ALBERTA CAPITAL FINANCE AUTHORITY

Financial Statements

YEAR ENDED DECEMBER 31, 2004

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, 2004 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, 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
January 28, 2005

ALBERTA CAPITAL FINANCE AUTHORITY

BALANCE SHEET

As at December 31, 2004 *(thousands)*

	Budget	2004 Actual	2003 Actual
ASSETS			
Cash (Note 3)	$ 7,264	$ 23,025	$ 2,308
Accrued interest receivable	117,963	121,988	128,189
Loans to local authorities (Note 4)	3,942,045	4,135,820	3,917,098
	$ 4,067,272	$ 4,280,833	$ 4,047,595
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Accrued interest payable	$ 52,162	$ 56,329	$ 52,646
Debt (Note 5 and Schedule 1)	4,004,449	4,211,776	3,972,479
	4,056,611	4,268,105	4,025,125
Shareholders' equity			
Share capital (Note 6):			
Issued and fully paid:			
6,376 shares (2003 - 6,373)	64	64	64
Retained earnings	10,597	12,664	22,406
	10,661	12,728	22,470
	$ 4,067,272	$ 4,280,833	$ 4,047,595

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

Don Lussier
Chair of the Board

T.S. Stroich, FCA
President

ALBERTA CAPITAL FINANCE AUTHORITY

STATEMENT OF LOSS AND RETAINED EARNINGS

For the year ended December 31, 2004 *(thousands)*

	Budget	2004 Actual	2003 Actual
Interest Income			
Loans	$ 301,620	$ 298,412	$ 311,113
Amortization of loan discounts	9,175	9,175	12,243
Other	2,800	2,815	967
	313,595	310,402	324,323
Interest Expense			
Debt	323,820	319,704	323,939
Amortization of net discounts on debt	979	1,378	4,642
	324,799	321,082	328,581
Net interest expense	(11,204)	(10,680)	(4,258)
Other Income			
Loan prepayment fees	-	1,577	485
Net interest expense and other income	(11,204)	(9,103)	(3,773)
Non-Interest Expense			
Administration and office expenses (Note 7)	875	639	497
Net loss	(12,079)	(9,742)	(4,270)
Retained earnings, beginning of year	22,676	22,406	26,676
Retained earnings, end of year	$ 10,597	$ 12,664	$ 22,406

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STATEMENT OF CASH FLOWS

For the year ended December 31, 2004 *(thousands)*

	2004 Budget	2004 Actual	2003 Actual
Operating Activities			
Interest received	$ 311,850	$ 304,613	$ 318,573
Other interest	2,800	2,815	967
Loan prepayment fees	-	1,577	485
Administration and office expenses	(875)	(639)	(497)
Interest paid	(323,655)	(316,021)	(330,328)
Cash flows used in operating activities	(9,880)	(7,655)	(10,800)
Investing Activities			
Loan repayments	383,461	397,916	410,372
New loans issued	(400,000)	(607,463)	(496,957)
Cash flows used in investing activities	(16,539)	(209,547)	(86,585)
Financing Activities			
Debt issues	459,899	713,410	3,124,186
Debt redemptions	(431,320)	(475,491)	(2,930,523)
Cash flows from financing activities	28,579	237,919	193,663
Payment of retained earnings to General Revenue Fund	-	-	(100,000)
Net increase (decrease) in cash	2,160	20,717	(3,722)
Cash, beginning of year	5,104	2,308	6,030
Cash, end of year	$ 7,264	$ 23,025	$ 2,308

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004

(all amounts presented in thousands of dollars, except share amounts)

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.

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NOTE 2 (continued)

(e) Derivative Financial Instruments

Derivative financial instruments used by the Authority are interest rate contracts whose value is derived from interest rates and are used to accommodate the management of risk for asset/liability management purposes and to manage the Authority's interest rate exposure.

The Authority designates each derivative financial instrument as a hedge of identified assets or liabilities. In order to designate a derivative financial instrument as a hedge for accounting purposes, the criteria of Accounting Guideline 13, Hedging Relationships must be met. As a result, the Authority formally documents all relationships between hedging instruments and hedging items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivative financial instruments to specific assets and liabilities. The Authority also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivative financial instruments are accounted for on an accrual basis. Income and expenses on derivative financial instruments designated and qualifying as hedges are recorded as an adjustment to the yield of the item being hedged over the term of the hedge contract in the Statement of Loss and Retained Earnings. Accrued interest receivable and payable on these derivative financial instruments are recorded in accrued interest receivable and payable respectively, in the Balance Sheet.

If the hedge is no longer effective, the associated derivative financial instrument is subsequently carried at fair value on the Balance Sheet and the fair value and any subsequent changes to the fair value are recorded in the Statement of Loss and Retained Earnings in other income.

Derivative financial instruments that have been acquired for asset/liability management purposes that do not qualify for hedge accounting are carried at fair value on the Balance Sheet and the fair value and any subsequent changes in the fair value are recorded in the Statement of Loss and Retained Earnings in other income.

Accrued income and expenses and deferred gains and losses are included in other assets and other liabilities as appropriate in the Balance Sheet.

NOTE 3 CASH

Cash consists of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. CCITF is managed with the objective of providing competitive interest income to depositors while maintaining 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.

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NOTE 4 LOANS TO LOCAL AUTHORITIES

	2004	2003
Loans to local authorities	$ 4,150,205	$ 3,940,658
Less: Unamortized discounts	14,385	23,560
	$ 4,135,820	$ 3,917,098

NOTE 5 DEBT

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

(b) Debt amounting to $2,204,567 (2003 - $2,465,058) 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.

(c) Debt amounting to $302,000 (2003 - Nil) is comprised of a combination of various issues of step-up and accrual notes whereby the Authority has the option of extending or calling the debt, at predetermined extension on call dates. Principal is due upon termination of the debt, where debt is called or not extended by the Authority at the predetermined extension or call date, or upon final maturity of the debt (Schedule 1).

(d) Debt redemption requirements, with the assumption that the step-up and accrual notes are redeemed at the first extendible date and all other debt at the maturity date (Schedule 1), are as follows:

	Debt Redemption
2005	$ 725,604
2006	395,396
2007	335,383
2008	259,294
2009	330,523
	$ 2,046,200

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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	859	8,590
C	Cities	750	582	5,820
D	Towns and villages	750	299	2,990
E	Educational authorities	500	136	1,360
		7,500	6,376	$ 63,760

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

NOTE 7 DIRECTORS' FEES AND RELATED PARTY TRANSACTIONS

Directors' fees paid by the Authority are as follows:

	2004 Number of Individuals	2004 Total	2003 Number of Individuals	2003 Total
Chair of the Board	1	$ 5	1	$ 7
Board members	6	$ 18	6	$ 19

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 advanced loans to local authorities under the ME *first*! Municipal Energy Efficiency Assistance program (the "Program") on behalf of the Alberta Municipal Affairs and Alberta Environment. Under the Program, principal is advanced to qualifying municipalities by the Authority and repayments of principal are made by the municipality; however, the interest is paid by the Province of Alberta. Included in the balance of loans to local authorities at December 31, 2004 is principal of $5,536 (2003 - Nil), upon which, interest of $122 (2003 - Nil) has been recorded in interest income from loans.

The Authority has no employees. Included in administration and office expenses of $639 (2003 - $497) is the amount of $331 (2003 - $287) that was paid to the controlling shareholder, Province of Alberta for goods and services at prices which approximate market.

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NOTE 8 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments used by the Authority include all interest rate swaps and forward rate agreements. The Authority enters into derivative financial instruments for risk management purposes and does not act as an intermediary in this market.

The interest rate contracts are used to manage exposure to fluctuations in interest rates in certain fixed rate loans and related debt made after January 1, 2004.

Notional amounts represent the amount to which a rate is applied in order to calculate the exchange of cash flows. The notional amounts are not recorded in the Balance Sheet. They represent the volume of outstanding transactions and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments.

The notional amounts of derivative financial instruments are summarized as follows:

AS AT DECEMBER 31, 2004

Maturities	Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	2004 Total
Interest rate contracts						
Interest rate swaps	$302,000	$ -	$ 46,713	$ 162,251	$ 647,196	$1,158,160

The cost of replacing the remaining cash flows of the derivative financial instruments at the prevailing prices and market rates are summarized as follows:

AS AT DECEMBER 31, 2004

Maturities	Notional Outstanding	Net Fair Value	Current Replacement Cost: Favourable Position	Current Replacement Cost: Unfavourable Position
Interest rate contracts				
Interest rate swaps	$ 1,158,160	$ (3,595)	$ 12,308	$ (15,903)

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 the Authority would suffer if every counterparty to which the Authority was exposed were to default at once and is represented by the current replacement cost of all outstanding contracts in a favourable position. The Authority actively monitors their exposure and minimizes credit risk by only dealing with counterparties believed to be credit worthy.

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NOTE 9 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 summarizes the carrying amounts of the Authority's interest sensitive assets and liabilities based on the earlier of contractual repricing or maturity date:

AS AT DECEMBER 31, 2004

Maturities	Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	2004 Total		2003 Total
Assets								
Cash	$ 23,025	$ -	$ -	$ -	$ -	$ 23,025		$ 2,308
Accrued Interest Receivable	121,988	-	-	-	-	121,988		128,189
Loans	492,157	365,899	1,134,089	1,054,102	1,103,958	4,150,205	(i)	3,940,658
Effective Rate	6.5%	10.5%	9.1%	7.5%	6.2%	7.2%		7.8%
Total	$ 637,170	$ 365,899	$1,134,089	$1,054,102	$ 1,103,958	$ 4,295,218		$4,071,155
Liabilities								
Accrued Interest Payable	$ 56,329	$ -	$ -	$ -	$ -	$ 56,329		$ 52,646
Debt	725,502	395,396	925,200	1,246,795	918,883	4,211,776		3,972,479
Effective Rate	7.2%	9.9%	9.9%	5.6%	5.7%	7.3%		8.1%
Total	$ 781,831	$ 395,396	$ 925,200	$1,246,795	$ 918,883	$ 4,268,105		$4,025,125
Net Gap	$ (144,661)	$ (29,497)	$ 208,889	$ (192,693)	$ 185,075	$ 27,113		$ 46,030

(i) This total is not reduced by unamortized discount of $14,385 (2003 - $23,560).

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. For loans made after January 1, 2004, the Authority uses financial derivative financial instruments to swap fixed rate loans interest to floating, and swap corresponding debt from fixed rate to floating, and use forward rate contracts to minimize the exposure related to the mismatch of reset dates of the loan and debt swaps.

NOTE 10 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.

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NOTE 10 (continued)

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:

	2004		2003	
	Fair Value	**Book Value**	**Fair Value**	**Book Value**
Loans, including accrued interest receivable	$ 4,737,552	$ 4,257,808	$ 4,571,827	$ 4,045,287
Debt, including accrued interest payable	$ 4,704,483	$ 4,268,105	$ 4,505,138	$ 4,025,125

Fair value of derivative financial instruments is provided in Note 8.

NOTE 11 COMMITMENTS

Lease
The Authority has obligations under a operating lease for the rental of premises at an annual minimum amount of $25 expiring in July 2008.

Credit Commitments
In the normal course of business, the Authority enters into loan commitments to provide customers with sources of credit.

Commitments to extend credit represent undertakings to make credit available in the form of loans for specific amounts and maturities, subject to certain conditions and are recently authorized loans not yet drawn down.

These loan arrangements are subject to the Authority's normal credit standards and collateral is obtained where appropriate. The loan amounts represent the maximum credit risk exposure to the Authority should the loans be fully drawn. These arrangements will most likely be drawn upon; the loan amounts represent future cash requirements. Loan commitments as at December 31 were:

	2004	2003
Loans commitments as at December 31	$ 28,600	$ -

NOTE 12 BUDGET

The 2004 budget was approved by the Board of Directors on November 24, 2003.

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SCHEDULE OF DEBT

Schedule 1

As at December 31, 2004 *(thousands)*

Maturity Date	First Extendible Date	Interest Rate %	Principal Outstanding	
Canada Pension Plan Investment Fund (Note5(b))				
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		6.280	222,367	
Jun 01, 2022		6.060	100,000	
Apr 05, 2023		5.890	50,000	
Dec 01, 2023		5.500	150,000	
Dec 03,2024		5.180	78,000	
Total			2,204,567	
Public				
Jun 01, 2005		4.600	140,000	
Jun 15, 2009	Jun 15, 2005	4.000	40,000	(i)
Jun 21, 2009	Jun 21, 2005	4.000	40,000	(i)
Sep 15, 2009	Sep 15, 2005	3.000	10,000	(i)
Mar 01, 2010		4.550	50,000	
Jun 15, 2010	Jun 15, 2005	4.550	10,000	(ii)
Jun 15, 2010	Jun 15, 2005	3.500	15,000	(i)
Jun 23, 2010	Jun 23, 2005	4.000	30,000	(i)
Aug 20, 2010		4.500	150,000	
Jun 21, 2011	Jun 21, 2005	4.300	22,000	(i)
Sep 01, 2011		5.700	200,000	
Dec 15, 2011		4.435	50,000	
Jun 01, 2012		5.850	500,000	
Jun 23, 2012	Jun 23, 2005	4.000	40,000	(i)
Dec 02, 2013		5.000	300,000	
Sep 15, 2014	Sep 15, 2005	4.050	15,000	(i)
Dec 15, 2014	Dec 15, 2005	4.000	25,000	(i)
Dec 15, 2014	Dec 15, 2005	4.300	30,000	(i)
Jun 01, 2015		4.900	200,000	
Jun 01, 2018		5.150	100,000	
Jun 23, 2019	Jun 23, 2005	6.000	25,000	(ii)
Dec 01, 2023		5.100	20,000	
Total			2,012,000	
			4,216,567	
Net unamortized discount			4,791	
Total debt 2004			$ 4,211,776	
Total debt 2003			$ 3,972,479	

(i) These are step-up notes extendible at the Authority's option which pay interest periodically at a predetermined rate with principal paid on termination.

(ii) These are accrual notes extendible or callable at the Authority's option which accrue interest semi-annually and pay interest and principal on termination.