ALBERTA CAPITAL FINANCE AUTHORITY

Financial Statements

DECEMBER 31, 2005

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Shareholders of the Alberta Capital Finance Authority

I have audited the balance sheet of the Alberta Capital Finance Authority as at December 31, 2005 and the statements of loss and retained earnings and cash flow for the year then ended. These financial statements are the responsibilitiy of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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

Edmonton, Alberta
January 27, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

ALBERTA CAPITAL FINANCE AUTHORITY

BALANCE SHEET

As at December 31, 2005

	2005		2004
	Budget	Actual	Actual
		($ thousands)	
Assets:			
Cash (Note 3)	$ 91,590	$ 10,304	$ 23,025
Accrued interest receivable	103,246	109,662	121,988
Loans to local authorities (Note 4)	3,894,136	4,293,356	4,135,820
	$ 4,088,972	$ 4,413,322	$ 4,280,833
Liabilities and Shareholders' Equity:			
Liabilities:			
Accrued interest payable	$ 48,324	$ 53,751	$ 56,329
Debt (Note 5 and Schedule 1)	4,032,065	4,347,834	4,211,776
	4,080,389	4,401,585	4,268,105
Shareholders' equity:			
Share capital (Note 6)			
Issued and fully paid:			
6,378 shares (2004 - 6,376)	64	64	64
Retained earnings	8,519	11,673	12,664
	8,583	11,737	12,728
	$ 4,088,972	$ 4,413,322	$ 4,280,833

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

D. O. Lussier
Chair of the Board

T. S. Stroich, FCA
President

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STATEMENT OF LOSS AND RETAINED EARNINGS

For the Year Ended December 31, 2005

	2005		2004
	Budget	Actual	Actual
		($ thousands)	
Interest Income:			
Loans	$ 276,985	$ 277,000	$ 298,412
Amortization of loan discounts	6,424	6,424	9,175
Other	3,600	2,594	2,815
	287,009	286,018	310,402
Interest Expense:			
Debt	288,699	285,312	319,704
Amortization of net discounts on debt	661	796	1,378
	289,360	286,108	321,082
Net interest expense	(2,351)	(90)	(10,680)
Other Income:			
Loan prepayment fees	-	66	1,577
Net interest expense and other income	(2,351)	(24)	(9,103)
Non-Interest Expense:			
Administration and office expenses (Note 7)	649	967	639
Net loss	(3,000)	(991)	(9,742)
Retained earnings, beginning of year	11,519	12,664	22,406
Retained earnings, end of year	$ 8,519	$ 11,673	$ 12,664

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

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STATEMENT OF CASH FLOW

For the Year Ended December 31, 2005

	2005 Budget	2005 Actual	2004 Actual
		($ thousands)	
Operating Activities:			
Interest received	$ 289,878	$ 289,326	$ 304,613
Other interest	3,600	2,594	2,815
Loan prepayment fees	-	66	1,577
Administration and office expenses	(649)	(967)	(639)
Interest paid	(291,830)	(287,890)	(316,021)
Cash flows from (used in) operating activities	999	3,129	(7,655)
Investing Activities:			
Loan repayments	497,174	500,825	397,916
New loans issued	(250,000)	(651,937)	(607,463)
Cash flows (used in) from investing activities	247,174	(151,112)	(209,547)
Financing Activities:			
Debt issues	253,993	967,866	713,410
Debt redemptions	(433,365)	(832,604)	(475,491)
Cash flows from (used) financing activities	(179,372)	135,262	237,919
Net (decrease) increase in cash	68,801	(12,721)	20,717
Cash, beginning of year	22,789	23,025	2,308
Cash, end of year	$ 91,590	$ 10,304	$ 23,025

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

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

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

NOTE 1 AUTHORITY

The Alberta Capital Finance Authority operates under the authority of the *Alberta Capital Finance Authority Act*, Chapter A-14.5, Revised Statutes of Alberta 2000, as amended.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and include the following significant accounting policies:

(a) Debt

Debt premiums and discounts, including underwriting commission, arising on the issue of debt are deferred and amortized over the term of the debt.

Debt is recorded net of unamortized premiums or discounts.

Public debt issue expenses are charged against income as they are incurred.

(b) Discounts on Loans to Local Authorities

Discounts are recorded for reductions of interest rates given on loans to local authorities with interest rates above a certain level and are amortized to income over the term of these loans. Annual amortization is the change in the present value of the remaining interest rate reduction.

(c) Measurement Uncertainty

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates. Measurement uncertainty exists in the valuation of the loans to local authorities and the estimate of fair value of financial instruments.

(d) Credit Risk

Credit risk is the risk of loss due to borrowers failing to meet their obligations to the Authority. Historically, the Authority has not needed to record any provisions or allowances regarding credit losses nor has it suffered any such losses. The Authority has established policies which provide for the approval and monitoring of all lending activity. These policies include establishing clear lines of authority for decision making and for accountability.

(e) Derivative Financial Instruments

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

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Note 2 (continued)

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

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

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

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

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

NOTE 3 CASH

Cash is on deposit in the Consolidated Cash Investment Trust Fund of the Province of Alberta which is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at December 31, 2005, securities held by the Fund have an average effective market yield of 3.62% per annum (December 31, 2004: 2.64% per annum).

NOTE 4 LOANS TO LOCAL AUTHORITIES

	2005	2004
Loans to local authorities	$ 4,301,317	$ 4,150,205
Less: Unamortized discounts	7,961	14,385
	$ 4,293,356	$ 4,135,820

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NOTE 5 DEBT

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

(b) Debt amounting to $1,920,963 (2004 - $2,204,567) held by the Canada Pension Plan Investment Fund (CPPIF) is redeemable at the option of the Minister of Finance of Canada by giving six months notice in writing and observing the other redemption provisions of the debt agreement.

(c) Debt amounting to $565,000 (2004 - $302,000) is comprised of a combination of various issues of step-up and accrual notes whereby the Authority has the option of extending or calling the debt, at predetermined extension or call dates. Principal is due upon termination of the debt, where debt is called or not extended by the Authority at the predetermined extension or call date, or upon final maturity of the debt (Schedule 1).

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

	Debt Redemption
2006	$ 950,396
2007	345,383
2008	259,294
2009	330,523
2010	200,000
	$ 2,085,596

NOTE 6 SHARE CAPITAL

Particulars of share capital are as follows:

		Number of Shares		
Class	Restricted to	Authorized	Issued and Fully Paid	Total Dollar Amount
A	Province of Alberta	4,500	4,500	$45,000
B	Municipal authorities, airport and health authorities	1,000	860	8,600
C	Cities	750	585	5,850
D	Towns and villages	750	296	2,960
E	Educational authorities	500	137	1,370
		7,500	6,378	$63,780

During the year, one Class B, three Class C and one Class E shares were issued and three Class D shares were cancelled at $10.00 each.

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NOTE 7 DIRECTORS' FEES AND RELATED PARTY TRANSACTIONS

Directors' fees paid by the Authority are as follows:

	2005		2004	
	Number of Individuals	Total	Number of Individuals	Total
Chair of the Board	1	$ 6	1	$ 5
Board members	6	$ 16	6	$ 18

There are two additional Board members who are employees of the Province of Alberta and do not receive compensation from the Authority.

The Authority has advanced loans to local authorities under the ME *first!* Municipal Energy Efficiency Assistance program (the "Program") on behalf of Alberta Municipal Affairs and Alberta Environment. Under the Program, principal is advanced to qualifying municipalities by the Authority and repayments of principal are made by the municipality; however, the interest is paid by the Province of Alberta. Included in the balance of loans to local authorities at December 31, 2005 is principal of $12,978 (2004 - $5,536), upon which, interest of $188 (2004 - $122) has been recorded in interest income from loans.

The Authority has no employees. Included in administration and office expenses of $967 (2004 - $639) is the amount of $417 (2004 - $331) that was paid to the controlling shareholder, Province of Alberta for goods and services at prices which approximate market.

NOTE 8 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

	As at December 31					
Maturities	Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	Total
Interest rate contracts						
Interest rate swaps - 2005	$ 449,000	$ 21,380	$ 102,477	$ 419,070	$ 1,342,707	$2,334,634
Interest rate swaps - 2004	$ 302,000	$ -	$ 46,713	$ 162,251	$ 647,196	$1,158,160

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Note 8 (continued)

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

	As at December 31			
			Current Replacement Cost	
	Notional Outstanding	Net Fair Value	Favourable Position	Unfavourable Position
Interest rate contracts				
Interest rate swaps - 2005	$ 2,334,634	$ (12,393)	$ 27,802	$ (40,195)
Interest rate swaps - 2004	$ 1,158,160	$ (3,595)	$ 12,308	$ (15,903)

Fair values are determined using pricing models which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions. Fair values have been segregated between those contracts which are in a favourable position (positive fair value) and those contracts which are in an unfavourable position (negative fair value).

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

NOTE 9 INTEREST RATE RISK

Interest rate risk refers to the potential impact of changes in interest rates on the Authority's earnings when maturities of its financial assets are not matched with the maturities of its financial debt. The following table summarizes the carrying amounts of the Authority's interest sensitive assets and liabilities based on the earlier of contractual repricing or principal repayments:

	As at December 31						
Maturities	**Within 1 Year**	**1 to 2 Years**	**3 to 5 Years**	**6 to 10 Years**	**Over 10 Years**	**2005 Total**	**2004 Total**
Assets							
Cash	$ 10,304	$ -	$ -	$ -	$ -	$ 10,304	$ 23,025
Accrued Interest Receivable	109,662					109,662	121,988
Loans	390,354	444,778	1,055,479	1,128,168	1,282,538	4,301,317	4,150,205
Effective Rate	7.0%	6.9%	6.6%	6.1%	5.7%	6.4%	7.2%
Total	$ 510,320	$ 444,778	$1,055,479	$1,128,168	$1,282,538	$4,421,283	$4,295,218
Liabilities							
Accrued Interest Payable	$ 53,751	$ -	$ -	$ -	$ -	$ 53,751	$ 56,329
Debt	950,396	345,383	789,817	1,250,000	1,020,367	4,355,963	4,216,567
Effective Rate	7.4%	6.9%	6.1%	5.7%	5.5%	6.3%	6.9%
Total	1,004,147	345,383	789,817	1,250,000	1,020,367	4,409,714	4,272,896
Net Gap	$ (493,827)	$ 99,395	$ 265,662	$ (121,832)	$ 262,171	$ 11,569	$ 22,322

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Note 9 (continued)

The Authority manages on a continuous basis its interest rate risk by matching its debt maturity profile to the forecast cash flows and their effect on the Authority's surplus position. For most loans made after January 1, 2004, the Authority uses derivative financial instruments to swap fixed rate loans interest to floating, and swap corresponding debt from fixed rate to floating and uses forward rate contracts to minimize the exposure related to the mismatch of reset dates of the loan and debt swaps.

NOTE 10 FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out in the table represent the fair value of the Authority's financial instruments based on the following assumptions and valuation methods.

Fair value represents the estimated consideration that would be agreed upon in a current transaction between knowledgeable, willing parties who are under no compulsion to act. For loans and debt, fair value is calculated using net present value techniques where the Authority's future cash flows are discounted at the Authority's current cost of funds.

Changes in interest rates are the main cause of changes in the fair value of the Authority's financial instruments.

The fair value of cash approximates its carrying value.

The following table presents the financial instruments with a carrying value different from the fair value at December 31:

	2005		2004	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Loans, including accrued interest receivable	$4,826,948	$4,403,018	$4,737,552	$4,257,808
Debt, including accrued interest payable	$4,772,766	$4,401,585	$4,704,483	$4,268,105

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

NOTE 11 COMMITMENTS

Lease

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

Credit Commitments

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

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

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Note 11 (continued)

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

	2005	2004
Loan commitments as at December 31	$17,381	$28,600

NOTE 12 BUDGET

The 2005 budget was approved by the Board of Directors on December 3, 2004.

NOTE 13 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year presentation.

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SCHEDULE TO THE FINANCIAL STATEMENTS

SCHEDULE OF DEBT

Schedule 1

As at December 31, 2005

Maturity Date	First Extendible Date	Interest Rate	Principal Outstanding	
			($ thousands)	
Canada Pension Plan Investment Fund (Note 5(b))				
Nov 03, 2006		9.850	$ 395,396	
Nov 02, 2007		9.660	335,383	
Oct 03, 2008		10.04	259,294	
Oct 02, 2009		9.990	291,414	
Nov 01, 2009		9.620	32,457	
Dec 01, 2009		9.260	6,652	
Oct 01, 2020		6.280	222,367	
Jun 01, 2022		6.060	100,000	
Apr 05, 2023		5.890	50,000	
Dec 01, 2023		5.500	150,000	
Dec 03, 2024		5.180	78,000	
Total			1,920,963	
Public				
Mar 24, 2008	Mar 24, 2006	3.000	16,000	(i)
Mar 01, 2010		4.550	50,000	
Aug 20, 2010		4.500	150,000	
Jun 23, 2011	Jun 23, 2006	3.000	10,000	(i)
Sep 01, 2011		5.700	200,000	
Sep 15, 2011	Sep 15, 2006	3.500	10,000	(i)
Dec 15, 2011		4.435	50,000	
Dec 15, 2011	Dec 15, 2006	3.300	13,000	(i)
May 11, 2012	May 11, 2006	3.250	10,000	(i)
Jun 01, 2012		5.850	500,000	
Jun 28, 2013	Jun 28, 2006	3.500	15,000	(i)
Oct 12, 2013	Oct 12, 2006	3.250	10,000	(i)
Dec 02, 2013		5.000	300,000	
Dec 15, 2014	Jun 15, 2006	4.000	25,000	(i)
Dec 15, 2014	Jun 15, 2006	4.300	30,000	(i)
Mar 23, 2015	Mar 23, 2006	4.250	20,000	(ii)
Mar 30, 2015	Mar 30, 2006	4.050	15,000	(i)
Apr 06, 2015	Apr 06, 2006	4.150	15,000	(i)
Jun 01, 2015		4.900	200,000	
Jun 15, 2015	Jun 15, 2006	4.000	10,000	(i)
Jun 15, 2015	Jun 15, 2006	4.100	45,000	(i)
Jun 15, 2015	Jun 15, 2006	4.000	17,000	(i)
Jun 15, 2015	Jun 15, 2006	3.250	15,000	(i)
Jun 23, 2015	Jun 23, 2006	3.700	15,000	(ii)
Jun 28, 2015	Jun 28, 2006	4.300	20,000	(ii)
Sep 15, 2015	Sep 15, 2006	4.240	10,000	(ii)
Dec 15, 2015	Jun 15, 2006	4.150	20,000	(i)
Jun 15, 2016	Jun 15, 2006	4.000	25,000	(i)
May 15, 2017	May 15, 2006	4.000	25,000	(i)

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SCHEDULE OF DEBT

Schedule 1 (continued)

Maturity Date	First Extendible Date	Interest Rate	Principal Outstanding	
Jun 16, 2017	Jun 16, 2006	4.000	18,000	(i)
Jun 28, 2017	Jun 28, 2006	4.000	30,000	(i)
Aug 15, 2017	Aug 15, 2006	4.000	35,000	(i)
Dec 15, 2017	Dec 15, 2007	4.000	10,000	(i)
Jun 01, 2018		5.150	100,000	
Dec 01, 2023		5.100	20,000	
Jun 15, 2025	Jun 15, 2006	5.150	20,000	(ii)
Jul 06, 2025	Jul 06, 2006	5.020	16,000	(ii)
Dec 15, 2025		4.450	300,000	
Oct 11, 2030	Oct 11, 2006	5.160	15,000	(ii)
Dec 15, 2030	Dec 15, 2006	5.160	10,000	(ii)
Dec 15, 2030	Dec 15, 2006	5.410	10,000	(ii)
Dec 15, 2030	Dec 15, 2006	5.400	10,000	(ii)
Total			2,435,000	
			4,355,963	
Net unamortized discount			8,129	
Total debt 2005			$4,347,834	
Total debt 2004			$4,211,776	

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

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