MANAGEMENT EMPLOYEES PENSION PLAN

Financial Statements

DECEMBER 31, 2005

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, 2005 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, 2005 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]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 3, 2006

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

MANAGEMENT EMPLOYEES PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS

As At December 31, 2005

	2005	2004
	($ thousands)	
Net Assets Available For Benefits		
Assets		
Investments (Note 3)	$ 1,949,988	$ 1,721,340
Accrued investment income and accounts receivable	358	414
Contributions receivable		
Employees	2,922	2,272
Employers	5,002	3,093
	1,958,270	1,727,119
Liabilities		
Accounts payable	98	141
Net assets available for benefits	1,958,172	1,726,978
Accrued Benefits		
Actuarial value of accrued benefits	2,124,067	1,995,079
Deficiency	$ (165,895)	$ (268,101)

See accompanying notes and schedules.

MANAGEMENT EMPLOYEES PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Net investment income (Note 6)		
Investment income	$ 227,795	$ 163,484
Investment expenses	(3,368)	(3,208)
	224,427	160,276
Member service operations		
Contributions		
Current and optional service		
Employees	34,157	28,648
Employers	51,846	38,015
Pension benefits	(76,873)	(68,145)
Refunds to members	(1,900)	(2,117)
Transfers from (to) other plans, net	953	(186)
Member service expenses (Note 7)	(1,416)	(1,427)
	6,767	(5,212)
Increase in net assets	231,194	155,064
Net assets available for benefits at beginning of year	1,726,978	1,571,914
Net assets available for benefits at end of year	$ 1,958,172	$ 1,726,978

See accompanying notes and schedules.

MANAGEMENT EMPLOYEES PENSION PLAN

STATEMENT OF CHANGES IN ACCRUED BENEFITS

For the Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Increase in accrued benefits		
Interest accrued on benefits	$ 134,735	$ 126,393
Benefits earned	70,351	62,828
	205,086	189,221
Decrease in accrued benefits		
Benefits paid and transfers	(77,820)	(70,448)
Other changes in accrued benefits (Note 8)		
Net experience (gains) losses	(19,648)	14,378
Losses due to changes in actuarial assumptions	1,652	-
Impact of salary range increases	9,467	-
Loss due to increase in the maximum pensionable salary limit	10,251	-
	1,722	14,378
Net increase in accrued benefits	128,988	133,151
Accrued benefits at beginning of year	1,995,079	1,861,928
Accrued benefits at end of year (Note 8)	$ 2,124,067	$ 1,995,079

STATEMENT OF CHANGES IN DEFICIENCY

For the Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Deficiency at beginning of year	$ (268,101)	$ (290,014)
Increase in net assets available for benefits	231,194	155,064
Net increase in accrued benefits	(128,988)	(133,151)
Deficiency at end of year	$ (165,895)	$ (268,101)

See accompanying notes and schedules.

MANAGEMENT EMPLOYEES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

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, 2005 were 10.5% (2004 9.5%) of pensionable salary up to the *maximum pensionable salary limit* under the federal *Income Tax Act* for employees and 18.0% (2004 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 *maximum pensionable salary limit* under 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 each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

(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. This is done using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate.

(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.

(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:

MANAGEMENT EMPLOYEES PENSION PLAN

Note 2 (continued)

(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 and in the valuation of the Plan's private and alternative investments and real estate. Uncertainty arises because:

(i) the Plan's actual experience may differ significantly from assumptions used in the calculation of the Plan's accrued benefits, and

(ii) the estimated fair values of the Plan's private and alternative investments and real estate may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the calculation of the Plan's accrued benefits and in the valuation of the Plan's private and alternative investments and real estate, 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 in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values are known.

MANAGEMENT EMPLOYEES PENSION PLAN

NOTE 3 INVESTMENTS (SCHEDULES A TO E)

	2005		2004	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 11,941	0.6	$ 29,865	1.7
Canadian Dollar Public Bond Pool (b)	568,464	29.2	476,729	27.7
Private Mortgage Pool (c)	100,428	5.1	81,601	4.7
Real rate of return bonds (d)	69,780	3.6	82,288	4.8
External Managers Currency Alpha Pool (e)	3,003	0.2	-	-
Total fixed income securities	753,616	38.7	670,483	38.9
Canadian Equities (Schedule B)				
Domestic Passive Equity Pooled Fund (f)	200,825	10.3	121,534	7.1
Canadian Pooled Equities Fund (g)	118,669	6.1	34,941	2.0
External Managers				
Canadian Equity Enhanced Index Pool (h)	50,447	2.6	-	-
Canadian Large Cap Equity Pool (i)	41,581	2.1	187,979	10.9
Canadian Small Cap Equity Pool	-	-	56,075	3.3
Growing Equity Income Pool (j)	27,396	1.4	34,188	2.0
Canadian Multi-Cap Pool (k)	31,710	1.6	-	-
Overlay US Equity Pool (o)	(21,175)	(1.1)	-	-
Private Equity Pool	1,453	0.1	1,565	0.1
	450,906	23.1	436,282	25.4
United States Equities (Schedule C)				
US Passive Equity Pooled Fund (l)	119,640	6.1	49,246	2.9
S&P 500 Pooled Index Fund (l)	80,243	4.1	66,006	3.8
External Managers				
US Mid/Small Cap Equity Pool (m)	32,187	1.7	29,414	1.7
US Large Cap Equity Pool	-	-	101,166	5.9
Portable Alpha US Equity Pool (n)	16,790	0.9	-	-
Overlay US Equity Pool (o)	26,452	1.4	-	-
Growing Equity Income Pool (j)	6,871	0.3	3,397	0.2
	282,183	14.5	249,229	14.5
Non-North American Equities (Schedule D)				
External Managers				
EAFE Active Equity Pool (p)	234,175	12.0	-	-
EAFE Passive Equity Pool (q)	16,430	0.9	13,414	0.8
EAFE Core and Plus Equity Pool	-	-	202,013	11.7
Emerging Markets Equity Pool (r)	23,913	1.2	18,329	1.1
EAFE Structured Equity Pooled Fund (q)	39,409	2.0	35,436	2.1
	313,927	16.1	269,192	15.7
Alternative Investments - Equities				
Private Equity 2002 , Private Equity 2004 and Private Income Pools (s)	22,560	1.1	12,963	0.7
Real Estate Equities (Schedule E)				
Private Real Estate Pool (t)	126,796	6.5	83,191	4.8
Total equities	1,196,372	61.3	1,050,857	61.1
Total investments	$ 1,949,988	100.0	$ 1,721,340	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) 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.

(d) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

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

(f) The 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 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 External Managers Canadian Equity Enhanced Index Pool consists of a single portfolio of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

(i) The External Managers Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap equity markets. 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 styles and unique market capitalization focus.

(j) 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.

MANAGEMENT EMPLOYEES PENSION PLAN

Note 3 (continued)

(k) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component is internally managed and provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is managed by an external manager with expertise in the Canadian small/mid cap markets. 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.

(l) 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 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.

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

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

(o) The Overlay US Equity Pool is managed with the objective of providing a quick, effective and efficient way to reduce exposure to Canadian equities and increase exposure to United States equities through synthetic instruments on a largely unfunded basis. The Pool is comprised of a long position through United States equity index futures contracts and a short position through Canadian equity index futures contract. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in Canadian and United States equity index futures contracts.

(p) The External Managers EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Each portfolio is actively managed by an external manager and has constraints on foreign currency management, country allocation, stock selection and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period while reducing return volatility through multiple manager investment styles and market diversification.

(q) 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.

Note 3 (continued)

(r) The External Managers Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolios are 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 Emerging Markets Free (MSCI EMF) Index over a four-year period.

(s) 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.

(t) 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 limited partnerships and 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 an interim benchmark policy asset mix of 39% fixed income instruments and 61% equities for 2005 and a long-term policy asset mix of 34% fixed income instruments and 66% equities. Equities include investments in real estate and alternative investments. 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.

MANAGEMENT EMPLOYEES PENSION PLAN

Note 5 (continued)

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 fair value of derivative contracts held by pooled funds at December 31, 2005:

	Maturity			2005		2004	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
	%			($ thousands)			
Equity index swap contracts	81	19	-	$ 382,966	$ 10,257	$ 185,918	$ 6,919
Interest rate swap contracts	48	36	16	125,539	2,489	84,082	(3,116)
Cross-currency interest rate swap contracts	17	31	52	110,488	7,606	83,528	(3,237)
Equity index futures contracts	100	-	-	102,745	1,242	4,916	415
Forward foreign exchange contracts	100	-	-	98,285	(71)	32,993	334
Credit default swap contracts	15	17	68	43,450	402	20,995	120
Bond index swap contracts	100	-	-	27,902	608	9,294	180
				$ 891,375	$ 22,533	$ 421,726	$ 1,615

(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:

	2005	2004
	($ thousands)	
Investment income		
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ 156,572	$ 101,697
Interest income	50,416	41,734
Dividend income	15,105	15,361
Real estate operating income	5,234	4,299
Securities lending income	468	393
	227,795	163,484
Investment expenses	(3,368)	(3,208)
Net investment income	$ 224,427	$ 160,276

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

	2005	2004
	($ thousands)	
Fixed Income Securities	$ 52,470	$ 55,322
Canadian Equities	103,056	59,951
Foreign Equities		
United States	3,491	7,663
Non-North American	36,313	29,890
Alternative Investments - Equities	2,465	(366)
Real Estate Equities	26,632	7,816
Net investment income	$ 224,427	$ 160,276

Investment expenses totalling $3,368,000 (2004 $3,208,000) 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	13.1%	7.6%	7.3%
Policy Benchmark**	11.9%	7.0%	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.

MANAGEMENT EMPLOYEES PENSION PLAN

NOTE 7 MEMBER SERVICE EXPENSES

Member service expenses, including Board costs in the amount of $43,000 (2004 $49,000), were charged to the Plan on a cost-recovery basis.

NOTE 8 ACCRUED BENEFITS

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2004 by Aon Consulting Inc. and was then extrapolated to December 31, 2005, after taking into account the impact of salary range increases in 2005. The 2004 valuation was completed after the financial statements of the Plan for 2004 were released. As a result, the differences between the actuarial valuation and extrapolation results for 2004 are accounted for as assumption changes and net experience gains in 2005.

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:

	2004 Valuation and 2005 Extrapolation	2003 Valuation and 2004 Extrapolation
	%	
Asset real rate of return	4.0	4.0
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.

(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.

MANAGEMENT EMPLOYEES PENSION PLAN

Note 8 (continued)

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, 2005:

	Sensitivities		
	Changes in Assumptions %	**Increase in Plan Deficiency ($ millions)**	**Increase in Current Service Cost as a % Pensionable Earnings ***
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 150	1.0%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	29	0.5%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	297	3.7%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2004 valuation was 21.3%.

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 $1,836.8 million at December 31, 2005 (2004 $1,731.5 million).

In accordance with the Public Sector Pension Plans Act, the actuarial deficiencies as determined by actuarial funding valuations as at December 31, 2001 and 2004 are funded by special payments totalling 7.2% of pensionable earnings shared between employees and employers until December 31, 2015. The special payments will decrease to 5.1% of pensionable earnings on January 1, 2016 and continue until December 31, 2018 as required to eliminate the actuarial unfunded liability on or before that date. The special payments have been included in the rates in effect at December 31, 2005 (see Note 1(b)).

NOTE 10 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2005 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 FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 21,375	$ 32,805
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	223,628	215,109
Provincial		
Alberta, direct and guaranteed	3,751	301
Other, direct and guaranteed	118,298	115,284
Municipal	3,187	6,249
Corporate	233,137	177,847
Private		
Corporate	143,018	120,959
	725,019	635,749
Receivable from sale of investments and accrued investment income	7,292	5,819
Liabilities for investment purchases	(70)	(3,890)
	(871)	(871)
	7,222	1,929
	$ 753,616	$ 670,483

(a) Fixed income securities held as at December 31, 2005 had an average effective market yield of 4.24% per annum (2004 4.13% per annum). The following term structure of these securities as at December 31, 2005 was based on principal amount:

	2005	2004
	%	
under 1 year	2	2
1 to 5 years	29	32
6 to 10 years	32	29
11 to 20 years	15	15
over 20 years	22	22
	100	100

MANAGEMENT EMPLOYEES PENSION PLAN

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

December 31, 2005

	Plan's Share	
	2005	**2004**
	($ thousands)	
Deposits and short-term securities	$ 2,989	$ 4,355
Public equities (a) (b)		
Consumer discretionary	25,033	35,330
Consumer staples	15,239	21,496
Energy	115,729	77,428
Financials	137,072	128,383
Health care	4,920	8,089
Industrials	25,540	38,391
Information technology	18,158	23,041
Materials	62,796	72,870
Telecommunication services	22,116	17,905
Utilities	4,464	2,734
	431,067	425,667
Passive index	8,603	897
	439,670	426,564
Private Equity Pool	1,453	1,565
Receivable from sale of investments and accrued investment income	11,771	4,124
Liabilities for investment purchases	(4,977)	(326)
	6,794	3,798
	$ 450,906	$ 436,282

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $183,833,000 (2004 $88,081,000), which were used as underlying securities to support Canadian equity index swaps and futures 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

December 31, 2005

	Plan's Share 2005	2004
	($ thousands)	
Deposits and short-term securities	$ 7,694	$ 4,367
Public equities (a) (b)		
Consumer discretionary	29,542	39,251
Consumer staples	24,164	19,689
Energy	24,336	16,612
Financials	59,906	50,150
Health care	35,867	29,806
Industrials	32,052	32,691
Information technology	40,269	33,596
Materials	9,621	9,331
Telecommunication services	7,204	6,087
Utilities	9,476	6,941
	272,437	244,154
Passive index	201	-
	272,638	244,154
Receivable from sale of investments and accrued investment income	6,452	1,542
Liabilities for investment purchases	(4,601)	(834)
	1,851	708
	$ 282,183	$ 249,229

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $188,684,000 (2004 $69,299,000), which were used as underlying securities to support US equity index swaps and futures contracts.

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

MANAGEMENT EMPLOYEES PENSION PLAN

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES Schedule D

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 1,283	$ 4,928
Public equities (a) (b)		
Consumer discretionary	35,640	36,333
Consumer staples	20,216	14,966
Energy	22,989	21,981
Financials	83,737	71,394
Health care	23,706	15,614
Industrials	38,028	28,625
Information technology	19,955	12,660
Materials	23,732	20,990
Telecommunications services	19,112	22,184
Utilities	12,684	10,356
	299,799	255,103
Passive index	11,878	7,706
Receivable from sale of investments and accrued investment income	3,223	2,557
Liabilities for investment purchases	(2,256)	(1,102)
	967	1,455
	$ 313,927	$ 269,192

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $41,903,000 (2004 $33,454,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps and futures 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 the geographic location of stock exchange on which stocks were purchased.

	Plan's Share 2005	Plan's Share 2004
	$ thousands)	
Japan	$ 66,859	$ 45,877
United Kingdom	61,072	57,539
France	30,118	22,920
Switzerland	22,262	17,170
Germany	17,683	17,576
Netherlands	15,629	13,908
Australia	11,683	11,767
Italy	9,433	10,549
Spain	8,250	6,494
Korea	7,304	4,766
Other	49,506	46,537
	$ 299,799	$ 255,103

MANAGEMENT EMPLOYEES PENSION PLAN

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

December 31, 2005

	Plan's Share	
	2005	**2004**
	($ thousands)	
Deposits and short-term securities	$ 16	$ 9
Real estate (a)		
Office	63,196	41,579
Retail	42,148	29,859
Industrial	12,599	6,559
Residential	5,782	4,030
	123,725	82,027
Passive index	2,790	1,037
Receivable from sale of investments and accrued investment income	265	118
	$ 126,796	$ 83,191

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

	Plan's Share	
	2005	**2004**
	($ thousands)	
Ontario	$ 76,743	$ 53,175
Alberta	33,612	18,185
Quebec	11,042	9,239
British Columbia	2,328	1,428
	$ 123,725	$ 82,027