Finance	Finance
Ministry of Executive Council[3]	Executive Council
Ministry of Gaming	Gaming
Ministry of Government Services[3]	Government Services
Ministry of Health and Wellness	Health and Wellness
Ministry of Human Resources and Employment[3]	Human Resources and Employment
Ministry of Infrastructure[3]	Infrastructure
Ministry of Innovation and Science	Innovation and Science

[3] 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[3]	International and Intergovernmental Relations
Ministry of Justice[3]	Justice
Ministry of Learning	Learning
Ministry of Municipal Affairs[3]	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[3]	Transportation
N.A. Properties (1994) Ltd.	Finance
Natural Resources Conservation Board	Sustainable Resource Development
Persons with Developmental Disabilities Community Boards	Community Development
Calgary Region Community Board	
Central Region Community Board	
Edmonton Region Community Board	
Northeast Region Community Board	
Northwest Region Community Board	
Provincial Board	
South Region Community Board	
Provincial Judges and Masters in Chambers Reserve Fund	Finance
Supplementary Retirement Plan Reserve Fund	Finance
Victims of Crime Fund	Solicitor General
Wild Rose Foundation	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	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	Human Resources and Employment