MANAGEMENT EMPLOYEES PENSION PLAN

Financial Statements

YEAR ENDED DECEMBER 31, 2004

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, 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 — Fred J. Dunn, FCA

March 4, 2005 — Auditor General

MANAGEMENT EMPLOYEES 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)	$ 1,721,340	$ 1,566,939
Accrued investment income and accounts receivable	414	451
Contributions receivable		
Employees	2,272	2,003
Employers	3,093	2,761
	1,727,119	1,572,154
Liabilities		
Accounts payable	141	240
Net assets available for benefits	1,726,978	1,571,914
Accrued Benefits		
Actuarial value of accrued benefits	1,995,079	1,861,928
Deficiency	$ (268,101)	$ (290,014)

See accompanying notes and schedules.

MANAGEMENT EMPLOYEES PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

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

	2004	2003
Net investment income (Note 6)		
Investment income	$ 163,041	$ 190,938
Investment expenses	(2,765)	(1,930)
	160,276	189,008
Member service operations		
Contributions		
Current and optional service		
Employees	28,648	23,782
Employers	38,015	32,515
Pension benefits	(68,145)	(61,296)
Refunds to members	(2,117)	(1,143)
Transfers to other plans, net	(186)	(170)
Member service expenses (Note 7)	(1,427)	(1,363)
	(5,212)	(7,675)
Increase in net assets	155,064	181,333
Net assets available for benefits at beginning of year	1,571,914	1,390,581
Net assets available for benefits at end of year	$ 1,726,978	$ 1,571,914

See accompanying notes and schedules.

MANAGEMENT EMPLOYEES PENSION PLAN

STATEMENT OF CHANGES IN ACCRUED BENEFITS

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

	2004	2003
Increase in accrued benefits		
Interest accrued on benefits	$ 126,393	$ 114,351
Benefits earned	62,828	56,524
	189,221	170,875
Decrease in accrued benefits		
Benefits paid and transfers	(70,448)	(62,608)
Other changes in accrued benefits (Note 8)		
Net experience losses (gains)	14,378	(14,493)
Changes in actuarial assumptions	-	60,165
Change in the maximum pensionable salary limit	-	15,440
	14,378	61,112
Net increase in accrued benefits	133,151	169,379
Accrued benefits at beginning of year	1,861,928	1,692,549
Accrued benefits at end of year (Note 8)	$ 1,995,079	$ 1,861,928

See accompanying notes and schedules.

STATEMENT OF CHANGES IN DEFICIENCY

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

	2004	2003
Deficiency at beginning of year	$ (290,014)	$ (301,968)
Increase in net assets available for benefits	155,064	181,333
Net increase in accrued benefits	(133,151)	(169,379)
Deficiency at end of year	$ (268,101)	$ (290,014)

See accompanying notes and schedules.

MANAGEMENT EMPLOYEES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004

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, 2004 were unchanged at 9.5% of pensionable salary for employees and 13.1% for employers. The rates are reviewed at least once every three years by the Minister of Finance, in consultation with the Board, 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.

Pensions are payable to members who have attained age 65 at retirement.

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.

MANAGEMENT EMPLOYEES PENSION PLAN

NOTE 1 (continued)

(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 lump sum payment or a deferred pension. The lump sum payment is based on contributions and interest in relation to service before 1992 and commuted value for service after 1991. The commuted value portion of the lump sum payment is 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 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.

MANAGEMENT EMPLOYEES PENSION PLAN

NOTE 2 (continued)

(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 Finance.

(iii) The fair value of alternative investments including 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.

(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.

MANAGEMENT EMPLOYEES PENSION PLAN

NOTE 2 (continued)

(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.

MANAGEMENT EMPLOYEES PENSION PLAN

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)	$ 29,865	1.7	$ 17,784	1.1
Canadian Dollar Public Bond Pool (b)	476,729	27.7	416,281	26.6
Real rate of return bonds (c)	82,288	4.8	76,810	4.9
Private Mortgage Pool (d)	81,601	4.7	74,164	4.7
Total fixed income securities	670,483	38.9	585,039	37.3
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (e)	187,979	10.9	176,303	11.2
Canadian Small Cap Equity Pool (e)	56,075	3.3	47,117	3.0
Domestic Passive Equity Pooled Fund (f)	121,534	7.1	123,569	7.9
Growing Equity Income Pool (g)	34,188	2.0	-	-
Canadian Pooled Equities Fund (h)	34,941	2.0	71,618	4.6
Private Equity Pool (i)	1,565	0.1	1,928	0.1
	436,282	25.4	420,535	26.8
United States Equities (Schedule C)				
External Managers				
US Large Cap Equity Pool (j)	101,166	5.9	99,316	6.3
US Mid/Small Cap Equity Pool (j)	29,414	1.7	29,816	1.9
S&P 500 Pooled Index Fund (k)	66,006	3.8	53,493	3.4
US Passive Equity Pooled Fund (k)	49,246	2.9	47,599	3.1
Growing Equity Income Pool (g)	3,397	0.2	-	-
	249,229	14.5	230,224	14.7
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool (l)	134,631	7.8	132,448	8.5
EAFE Plus Equity Pool (l)	67,382	3.9	59,305	3.8
Emerging Markets Equity Pool (m)	18,329	1.1	-	-
EAFE Passive Equity Pool (n)	13,414	0.8	31,954	2.0
EAFE Structured Equity Pooled Fund (n)	35,436	2.1	31,544	2.0
	269,192	15.7	255,251	16.3
Alternative Investments - Equities				
Private Equity 2002 , Private Equity 2004				
and Private Income Pools (o)	12,963	0.7	2,978	0.2
Real Estate Equities (Schedule E)				
Private Real Estate Pool (p)	83,191	4.8	72,912	4.7
Total equities	1,050,857	61.1	981,900	62.7
Total investments	$ 1,721,340	100.0	$ 1,566,939	100.0

MANAGEMENT EMPLOYEES PENSION PLAN

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 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 Growing Equity Income Pool is managed with the objective of providing returns higher than the return of S&P/TSX Custom Dividend Index over a four-year period. The Pool is intended to provide a steady stream of dividend income with potential for capital appreciation by investing in dividend-paying Canadian and US companies that exhibit attractive valuation, growth and quality financial characteristics.

(h) 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.

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

(j) 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.

MANAGEMENT EMPLOYEES PENSION PLAN

NOTE 3 (continued)

(k) 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.

(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 external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital Index (MSCI) Emerging Markets Free (EMF) Index over a four-year period.

(n) 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.

(o) The Private Equity Pool 2002 and Private Equity Pool 2004 are managed with the objective of providing investment returns comparable to the S&P/TSX Composite Index plus 2.5% over the long term. The pools invest 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 an 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.

(p) 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. 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.

MANAGEMENT EMPLOYEES PENSION PLAN

NOTE 5 (continued)

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, 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	79	21	-	$ 185,918	$ 6,919	$ 173,631	$ 6,901
Interest rate swap contracts	41	52	7	84,082	(3,116)	91,375	(4,039)
Cross-currency interest rate swap contracts	17	26	57	83,528	(3,237)	59,519	(5,038)
Forward foreign exchange contracts	100	-	-	32,993	334	6,070	42
Credit default swap contracts	21	23	56	20,995	120	3,812	(47)
Bond index swap contracts	100	-	-	9,294	180	6,704	10
Equity index futures contracts	100	-	-	4,916	415	1,895	205
				$ 421,726	$ 1,615	$ 343,006	$ (1,966)

(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.

MANAGEMENT EMPLOYEES PENSION PLAN

NOTE 6 NET INVESTMENT INCOME

Net investment income of the Plan is comprised of the following:

(thousands)

	2004	2003
Investment income		
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ 101,697	$ 135,925
Interest income	41,734	36,992
Dividend income	15,035	13,664
Real estate income	4,182	3,958
Securities lending income	393	399
	163,041	190,938
Investment expenses	(2,765)	(1,930)
Net investment income	$ 160,276	$ 189,008

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

(thousands)

	2004	2003
Fixed Income Securities	$ 55,322	$ 44,055
Canadian Equities	59,951	88,091
Foreign Equities		
United States	7,663	15,924
Non-North American	29,890	34,008
Alternative Investments - Equities	(366)	121
Real Estate Equities	7,816	6,809
	$ 160,276	$ 189,008

Investment expenses totalling $2,765,000 (2003 $1,930,000) are included in the calculation of Plan's investment performance results, which are as follows:

	One-Year Return	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return
Time-weighted rates of return*			
Overall Plan	10.2%	3.2%	7.2%
Policy Benchmark**	9.8%	2.9%	7.0%

* 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.

MANAGEMENT EMPLOYEES PENSION PLAN

NOTE 7 MEMBER SERVICE EXPENSES

Member service expenses including Board costs in the amount of $49,000 (2003 $48,000) were charged to the Plan on a cost-recovery basis.

NOTE 8 ACCRUED BENEFITS

(a) Actuarial Valuation

An interim actuarial valuation of the Plan was carried out as at December 31, 2003 by Aon Consulting Inc. and was 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 and extrapolation results for 2003 are accounted for as net experience losses in 2004.

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. After consultation with the Plan's actuary, the Board approved these best estimates.

The major assumptions used were:

	2003 Valuation and 2004 Extrapolation %	2002 Valuation and 2003 Extrapolation %
Asset real rate of return	4.00	4.00
Inflation rate	2.75	2.75
Investment rate of return	6.75	6.75
Salary escalation rate*	3.25	3.25

* In addition to merit and promotion.

An actuarial funding valuation of the Plan as at December 31, 2004 will be carried out subsequent to the completion of these financial statements as required by the *Public Sector Pension Plans Act*. Any differences between the actuarial valuation results and the extrapolation results as reported in these financial statements, including the impact of changes to the maximum pensionable salary limit as announced in the 2005 Federal Budget estimated to amount to $6.4 million, will affect the financial position of the Plan and will be accounted for as gains or losses in 2005.

NOTE 8 (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 ($ 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%	$ 143	1.1%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	30	0.5%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	284	3.7%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2003 valuation was 21.7%

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 $1,731.5 million at December 31, 2004 (2003 $1,650.5 million).

MANAGEMENT EMPLOYEES PENSION PLAN

NOTE 9 (continued)

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, 2004 (see Note 1(b)).

An interim actuarial valuation as at December 31, 2003 indicated an increase in annual funding of approximately $21 million (2003 $21 million) commencing in 2005 and continuing until 2018. The next actuarial funding valuation is required no later than December 31, 2004 (see Note 1(b) and Note 8(a)). 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 2004 presentation.

NOTE 11 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were prepared by management and approved by the Management Employees Pension Board.

MANAGEMENT EMPLOYEES PENSION PLAN

SCHEDULES TO THE MANAGEMENT EMPLOYEES PENSION PLAN

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

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

	Plan's Share 2004	Plan's Share 2003
Deposits and short-term securities	$ 32,805	$ 20,065
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	215,109	182,515
Provincial		
Alberta, direct and guaranteed	301	318
Other, direct and guaranteed	115,284	66,990
Municipal	6,249	6,383
Corporate	177,847	193,278
Private		
Corporate	120,959	115,177
	635,749	564,661
Receivable from sale of investments and accrued investment income	5,819	5,410
Liabilities for investment purchases	(3,890)	(5,097)
	1,929	313
	$ 670,483	$ 585,039

(a) Fixed income securities held as at December 31, 2004 had an average effective market yield of 4.13% per annum (2003 4.52% 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	3
1 to 5 years	32	33
6 to 10 years	29	27
11 to 20 years	15	11
over 20 years	22	26
	100	100

MANAGEMENT EMPLOYEES PENSION PLAN

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES — Schedule B

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

	Plan's Share 2004	Plan's Share 2003
Deposits and short-term securities	$ 4,355	$ 4,328
Public equities (a) (b)		
Consumer discretionary	35,330	34,514
Consumer staples	21,496	20,262
Energy	77,428	59,460
Financials	128,383	118,917
Health care	8,089	10,564
Industrials	38,391	44,418
Information technology	23,041	23,839
Materials	72,870	68,922
Telecommunication services	17,905	19,096
Utilities	2,734	9,484
	425,667	409,476
Passive index	897	745
	426,564	410,221
Private Equity Pool	1,565	1,928
Receivable from sale of investments and accrued investment income	4,124	4,845
Liabilities for investment purchases	(326)	(787)
	3,798	4,058
	$ 436,282	$ 420,535

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $88,081,000 (2003 $80,751,000), 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.

MANAGEMENT EMPLOYEES PENSION PLAN

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES — Schedule C

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

	Plan's Share 2004	Plan's Share 2003
Deposits and short-term securities	$ 4,367	$ 4,570
Public equities (a) (b)		
Consumer discretionary	39,251	37,621
Consumer staples	19,689	20,513
Energy	16,612	12,947
Financials	50,150	45,279
Health care	29,806	27,459
Industrials	32,691	25,922
Information technology	33,596	36,538
Materials	9,331	8,083
Telecommunication services	6,087	6,010
Utilities	6,941	5,675
	244,154	226,047
Passive index	-	81
	244,154	226,128
Receivable from sale of investments and accrued investment income	1,542	1,198
Liabilities for investment purchases	(834)	(1,672)
	708	(474)
	$ 249,229	$ 230,224

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $69,299,000 (2003 $60,812,000), 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.

MANAGEMENT EMPLOYEES PENSION PLAN

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

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

	Plan's Share 2004	Plan's Share 2003
Deposits and short-term securities	$ 4,928	$ 4,459
Public equities (a) (b)		
Consumer discretionary	36,333	37,769
Consumer staples	14,966	19,582
Energy	21,981	18,522
Financials	71,394	61,186
Health care	15,614	19,885
Industrials	28,625	27,101
Information technology	12,660	14,901
Materials	20,990	18,730
Telecommunications services	22,184	22,282
Utilities	10,356	9,788
	255,103	249,746
Passive index	7,706	33
Receivable from sale of investments and accrued investment income	2,557	1,971
Liabilities for investment purchases	(1,102)	(958)
	1,455	1,013
	$ 269,192	$ 255,251

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $33,454,000 (2003 $30,297,000), 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	$ 57,539	$ 58,892
Japan	45,877	42,905
France	22,920	24,951
Germany	17,576	18,155
Switzerland	17,170	20,024
Netherlands	13,908	14,201
Australia	11,767	13,055
Italy	10,549	10,860
Spain	6,494	6,988
Sweden	6,485	4,887
Other	44,818	34,828
	$ 255,103	$ 249,746

MANAGEMENT EMPLOYEES PENSION PLAN

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

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

	Plan's Share 2004	Plan's Share 2003
Deposits and short-term securities	$ 9	$ 59
Real estate (a)		
Office	41,579	32,332
Retail	29,859	30,609
Industrial	6,559	4,943
Residential	4,030	4,280
	82,027	72,164
Passive index	1,037	503
Receivable from sale of investments and accrued investment income	118	186
	$ 83,191	$ 72,912

(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	$ 53,175	$ 52,741
Alberta	18,185	17,943
Quebec	9,239	-
British Columbia	1,428	1,480
	$ 82,027	$ 72,164