PUBLIC SERVICE PENSION PLAN

Financial Statements

YEAR ENDED DECEMBER 31, 2004

AUDITOR'S REPORT

To the Public Service Pension Board

I have audited the Statement of Net Assets Available for Benefits and Liability for Accrued Benefits of the Public Service Pension Plan (the Plan) as at December 31, 2004 and the Statements of Changes in Net Assets Available for Benefits, Changes in Liability for 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 Liability for Accrued Benefits of the Plan as at December 31, 2004 and the Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 23, 2005

PUBLIC SERVICE PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND LIABILITY FOR ACCRUED BENEFITS

As at December 31, 2004 *(thousands)*

	2004	2003
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 4,465,432	$ 4,052,748
Contributions receivable (Note 6)	15,185	14,531
Accrued investment income and accounts receivable	1,892	4,862
	4,482,509	4,072,141
Liabilities		
Accounts payable	1,577	1,354
Net assets available for benefits	4,480,932	4,070,787
Liability for accrued benefits		
Actuarial value of accrued benefits	4,931,000	4,655,000
Deficiency (Notes 10 and 11)	$ (450,068)	$ (584,213)

See accompanying notes and schedules.

PUBLIC SERVICE PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

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

	2004	2003
Increase in assets		
Net investment income (Note 8)	$ 395,179	$ 541,156
Contributions		
Current and optional service		
Employers	104,404	82,062
Employees	106,816	83,387
Transfers from other plans	4,302	425
	610,701	707,030
Decrease in assets		
Pension benefits	170,971	162,700
Refunds to members	18,770	13,357
Transfers to other plans	3,770	423
Plan expenses (Note 9)	7,045	7,300
Net transfer to the Local Authorities Pension Plan	-	13,935
	200,556	197,715
Increase in net assets	410,145	509,315
Net assets available for benefits at beginning of year	4,070,787	3,561,472
Net assets available for benefits at end of year	$ 4,480,932	$ 4,070,787

See accompanying notes and schedules.

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STATEMENT OF CHANGES IN LIABILITY FOR ACCRUED BENEFITS

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

	2004	2003
Increase in liability for accrued benefits		
Interest accrued on benefits	$ 325,000	$ 303,000
Benefits earned	168,000	154,000
Changes in actuarial assumptions	-	145,000
Net experience losses	-	121,000
Adjustment for higher than assumed cost-of-living increases in 2004	-	28,000
	493,000	751,000
Decrease in liability for accrued benefits		
Benefits paid	194,000	176,000
Net experience gains	23,000	-
Transfer to the Local Authorities Pension Plan	-	13,000
	217,000	189,000
Net increase in liability for accrued benefits	276,000	562,000
Liability for accrued benefits at beginning of year	4,655,000	4,093,000
Liability for accrued benefits at end of year (Note 7)	$ 4,931,000	$ 4,655,000

STATEMENT OF CHANGES IN DEFICIENCY

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

	2004	2003
Deficiency at beginning of year (Notes 10 and 11)	$ (584,213)	$ (531,528)
Increase in net assets available for benefits	410,145	509,315
Net increase in liability for accrued benefits	(276,000)	(562,000)
Deficiency at end of year (Notes 10 and 11)	$ (450,068)	$ (584,213)

See accompanying notes and schedules.

PUBLIC SERVICE PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Public Service Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 368/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies. The Plan is a registered pension plan as defined in the *Income Tax Act.* The Plan's registration number is 0208769.

(b) Funding Policy

Current service costs and the Plan's actuarial deficiency (see Note 10) are funded equally by employers and employees at rates, which together with investment earnings, are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 2004 were unchanged at 6.17% of pensionable salary up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 8.81% of the excess for employees. Employers provide matching contributions. The rates are to be reviewed at least once every three years by the Board based on recommendations of the Plan's actuary.

(c) Retirement Benefits

The Plan provides a pension of 1.4% for each year of pensionable service based on average salary of the highest five consecutive years up to the YMPE and 2.0% on the excess, subject to the maximum benefit limit allowed under the federal *Income Tax Act*. The maximum service allowable under the Plan is 35 years. 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) Termination Benefits

Members who terminate with at least two years of service and are not immediately entitled to a pension may receive the commuted value of their pension for all service which is subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than two years of service receive a refund of their contributions and interest.

(e) Disability Benefits

Unreduced pensions are payable to members who become totally disabled and have at least two years of service. Reduced pensions are payable to members who become partially disabled and have at least two years of service.

NOTE 1 (continued)

(f) Death Benefits

Death benefits are payable on the death of a member. If the member has at least two years of service, a surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where service is less than two years, a lump sum payment must be chosen.

(g) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the commuted value for all service.

(h) Cost-of-Living Adjustments

Pensions payable are increased on January 1st each year by an amount equal to at least 60% of the average of the increases in the Alberta Consumer Price Index during the twelve-month period ending on October 31st of the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

Except for real rate of return bonds which are held directly by the Plan, Plan investments are held in pooled investment funds administered by Alberta 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:

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.

NOTE 2 (continued)

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 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:

Equity and bond index swaps are valued based on changes in the appropriate market index net of accrued floating rate interest.

PUBLIC SERVICE PENSION PLAN

NOTE 2 (continued)

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index future contracts are based on quoted market prices.

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

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

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

(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 liability for accrued benefits. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Plan's liability for accrued benefits, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements. Differences between actual results and expectations are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in liability for accrued benefits.

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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)	$ 76,956	1.7	$ 62,826	1.6
Canadian Dollar Public Bond Pool (b)	993,226	22.2	875,253	21.6
Real rate of return bonds (c)	256,764	5.8	237,233	5.8
Private Mortgage Pool (d)	170,039	3.8	156,768	3.9
Total fixed income securities	1,496,985	33.5	1,332,080	32.9
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (e)	378,856	8.5	374,263	9.2
Canadian Small Cap Equity Pool (e)	70,020	1.6	63,886	1.6
Domestic Passive Equity Pooled Fund (f)	269,958	6.0	255,526	6.3
Canadian Pooled Equities Fund (g)	136,179	3.1	131,234	3.2
	855,013	19.2	824,909	20.3
United States Equities (Schedule C)				
US Passive Equity Pooled Fund (h)	510,609	11.4	411,461	10.2
External Managers				
US Large Cap Equity Pool (i)	333,901	7.5	327,798	8.1
US Mid/Small Cap Equity Pool (i)	64,024	1.4	52,654	1.3
S&P 500 Pooled Index Fund (h)	865	-	836	-
	909,399	20.3	792,749	19.6
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool (j)	501,067	11.2	486,188	12.0
EAFE Plus Equity Pool (j)	248,604	5.6	218,803	5.4
Emerging Markets Equity Pool (k)	47,421	1.1	-	-
EAFE Passive Equity Pool	-	-	901	-
EAFE Structured Equity Pooled Fund (l)	125,722	2.8	158,699	3.9
	922,814	20.7	864,591	21.3
Alternative Investments - Equities				
Private Equity 2002 , Private Equity 2004				
and Private Income Pool (m)	22,572	0.5	3,465	0.1
Real Estate Equities (Schedule E)				
Private Real Estate Pool (n)	258,649	5.8	234,954	5.8
Total equities	2,968,447	66.5	2,720,668	67.1
Total investments	$ 4,465,432	100.0	$ 4,052,748	100.0

PUBLIC SERVICE 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 invest in publicly traded Canadian equities with a market capitalization of up to 0.15% of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(f) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(g) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

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

(i) The External Managers US Large Cap Equity Pool consists of multiple portfolios and the External Managers US Mid/Small Cap Equity Pool consists of a single portfolio of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US large cap or mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the S&P 500 Index for the US Large Cap Pool and the Russell 2500 Index for the US Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

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NOTE 3 (continued)

(j) The External Managers EAFE (Europe, Australasia and Far East) Core and Plus Equity Pools consist of multiple portfolios of publicly traded Non-North American equities. Each core portfolio is actively managed by an external manager and has constraints on foreign currency management and deviations from the Morgan Stanley Capital International (MSCI) EAFE Index asset mix by country. The EAFE Plus portfolios are actively managed by external managers with fewer constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the MSCI EAFE Index over a four-year period while reducing return volatility through multiple manager investment style and market diversification.

(k) The External Managers Emerging Markets Equity Pool consists 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 International (MSCI) Emerging Markets Free (EMF) Index over a four-year period.

(l) 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.

(m) 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.

(n) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through intermediary companies which have issued to the pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The pool is intended to provide diversification from the securities market.

NOTE 4 INVESTMENT RISK MANAGEMENT

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. 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 target policy asset mix of 35% fixed income instruments and 65% equities. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

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NOTE 5 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to credit, interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the Plan's proportionate share of the notional amount and net fair value of derivative contracts held by pooled funds at December 31, 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	78	22	-	$ 782,631	$31,381	$ 718,889	$ 30,463
Cross-currency interest rate swap contracts	32	29	39	305,571	(19,931)	266,404	(28,887)
Interest rate swap contracts	38	57	5	303,180	(12,690)	319,818	(16,567)
Forward foreign exchange contracts	100	-	-	115,135	154	224,034	2,713
Credit default swap contracts	17	18	65	87,180	309	12,150	(149)
Bond index swap contracts	100	-	-	19,363	376	14,096	20
Equity index futures contracts	100	-	-	18,210	2,080	11,402	1,394
				$1,631,270	$ 1,679	$1,566,793	$(11,013)

(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.

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NOTE 6 CONTRIBUTIONS RECEIVABLE

(thousands)

	2004	2003
Employers	$ 7,590	$ 7,278
Employees	7,595	7,253
	$ 15,185	$ 14,531

NOTE 7 ACCRUED BENEFITS

(a) Actuarial Valuation

` An actuarial valuation of the Plan was carried out as at December 31, 2002 by Aon Consulting Inc. and was then extrapolated to December 31, 2004.

Actuarial valuations were determined using the projected benefit method, based 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:

	December 31	
	2004 Extrapolation %	2002 Valuation and 2003 Extrapolation %
Investment rate of return	7.00	7.00
Inflation rate	3.25	3.25
Salary escalation rate*	3.75	3.75
Pension cost of living increase as a percentage of Alberta Consumer Price Index	60.00	60.00

* In addition to merit and promotion.

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NOTE 7 (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%	$ 308	0.55%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	250	1.06%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	794	2.60%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2002 valuation was 10.46%.

NOTE 8 NET INVESTMENT INCOME

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

(thousands)

	2004	2003
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ 244,565	$ 406,551
Interest income	105,326	92,827
Dividend income	37,930	32,478
Real estate income	13,241	12,753
Securities lending income	1,081	1,058
Pooled funds management and associated custodial fees	(6,964)	(4,511)
	$ 395,179	$ 541,156

PUBLIC SERVICE PENSION PLAN

NOTE 8 (continued)

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	$ 128,371	$ 101,117
Canadian Equities	116,706	172,446
Foreign Equities		
United States	24,778	130,639
Non-North American	100,411	114,968
Alternative Investments - Equities	86	(1)
Real Estate Equities	24,827	21,987
	$ 395,179	$ 541,156

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	9.7%	3.2%	7.0%
Policy Benchmark**	9.4%	2.8%	6.8%

* The measure involves the calculation of the net return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

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

NOTE 9 PLAN EXPENSES

(thousands)

	2004	2003
General administration costs	$ 5,780	$ 6,118
Investment management costs	762	721
Board costs	180	192
Actuarial fees	95	112
Other professional fees	228	157
	$ 7,045	$ 7,300

General administration and Board costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

NOTE 9 (continued)

Investment management costs were paid to Alberta Finance and do not include pooled funds management and associated custodial fees, which have been included in the calculation of net investment income (see Note 8).

In 2004, total Plan expenses of $7,045,000 amounted to $109 per member (2003 $117 per member).

NOTE 10 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 extrapolation purposes amounted to $4,303 million at December 31, 2004 (2003 $4,059 million).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency of $435 million as determined by an actuarial funding valuation as at December 31, 2002 is funded by a special payment of 2.76% of pensionable earnings shared equally between employees and employers commencing on September 1, 2003 and continuing for 15 years from the date of valuation to December 31, 2017. The special payment is included in the rates in effect at December 31, 2004 (see Note 1(b)).

NOTE 11 CHANGE IN ACCOUNTING POLICY

In order to eliminate any misunderstanding about the actual financial position of the Plan, in 2004, a change in accounting policy was introduced 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 $178 million. If the change had not been made, the Plan's deficiency would have been $628 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 $356 million at December 31, 2002 and decrease retroactively the Plan's deficiency by $12.0 million at December 31, 2003.

NOTE 12 COMPARATIVE FIGURES

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

NOTE 13 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Public Service Pension Board.

PUBLIC SERVICE PENSION PLAN

SCHEDULES TO THE PUBLIC SERVICE 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	$ 83,082	$ 67,624
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	533,482	459,480
Provincial		
Alberta, direct and guaranteed	627	669
Other, direct and guaranteed	240,187	140,900
Municipal	13,020	13,421
Corporate	370,530	406,378
Private		
Corporate	252,037	242,947
	1,409,883	1,263,795
Receivable from sale of investments and accrued investment income	12,124	11,378
Liabilities for investment purchases	(8,104)	(10,717)
	4,020	661
	$ 1,496,985	$ 1,332,080

(a) Fixed income securities held as at December 31, 2004 had an average effective market yield of 4.00% per annum (2003 4.41% 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	31	32
6 to 10 years	28	26
11 to 20 years	15	12
over 20 years	24	28
	100	100

PUBLIC SERVICE 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	$ 8,265	$ 8,645
Public equities (a) (b)		
Consumer discretionary	66,629	64,610
Consumer staples	41,755	38,197
Energy	148,903	117,168
Financials	257,268	240,101
Health care	16,740	20,295
Industrials	66,917	84,406
Information technology	48,910	46,869
Materials	149,349	137,847
Telecommunication services	36,240	38,478
Utilities	5,159	18,807
	837,870	806,778
Passive index	1,119	1,152
	838,989	807,930
Receivable from sale of investments and accrued investment income	8,269	9,740
Liabilities for investment purchases	(510)	(1,406)
	7,759	8,334
	$ 855,013	$ 824,909

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $192,175,000 (2003 $166,983,000) 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.

PUBLIC SERVICE PENSION PLAN

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	$ 28,819	$ 31,676
Public equities (a) (b)		
Consumer discretionary	138,892	122,793
Consumer staples	76,969	73,904
Energy	61,009	45,031
Financials	176,009	153,400
Health care	109,714	94,123
Industrials	113,481	87,851
Information technology	125,138	124,867
Materials	31,482	27,320
Telecommunication services	23,658	21,418
Utilities	25,038	18,760
	881,390	769,467
Passive index	-	143
	881,390	769,610
Receivable from sale of investments and accrued investment income	5,638	4,985
Liabilities for investment purchases	(6,448)	(13,522)
	(810)	(8,537)
	$ 909,399	$ 792,749

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $489,975,000 (2003 $392,455,000), which were used as underlying securities to support the notional amount of U.S. equity index swaps contracts and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

PUBLIC SERVICE PENSION PLAN

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	$ 17,878	$ 15,807
Public equities (a) (b)		
Consumer discretionary	125,995	128,427
Consumer staples	51,246	66,401
Energy	76,149	61,864
Financials	245,104	205,385
Health care	53,531	66,407
Industrials	99,824	91,668
Information technology	43,420	50,116
Materials	72,455	64,445
Telecommunication services	77,277	76,088
Utilities	35,146	32,527
	880,147	843,328
Passive index	19,938	121
Receivable from sale of investments and accrued investment income	8,854	8,703
Liabilities for investment purchases	(4,003)	(3,368)
	4,851	5,335
	$ 922,814	$ 864,591

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $118,691,000 (2003 $152,413,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps contracts.

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

	Plan's Share 2004	Plan's Share 2003
United Kingdom	$ 196,246	$ 197,395
Japan	157,555	141,644
France	79,874	84,809
Germany	61,292	61,421
Switzerland	59,804	68,020
Netherlands	48,797	47,916
Australia	40,819	44,199
Italy	36,663	37,017
Sweden	22,678	16,269
Spain	21,770	22,920
Other	154,649	121,718
	$ 880,147	$ 843,328

PUBLIC SERVICE 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	$ 27	$ 191
Real estate (a)		
Office	129,276	104,191
Retail	92,834	98,633
Industrial	20,392	15,927
Residential	12,529	13,791
	255,031	232,542
Passive index	3,223	1,622
Receivable from sale of investments and accrued investment income	368	599
	$ 258,649	$ 234,954

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

	Plan's Share 2004	Plan's Share 2003
Ontario	$ 165,328	$ 169,954
Alberta	56,540	57,820
Quebec	28,724	-
British Columbia	4,439	4,768
	$ 255,031	$ 232,542