SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Financial Statements

YEAR ENDED DECEMBER 31, 2004

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance

I have audited the Statement of Net Assets Available for Benefits of the Supplementary Retirement Plan for Public Service Managers (the Plan) as at December 31, 2004 and the Statement of Changes in Net Assets Available for Benefits for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits of the Plan as at December 31, 2004 and the Changes in Net Assets Available for Benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

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

Edmonton, Alberta
April 29, 2005

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As at December 31, 2004 *(thousands)*

	2004	2003
Net Assets Available for Benefits		
Assets		
Portfolio investments (Note 3)	$ 4,196	$ 2,813
Refundable income tax	5,405	3,707
Contributions receivable	15	4
	9,616	6,524
Liabilities		
Actuarial value of accrued benefits (Note 6)	19,434	14,161
Income tax payable	193	190
Other payables	101	87
	19,728	14,438
Excess of liabilities over assets	(10,112)	(7,914)
SRP Reserve Fund (Note 7)	19,516	17,226
Net assets available for benefits	$ 9,404	$ 9,312

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

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

	2004	2003
Increase in assets		
Contributions		
Employees	$ 1,643	$ 1,376
Employers	1,643	1,376
Net investment income (Note 8)	263	64
	3,549	2,816
Decrease in assets		
Increase in actuarial value of accrued benefits	(5,273)	(3,878)
Benefits and refunds	(79)	(44)
Administration expenses (Note 9)	(395)	(368)
	(5,747)	(4,290)
Increase in the SRP Reserve Fund (Note 7)	2,290	4,314
Increase in net assets	92	2,840
Net assets available for benefits at beginning of year	9,312	6,472
Net assets available for benefits at end of year	$ 9,404	$ 9,312

The accompanying notes are part of these financial statements.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Supplementary Retirement Plan for Public Service Managers (the Plan) is a summary only. For a complete description of the Plan, reference should be made to sections 5, 7 and 98 of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and the Retirement Compensation Arrangement Directive (Treasury Board Directive 01/99 and 04/99), as amended.

(a) General

The Plan was established on July 1, 1999 to provide additional pension benefits to certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the yearly maximum pensionable earnings limit as defined by the federal *Income Tax Act.* The Plan is supplementary to the MEPP. Services under MEPP are used to determine eligibility for vesting and early retirement. A member's pension commencement date is the same under both Plans and the pension is payable in the same form. Members of MEPP who have attained 35 years of combined pensionable service at the Plan's inception are not eligible to participate in the Plan.

(b) Funding Policy

Current service costs are funded by employee and employer contributions which together with investment earnings and transfers from the SRP Reserve Fund (see Note 7) are expected to provide for all benefits payable under the Plan. The contribution rate for designated employers equals or exceeds the rate for eligible employees. The contribution rates in effect at December 31, 2004 were unchanged at 9.5% of pensionable salary in excess of the *yearly* maximum pensionable earnings limit for eligible employees and designated employers. An actuarial valuation of the Plan is required to be performed at least once every three years. The rates are to be reviewed periodically by the Minister of Finance.

(c) Benefits

The Plan provides a pension of 2.0% of pensionable earnings that are in excess of the *Income Tax Act's* yearly maximum pensionable earnings limit for each year of pensionable service after July 1, 1999, based on the average salary of the highest five consecutive years.

Members are entitled to an unreduced pension on service if they retire with at least five years of combined pensionable service and have either attained age 60, or age 55 and the sum of their age and combined pensionable service equals 80. Pensions are reduced if the member is under age 60 and the 80 factor is not attained.

Disability, death, termination benefits and cost-of-living adjustments under this Plan follow those of the MEPP.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

NOTE 1 (continued)

(d) Guarantee

Designated employers guarantee payment of all benefits arising under the Plan. If assets held in the Plan are insufficient to pay for benefits as they become due, the amount due is payable by designated employers.

(e) Surplus Plan Assets

The Government has the right to amend or discontinue the Plan in whole or in part at any time. Any assets remaining in the Plan after provision for benefits payable to or in respect of members on the complete wind-up of the Plan accrue to the Government.

(f) Income Taxes

The Plan is a Retirement Compensation Arrangement (RCA) as defined in the *Income Tax Act*. Refundable income tax is remitted on investment earnings and any cash contributions from eligible employees and designated employers at the rate of 50%. Refundable income tax is returned to the Plan at the same rate when pension benefits payments are made to plan members and beneficiaries.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of Presentation

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

Plan investments are held in pooled investment funds administered 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 by pooled investment funds are explained in the following paragraphs:

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Due to uncertainties about the timing of benefits and refunds payments, it is not practicable to estimate the fair value of refundable income tax. Refundable income tax is carried at cost.

The fair values of deposits, other receivables, accrued investment income and payables are estimated to approximate their book values.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

NOTE 2 (continued)

(c) Income Recognition

Dividends are accrued on the ex-dividend date. Investment income is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(d) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts, credit default swaps and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

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

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

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

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

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

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

(e) 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.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

NOTE 2 (continued)

While best estimates have been used in the calculation, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements. Differences between actual results and expectations are disclosed as assumption or other changes and net experience gains or losses in the note describing changes in the actuarial value of accrued benefits (see Note 6(a)).

NOTE 3 PORTFOLIO INVESTMENTS

	2004 Fair Value	%	2003 Fair Value	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 1,644	39.2	$ 2,813	100.0
Canadian Dollar Public Bond Pool (b)	1,509	36.0	-	-
Total fixed income securities	3,153	75.2	2,813	100.0
Equities (Schedule B)				
Canadian Equities				
Canadian Pooled Equities Fund (c)	808	19.2	-	-
Growing Equity Income Pool (d)	214	5.1	-	-
	1,022	24.3	-	-
United States Equities				
Growing Equity Income Pool (d)	21	0.5	-	-
Total equities	1,043	24.8	-	-
Total investments	$ 4,196	100.0	$ 2,813	100.0

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The 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.

(d) 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.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

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 Minister has established a benchmark policy asset mix of 45% fixed income instruments and 55% equities. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE 5 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The 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.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

NOTE 5 (continued)

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)
		%					
Cross-currency interest rate swap contracts	10	9	81	$ 132	$ (11)	$ -	$ -
Forward foreign exchange contracts	100	-	-	31	1	-	-
Bond index swap contracts	100	-	-	29	1	-	-
Equity index futures contracts	100	-	-	18	1	-	-
Credit default swap contracts	-	-	100	9	-	-	-
Interest rate swap contracts	100	-	-	4	-	-	-
				$ 223	$ (8)	$ -	$ -

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

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 ACTUARIAL VALUE OF ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2002 by Aon Consulting Inc. and was then extrapolated to December 31, 2004. Actuarial valuations were determined using the projected benefit method prorated on service. The assumptions used in the valuation were developed as the best estimate of expected short-term and long-term market conditions and other future events. After consultation with the Plan's actuary, the Plan's management approved this best estimate.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

NOTE 6 **(continued)**

The major assumptions used were:

	2003 and 2004 Extrapolation %	2002 Valuation %
Discount rate *	4.50	4.50
Inflation rate	3.00	3.00
Investment rate of return	6.00	6.00
Salary escalation rate **	3.50	3.50
Pension cost-of-living increase as a percentage of Alberta Consumer Price Index	60.0	60.0

* Discount rate is on an after-tax basis.
** In addition to merit and promotion which averages 1.5%.

The following table shows the principal components of the change in the actuarial value of accrued benefits:

(thousands)

	2004	2003
Actuarial value of accrued benefits at beginning of year	$ 14,161	$ 10,283
Interest accrued on benefits	741	611
Benefits earned	4,707	3,311
Impact of changes in the yearly maximum pension accruals limit	(96)	-
Benefits and refunds	(79)	(44)
Actuarial value of accrued benefits at end of year	$ 19,434	$ 14,161

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

NOTE 6 (continued)

The following is a summary of the sensitivities of the Plan's net assets and current service cost to changes in assumptions used in the actuarial valuation at December 31, 2004:

		Sensitivities	
	Changes in Assumptions %	Decrease in Net Assets ($ millions)	Increase in Benefits Earned ($ millions)
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 1.5	$ 0.3
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	4.3	1.1
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant*	(1.0%)	4.4	1.2

* Sensitivities includes investment return of assets held by the SRP Reserve Fund (Note 7).

NOTE 7 SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND (SRP RESERVE FUND)

Designated employers guarantee payment of all benefits arising under the Plan (see Note 1 (d)). To provide for their future obligations to the Plan, designated employers contribute to a Reserve Fund at rates established by the Minister of Finance. The rate in effect at December 31, 2004, as recommended by the Plan's actuary, was unchanged at 6.8% of pensionable salary of eligible employees that was in excess of the yearly maximum pensionable earnings limit as defined by the *Income Tax Act.* The actuary has advised that any impairment of the Plan's surplus assets will result in an increase in the 6.8% employer contribution rate to the Reserve Fund.

The Reserve Fund is a regulated fund established and administered by the Minister of Finance to collect contributions from designated employers and to invest the funds, which are reserved to meet future benefit payments of the Plan.

As at December 31, 2004, the Reserve Fund had net assets with fair value totalling $19,516,000 (2003 $17,226,000), comprising $19,427,000 (2003 $17,792,000) in portfolio investments and $89,000 in contributions receivable (2003 $566,000 in payables, net). The increase during the year of $2,290,000 (2003 $4,314,000) is attributed to contributions from employers of $1,162,000 (2003 $3,837,000) and investment income of $1,128,000 (2003 $477,000).

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

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	$ 141	$ -
Interest income	105	64
Dividend income	18	-
Pool funds management and associated custodial fees	(1)	-
	$ 263	$ 64

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

	2004	2003
Fixed Income Securities	$ 130	$ 64
Equities	133	-
	$ 263	$ 64

NOTE 9 ADMINISTRATION EXPENSES

Administration expenses including investment management costs in the amount of $11,000 (2003 $nil) were charged to the Plan on a cost-recovery basis.

Administration expenses amounted to $373 (2003 $373) per member.

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 approved by the Advisory Committee for the Supplementary Retirement Plan for Public Service Managers.

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

SCHEDULES TO THE SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

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	$ 1,651	$ 2,813
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	421	-
Provincial		
Alberta, direct and guaranteed	1	-
Other, direct and guaranteed	352	-
Municipal	20	-
Corporate	562	
Private		
Corporate	142	-
	1,498	-
Receivable from sale of investments and accrued investment income	16	-
Liabilities for investment purchases	(12)	-
	4	-
	$ 3,153	$ 2,813

(a) Fixed income securities held as at December 31, 2004 had an average effective market yield of 4.31% per annum (2003 2.38% 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	100
1 to 5 years	39	-
6 to 10 years	31	-
11 to 20 years	13	-
over 20 years	15	-
	100	100

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

SCHEDULE OF INVESTMENTS IN EQUITIES

Schedule B

Year Ended December 31, 2004 *(thousands)*

	Plan's Share 2004	Plan's Share 2003
Deposits and short-term securities	$ 3	$ -
Canadian public equities (a) (b)		
Consumer discretionary	62	-
Consumer staples	48	-
Energy	198	-
Financials	345	-
Health care	16	-
Industrials	72	-
Information technology	53	-
Materials	155	-
Telecommunication services	52	-
Utilities	10	-
	1,011	-
United States public equities (b)		
Financials	15	-
Industrials	6	-
	21	
Receivable from sale of investments and accrued investment income	8	-
	$ 1,043	$ -

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $18,000 (2003 $nil), which were used as underlying securities to support Canadian equity index futures contracts.

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