LOCAL AUTHORITIES PENSION PLAN

Financial Statements

YEAR ENDED DECEMBER 31, 2004

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, 2004 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, 2004 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]

Edmonton, Alberta
March 7, 2005

Fred J. Dunn, FCA
Auditor General

LOCAL AUTHORITIES PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS

As at December 31, 2004 *(thousands)*

	2004	2003
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 10,806,190	$ 9,642,129
Contributions receivable (Note 6)	21,280	15,774
Accrued investment income and accounts receivable	3,844	4,136
	10,831,314	9,662,039
Liabilities		
Accounts payable	3,838	6,726
Net assets available for benefits	10,827,476	9,655,313
Accrued Benefits		
Actuarial value of accrued benefits	12,116,400	11,108,800
Deficiency (Notes 11 and 12)	$ (1,288,924)	$ (1,453,487)

See accompanying notes and schedules.

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STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2004 *(thousands)*

	2004	2003
Increase in assets		
Contributions (Note 7)	$ 602,436	$ 459,338
Net investment income (Note 8)	1,017,321	1,155,698
Net transfer from the Public Service Pension Plan	-	13,935
	1,619,757	1,628,971
Decrease in assets		
Pension benefits	373,218	343,733
Refunds to members	52,686	43,625
Transfers to other plans	4,578	541
Plan expenses (Note 9)	17,112	17,079
	447,594	404,978
Increase in net assets	1,172,163	1,223,993
Net assets available for benefits at beginning of year	9,655,313	8,431,320
Net assets available for benefits at end of year	$ 10,827,476	$ 9,655,313

See accompanying notes and schedules.

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STATEMENT OF CHANGES IN ACCRUED BENEFITS

For the Year Ended December 31, 2004 *(thousands)*

	2004	2003
Increase in accrued benefits		
Interest accrued on benefits	$ 788,900	$ 754,200
Benefits earned	520,800	479,100
Net experience losses and other changes (Note 10 (a))	133,300	96,400
Changes in actuarial assumptions (Note 10 (a))	(9,200)	131,800
Net transfer from the Public Service Pension Plan	-	11,700
	1,433,800	1,473,200
Decrease in accrued benefits		
Benefits paid including interest	426,200	401,300
Net increase in accrued benefits	1,007,600	1,071,900
Accrued benefits at beginning of year	11,108,800	10,036,900
Accrued benefits at end of year (Note 10)	$ 12,116,400	$ 11,108,800

STATEMENT OF CHANGES IN DEFICIENCY

For the Year Ended December 31, 2004 *(thousands)*

	2004	2003
Deficiency at beginning of year (Notes 11 and 12)	$ (1,453,487)	$ (1,605,580)
Increase in net assets available for benefits	1,172,163	1,223,993
Net increase in accrued benefits	(1,007,600)	(1,071,900)
Deficiency at end of year (Notes 11 and 12)	$ (1,288,924)	$ (1,453,487)

See accompanying notes and schedules.

LOCAL AUTHORITIES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004

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 (see Note 12) 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, 2004 were 5.602% (2003 4.525%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 7.477% (2003 6.40%) of the excess for employees, and 6.602% (2003 5.525%) of pensionable earnings up to the YMPE and 8.477% (2003 7.40%) of the excess for employers.

The rates were reviewed by the Board in 2004 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, 2005 as follows: 6.40% of pensionable earnings up to the YMPE and 9.14% of the excess for employees, and 7.40% of pensionable earnings up to the YMPE and 10.14% of the excess for employers.

(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, subject to the maximum benefit limit allowed under the federal Income Tax Act. The maximum service allowable under the Plan is 35 years. Unreduced pensions are payable to members at retirement who 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) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least two years of membership. Reduced pensions are payable to members who become partially disabled and retire early with at least two years of membership.

LOCAL AUTHORITIES PENSION PLAN

NOTE 1 (continued)

(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 on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st 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 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 Finance or external managers appointed by Alberta Finance. 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:

LOCAL AUTHORITIES PENSION PLAN

NOTE 2 (continued)

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 Finance.

The fair value of alternative investments including absolute return strategy investments, investments in private investment funds, private equities and securities with limited marketability is estimated by Alberta Finance or external managers appointed by Alberta Finance using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate and may not reflect amounts that could be realized upon immediate sale, nor amounts that may ultimately be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

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 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:

LOCAL AUTHORITIES PENSION PLAN

NOTE 2 (continued)

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) 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 and in the valuation of the Plan's alternative investments. Uncertainty arises because the Plan's actual experience may differ significantly from assumptions used in the calculation of the Plan's accrued benefits and the estimated fair values of the Plan's alternative investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the calculation of the Plan's accrued benefits and in the valuation of the Plan's alternative investments, 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 in the year when actual results are known. Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values are known.

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NOTE 3 INVESTMENTS (SCHEDULES A TO E)

(thousands)

	2004 Fair Value	%	2003 Fair Value	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 201,544	1.9	$ 192,643	2.0
Canadian Dollar Public Bond Pool (b)	1,635,308	15.1	1,380,104	14.3
Canadian Long Term Government Bond Pool (b)	1,074,793	9.9	885,240	9.2
Real rate of return bonds (c)	514,088	4.8	466,570	4.8
Private Mortgage Pool (d)	279,928	2.6	259,381	2.7
External Managers Currency Alpha Pool (e)	18,684	0.2	-	-
Total fixed income securities	3,724,345	34.5	3,183,938	33.0
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (f)	1,609,711	14.9	1,489,361	15.5
Canadian Small Cap Equity Pool (f)	452,090	4.2	339,307	3.5
Domestic Passive Equity Pooled Fund (g)	391,829	3.6	361,090	3.7
Private Equity Pool (h)	11,007	0.1	13,627	0.1
Canadian Pooled Equities Fund	-	-	147,157	1.5
	2,464,637	22.8	2,350,542	24.3
United States Equities (Schedule C)				
External Managers				
US Small/Mid Cap Equity Pool (i)	407,249	3.8	282,011	2.9
US Large Cap Equity Pool (i)	230,739	2.1	592,647	6.2
US Passive Equity Pooled Fund (j)	476,606	4.4	514,494	5.3
Portable Alpha US Pool (k)	138,530	1.3	-	-
	1,253,124	11.6	1,389,152	14.4
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool (l)	985,686	9.1	1,009,390	10.5
EAFE Plus Equity Pool (l)	459,132	4.3	435,483	4.5
EAFE Emerging Markets (m)	112,398	1.0	-	-
EAFE Passive Equity Pool	-	-	12,087	0.1
EAFE Structured Equity Pooled Fund (n)	356,311	3.3	345,684	3.6
	1,913,527	17.7	1,802,644	18.7
Alternative Investments - Equities				
External Managers				
Absolute Return Strategy Pool (o)	480,348	4.5	275,909	2.9
Private Income Pool (p)	87,870	0.8	5,646	0.1
Foreign Private Equity Pool (p)	36,610	0.3	22,241	0.2
	604,828	5.6	303,796	3.2
Total equities	6,236,116	57.7	5,846,134	60.6
Real Estate (Schedule E)				
Private Real Estate Pool (q)	845,729	7.8	612,057	6.4
Total investments	$ 10,806,190	100.0	$ 9,642,129	100.0

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NOTE 3 (continued)

(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 Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment style and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in or out of the Pool when the forward foreign exchange contracts settle.

(f) The External Managers Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The 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.

(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 Private Equity Pool is in the process of orderly liquidation.

(i) The External Managers US Small/Mid Cap Equity Pool consists of a single portfolio and 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 small/mid cap or large cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index for the US Small/Mid Cap Pool and the Standard & Poor's (S&P) 500 Index for the US Large Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

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NOTE 3 (continued)

(j) The US Passive Equity Pooled Fund consists of a single portfolio of publicly traded United States equities similar in weights to the S&P 500 Index. The 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 Pooled Fund also invests in futures, swaps and other structured investments.

(k) The Portable Alpha US Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. The performance objective is to provide returns higher than the S&P 500 Index over the long term.

(l) 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.

(m) The External Managers Emerging Markets Equity Pool consists of a single portfolio of publicly traded equities in emerging markets around the world. The portfolio is actively managed by an external manager with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) Index over a four-year period.

(n) 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 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.

(o) 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 low volatility using various investment strategies.

(p) 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.

(q) 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.

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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 of Trustees established a benchmark 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 enhance returns and 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.

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NOTE 5 (continued)

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, 2004:

(thousands)

	Maturity			2004		2003	
	Under 1 Year	**1 to 3 Years**	**Over 3 Years**	**Notional Amount**	**Net Fair Value (a)**	**Notional Amount**	**Net Fair Value (a)**
		%					
Equity index swap contracts	70	30	-	$ 1,169,391	$ 46,180	$ 1,084,225	$ 44,356
Forward foreign exchange contracts	100	-	-	1,002,233	22,595	347,322	10,347
Interest rate swap contracts	41	54	5	438,515	(16,936)	500,737	(24,618)
Cross-currency interest rate swap contracts	25	29	46	411,079	(19,260)	370,966	(37,345)
Credit default swap contracts	20	22	58	113,565	412	19,781	(242)
Equity index futures contracts	100	-	-	37,723	3,450	14,321	1,744
Bond index swap contracts	100	-	-	31,880	619	22,227	32
				$ 3,204,386	$ 37,060	$ 2,359,579	$ (5,726)

(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 CONTRIBUTIONS RECEIVABLE

(thousands)

	2004	2003
Employers	$ 11,399	$ 8,493
Employees	9,881	7,281
	$ 21,280	$ 15,774

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NOTE 7 CONTRIBUTIONS

(thousands)

	2004	2003
Current and optional service		
Employers	$ 316,894	$ 245,759
Employees (a)	279,614	212,771
Transfers from other plans	5,928	808
	$ 602,436	$ 459,338

(a) Includes $12,135,000 (2003 $9,205,000) of optional service contributions.

NOTE 8 NET INVESTMENT INCOME

Net investment income is comprised of the following:

(thousands)

	2004	2003
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ 681,553	$ 855,074
Interest income	222,593	192,952
Dividend income	87,923	84,258
Real estate income	38,958	32,395
Securities lending income	2,616	2,510
Pooled funds management and associated custodial fees (Note 9)	(16,322)	(11,491)
	$ 1,017,321	$ 1,155,698

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

(thousands)

	2004	2003
Fixed Income Securities	$ 334,794	$ 236,997
Canadian Equities	328,429	486,980
Foreign Equities		
United States	51,023	128,401
Non-North American	209,153	242,093
Alternative Investments - Equities	22,071	6,902
Real Estate	71,851	54,325
	$ 1,017,321	$ 1,155,698

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NOTE 8 (continued)

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	10.4%	3.2%	6.6%
Policy Benchmark**	10.7%	3.0%	6.7%

* The measure involves the calculation of the net return realized by the Plan over a specified period and is a measure of the total proceed 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 9 PLAN EXPENSES

(thousands)

	2004	2003
General administration costs	$ 14,022	$ 11,356
Investment management costs	1,857	1,752
LAPP Corporation costs	600	501
Actuarial fees	356	208
Process improvements costs	277	337
Mosaic (APEX) project costs	-	2,925
	$ 17,112	$ 17,079

General administration costs and process improvement costs, including Plan Board costs (see Note 13) were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Finance on a cost recovery basis to manage the Plan's investment portfolio. Pooled funds management and associated custodial fees totalling $16,322,000 (2003 $11,491,000) (see Note 8), which have been included in calculating net investment income, are excluded from plan expenses.

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NOTE 9 (continued)

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

(thousands)

	2004	2003
Chief Executive Officer		
Salary and bonus	$ 187.0	$ 185.0
Benefits	17.7	8.1
Director, Pension Policy		
Salary and bonus	125.5	111.2
Benefits	9.3	7.3
	$ 339.5	$ 311.6

Total Plan expenses, including pooled funds management and associated custodial fees amounted to $222 per member (2003 $197 per member).

Pooled funds management and associated custodial fees amounted to $109 per member (2003 $79 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 8).

Total Plan expenses including pooled funds management and associated custodial fees amounted to 0.31% (2003 0.30%) of assets under administration.

NOTE 10 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2003 by Mercer Human Resource Consulting and was then extrapolated to December 31, 2004. The 2003 valuation was completed after the financial statements of the Plan for 2003 were released. As a result, the differences between the actuarial valuation results and extrapolation results for 2003 are accounted for as change in actuarial assumptions, net experience losses and other changes in 2004.

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NOTE 10 **(continued)**

The following is a summary of net experience losses and other changes as revealed in the 2003 valuation and reported in 2004:

	($ thousands)
Higher than expected cost-of-living increase in pension benefit payments	$ 67,400
Retirement experience was less favourable than assumed	40,300
Termination and mortality experiences were less favourable than assumed	15,000
Other	10,600
	$ 133,300

Actuarial valuations were determined using the projected benefit method pro-rated on service. The assumptions used in the actuarial valuations and extrapolations were developed as the best estimates of expected market conditions and other future events. These estimates were, after consultation with the Plan's actuary, approved by the Board of Trustees.

The major assumptions used were:

	2003 Valuation and 2004 Extrapolation %	**2002 Valuation and 2003 Extrapolation** %
Investment rate of return	6.70	7.00
Inflation rate	2.75	3.25
Salary escalation rate*	3.50	4.00

* 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, 2004 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 2005.

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NOTE 10 (continued)

(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, 2004:

		Sensitivities	
	Changes in Assumptions %	Increase in Plan Deficiency ($ million)	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 808	0.6%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	508	0.7%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	1,915	2.3%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2003 valuation was 11.5%

NOTE 11 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 value for funding valuation and extrapolation purposes amounted to $10,384 million at December 31, 2004 (2003 $9,698 million).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency of $1,535 million as determined by an actuarial funding valuation as at December 31, 2003 is funded by a special payment of 3.60% of pensionable earnings shared equally between employers and employees. The special payment is included in the rates in effect at January 1, 2005 (see Note 1(b)).

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NOTE 12 CHANGE IN ACCOUNTING POLICY

In order to eliminate any misunderstanding about the actual financial position of the Plan, in 2004, the Board of Trustees introduced a change in accounting policy and assets are now valued on the fair value basis for accounting purposes with no smoothed value reported.

As at December 31, 2004, this change in accounting policy has the effect of decreasing the Plan's deficiency by $444 million. If the change had not been made, the Plan's deficiency would have been $1,733 million as at December 31, 2004.

This change in accounting policy has been applied retroactively and the Plan's deficiencies at December 31, 2002 and 2003 have been restated. The effect of this change in accounting policy is to increase retroactively the Plan's deficiency by $1,161 million at December 31, 2002 and by $43 million at December 31, 2003.

NOTE 13 REMUNERATION OF BOARD MEMBERS

Remuneration paid with respect to a total of 14 Board members during the year amounted to $116,000 (2003 $92,000).

NOTE 14 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2004 presentation.

LOCAL AUTHORITIES PENSION PLAN

SCHEDULES TO THE LOCAL AUTHORITIES PENSION PLAN

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

Year Ended December 31, 2004 *(thousands)*

	Plan's Share 2004	Plan's Share 2003
Deposits and short-term securities	$ 232,295	$ 201,514
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	1,381,985	1,263,082
Provincial		
Alberta, direct and guaranteed	1,033	1,055
Other, direct and guaranteed	1,010,546	640,775
Municipal	29,843	29,306
Corporate	637,474	645,709
Private		
Corporate	414,938	394,483
	3,475,819	2,974,410
Receivable from sale of investments and accrued investment income	29,574	24,911
Liabilities for investment purchases	(13,343)	(16,897)
	16,231	8,014
	$ 3,724,345	$ 3,183,938

(a) Fixed income securities held as at December 31, 2004 had an average effective market yield of 4.25% per annum (2003 4.63% per annum). The following term structure of these securities as at December 31, 2004 was based on principal amount.

	2004	2003
	%	
under 1 year	2	2
1 to 5 years	21	22
6 to 10 years	22	22
11 to 20 years	18	16
over 20 years	37	38
	100	100

LOCAL AUTHORITIES PENSION PLAN

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

Year Ended December 31, 2004 *(thousands)*

	Plan's Share 2004	Plan's Share 2003
Deposits and short-term securities	$ 34,374	$ 33,896
Public equities (a) (b)		
Consumer discretionary	223,567	202,250
Consumer staples	128,185	118,911
Energy	417,652	334,054
Financials	678,629	647,592
Health care	52,827	65,005
Industrials	237,971	276,782
Information technology	133,202	127,169
Materials	430,899	381,501
Telecommunication services	88,586	102,431
Utilities	6,970	31,345
	2,398,488	2,287,040
Passive index	7,228	3,839
	2,405,716	2,290,879
Private Equity Pool	11,007	13,627
Receivable from sale of investments and accrued investment income	15,872	15,850
Liabilities for investment purchases	(2,332)	(3,710)
	13,540	12,140
	$ 2,464,637	$ 2,350,542

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $277,244,000 (2003 $235,967,000), 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.

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SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES Schedule C

Year Ended December 31, 2004 *(thousands)*

	Plan's Share 2004	Plan's Share 2003
Deposits and short-term securities	$ 30,359	$ 44,347
Public equities (a) (b)		
Consumer discretionary	179,336	234,270
Consumer staples	85,158	114,784
Energy	90,232	75,801
Financials	239,576	273,087
Health care	151,608	163,809
Industrials	167,265	155,722
Information technology	179,623	218,833
Materials	62,611	48,436
Telecommunication services	28,497	34,315
Utilities	37,167	35,736
	1,221,073	1,354,793
Passive index	-	764
	1,221,073	1,355,557
Receivable from sale of investments and accrued investment income	9,049	6,840
Liabilities for investment purchases	(7,357)	(17,592)
	1,692	(10,752)
	$ 1,253,124	$ 1,389,152

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $475,532,000 (2003 $490,427,000) and absolute return strategy investments totalling $117,953,000 (2003 $nil), 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.

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SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES — Schedule D

Year Ended December 31, 2004 *(thousands)*

	Plan's Share 2004	Plan's Share 2003
Deposits and short-term securities	$ 34,181	$ 32,381
Public equities (a) (b)		
Consumer discretionary	258,357	267,333
Consumer staples	107,470	138,660
Energy	157,060	129,437
Financials	506,732	428,029
Health care	112,212	139,105
Industrials	202,971	190,706
Information technology	90,080	104,753
Materials	148,348	133,526
Telecommunication services	159,029	158,615
Utilities	73,966	68,141
	1,816,225	1,758,305
Passive index	47,258	252
Receivable from sale of investments and accrued investment income	23,612	18,627
Liabilities for investment purchases	(7,749)	(6,921)
	15,863	11,706
	$ 1,913,527	$ 1,802,644

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $336,385,000 (2003 $331,992,000), 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:

(thousands)

	Plan's Share 2004	Plan's Share 2003
United Kingdom	$ 408,058	$ 412,472
Japan	325,625	295,577
France	164,684	177,169
Germany	125,963	127,576
Switzerland	122,351	141,525
Netherlands	100,078	100,130
Australia	84,915	92,495
Italy	75,271	77,290
Sweden	47,139	34,359
Spain	46,576	48,281
Other	315,565	251,431
	$ 1,816,225	$ 1,758,305

LOCAL AUTHORITIES PENSION PLAN

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

Year Ended December 31, 2004 *(thousands)*

	Plan's Share 2004	Plan's Share 2003
Deposits and short-term securities	$ 89	$ 497
Real estate (a)		
Office	422,704	271,419
Retail	303,552	256,942
Industrial	66,677	41,491
Residential	40,969	35,926
	833,902	605,778
Passive index	10,537	4,224
Receivable from sale of investments and accrued investment income	1,201	1,558
	$ 845,729	$ 612,057

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

(thousands)

	Plan's Share 2004	Plan's Share 2003
Ontario	$ 540,590	$ 442,734
Alberta	184,873	150,624
Quebec	93,923	-
British Columbia	14,516	12,420
	$ 833,902	$ 605,778