PUBLIC SERVICE PENSION PLAN

Financial Statements

DECEMBER 31, 2005

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Finance and 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, 2005 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, 2005 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 9, 2006

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

PUBLIC SERVICE PENSION PLAN

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

As At December 31, 2005

	2005	2004
	($ thousands)	
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 5,030,889	$ 4,465,432
Contributions receivable (Note 6)	17,209	15,185
Accrued investment income and accounts receivable	1,871	1,892
	5,049,969	4,482,509
Liabilities		
Accounts payable	2,673	1,577
Net assets available for benefits	5,047,296	4,480,932
Liability for accrued benefits		
Actuarial value of accrued benefits (Note 7)	5,235,000	4,931,000
Deficiency	$ (187,704)	$ (450,068)

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Increase in assets		
Net investment income (Note 8)	$ 547,584	$ 395,179
Contributions		
Current and optional service		
Employers	114,390	104,404
Employees	116,236	106,816
Transfers from other plans	5,374	4,302
	783,584	610,701
Decrease in assets		
Pension benefits	178,762	170,971
Refunds to members	29,270	18,770
Transfers to other plans	2,113	3,770
Plan expenses (Note 9)	7,075	7,045
	217,220	200,556
Increase in net assets	566,364	410,145
Net assets available for benefits at beginning of year	4,480,932	4,070,787
Net assets available for benefits at end of year	$ 5,047,296	$ 4,480,932

See accompanying notes and schedules.

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STATEMENT OF CHANGES IN LIABILITY FOR ACCRUED BENEFITS

For the Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Increase in liability for accrued benefits		
Interest accrued on benefits	$ 344,000	$ 325,000
Benefits earned	184,000	168,000
	528,000	493,000
Decrease in liability for accrued benefits		
Benefits paid	210,000	194,000
Net experience gains	14,000	23,000
	224,000	217,000
Net increase in liability for accrued benefits	304,000	276,000
Liability for accrued benefits at beginning of year	4,931,000	4,655,000
Liability for accrued benefits at end of year	$ 5,235,000	$ 4,931,000

STATEMENT OF CHANGES OF DEFICIENCY

For the Year Ended December 31, 2005

	2005	2004
	($ thousands)	
Deficiency at beginning of year	$ (450,068)	$ (584,213)
Increase in net assets available for benefits	566,364	410,145
Net increase in liability for accrued benefits	(304,000)	(276,000)
Deficiency at end of year (Note 10)	$ (187,704)	$ (450,068)

See accompanying notes and schedules.

PUBLIC SERVICE PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

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, 2005 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 pension 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.

PUBLIC SERVICE PENSION PLAN

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 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.

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.

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.

PUBLIC SERVICE PENSION PLAN

Note 2 (continued)

The fair value of alternative investments including investments in partnership interests, 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 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.

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.

PUBLIC SERVICE PENSION PLAN

Note 2 (continued)

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 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, perhaps significantly, from assumptions used in the calculation of the Plan's liability for 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 liability for 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 liability for 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.

PUBLIC SERVICE PENSION PLAN

NOTE 3 INVESTMENTS (SCHEDULE 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)	$ 46,273	0.9	$ 76,956	1.7
Canadian Dollar Public Bond Pool (b)	1,083,152	21.6	993,226	22.2
Real rate of return bonds (c)	290,580	5.8	256,764	5.8
Private Mortgage Pool (d)	196,753	3.9	170,039	3.8
External Managers Currency Alpha Pool (e)	6,728	0.1	-	-
Total fixed income securities	1,623,486	32.3	1,496,985	33.5
Canadian Equities (Schedule B)				
Domestic Passive Equity Pooled Fund (f)	424,626	8.4	269,958	6.0
Canadian Pooled Equities Fund (g)	256,721	5.1	136,179	3.1
External Managers				
Canadian Equity Enhanced Index Pool (h)	121,381	2.4	-	-
Canadian Large Cap Equity Pool (i)	100,121	2.0	378,856	8.5
Canadian Small Cap Equity Pool	-	-	70,020	1.6
Canadian Multi-Cap Pool (j)	63,479	1.3	-	-
Growing Equity Income Pool (k)	55,697	1.1	-	-
Overlay US Equity Pool (o)	(54,895)	(1.1)	-	-
	967,130	19.2	855,013	19.2
United States Equities (Schedule C)				
US Passive Equity Pooled Fund (l)	635,768	12.6	510,609	11.4
External Managers				
US Mid/Small Cap Equity Pool (m)	118,787	2.4	64,024	1.4
US Large Cap Equity Pool	-	-	333,901	7.5
S&P 500 Pooled Index Fund (l)	100,300	2.0	865	-
Portable Alpha US Equity Pool (n)	71,958	1.4	-	-
Overlay US Equity Pool (o)	68,575	1.4	-	-
Growing Equity Income Pool (k)	13,968	0.3	-	-
	1,009,356	20.1	909,399	20.3
Non-North American Equities (Schedule D)				
External Managers				
EAFE Active Equity Pool (p)	840,567	16.7	-	-
EAFE Core and Plus Equity Pools	-	-	749,671	16.8
Emerging Markets Equity Pool (q)	61,868	1.2	47,421	1.1
EAFE Structured Equity Pooled Fund (r)	129,030	2.6	125,722	2.8
	1,031,465	20.5	922,814	20.7
Alternative Investments - Equities				
Private Equity 2002 , Private Equity 2004 and Private Income Pool (s)	41,663	0.8	22,572	0.5
Timberland Pool (t)	21,350	0.4	-	-
	63,013	1.2	22,572	0.5
Real Estate Equities (Schedule E)				
Private Real Estate Pool (u)	336,439	6.7	258,649	5.8
Total equities	3,407,403	67.7	2,968,447	66.5
Total investments	$5,030,889	100.0	$4,465,432	100.0

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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 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 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 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 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.

PUBLIC SERVICE PENSION PLAN

Note 3 (continued)

(k) 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.

(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 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.

(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 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 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.

(r) 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.

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Note 3 (continued)

(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 Timberland Pool's performance objective is to provide a rate of return higher than the Consumer Price Index plus 4% over the long term. The pool invests in a partnership interest in forestry land in British Columbia.

(u) 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 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 long-term policy asset mix of 34.5% fixed income instruments and 65.5% 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.

PUBLIC SERVICE 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 net 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	79	21	-	$ 1,218,829	$26,686	$ 782,631	$31,381
Interest rate swap contracts	51	33	16	382,106	6,596	303,180	(12,690)
Cross-currency interest rate swap contracts	20	32	48	315,836	18,858	305,571	(19,931)
Equity index futures contracts	100	-	-	271,099	4,254	18,210	2,080
Forward foreign exchange contracts	100	-	-	270,228	(337)	115,135	154
Credit default swap contracts	15	16	69	130,472	1,229	87,180	309
Bond index swap contracts	100	-	-	60,147	1,647	19,363	376
				$ 2,648,717	$58,933	$ 1,631,270	$ 1,679

(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

	2005	2004
	($ thousands)	
Employers	$ 8,589	$ 7,590
Employees	8,620	7,595
	$ 17,209	$ 15,185

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, 2005.

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:

	2005 Extrapolation	2002 Valuation and 2004 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.

As required by the *Public Sector Pension Plans Act*, an actuarial funding valuation of the Plan as at December 31, 2005 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and the extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2006.

PUBLIC SERVICE PENSION PLAN

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, 2005:

	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%	$ 339	0.55%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	287	1.07%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	840	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:

	2005	2004
	($ thousands)	
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ 376,594	$ 244,565
Interest income	122,531	105,326
Dividend income	40,320	38,327
Real estate operating income	15,349	13,611
Securities lending income	1,401	1,081
Pooled funds management and associated custodial fees	(8,611)	(7,731)
	$ 547,584	$ 395,179

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:

	2005	2004
	($ thousands)	
Fixed Income Securities	$ 125,249	$ 128,371
Canadian Equities	207,533	116,706
Foreign Equities		
United States	15,448	24,778
Non-North American	119,225	100,411
Alternative Investments - Equities	3,394	86
Real Estate Equities	76,735	24,827
	$ 547,584	$ 395,179

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	12.2%	7.4%	6.9%
Policy Benchmark**	11.0%	6.7%	6.5%

* 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 EXPENSE

	2005	2004
	($ thousands)	
General administration costs	$ 5,794	$ 5,780
Investment management costs	725	762
Board costs	342	338
Actuarial fees	75	95
Other professional fees	139	70
	$ 7,075	$ 7,045

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

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 2005, total Plan expenses of $7,075,000 amounted to $106 per member (2004 $109 per member).

PUBLIC SERVICE PENSION PLAN

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 $4,853 million at December 31, 2005 (2004 $4,303 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 until December 31, 2017 as required to eliminate the actuarial unfunded liability on or before that date. The special payment is included in the rates in effect at December 31, 2005 (see Note 1(b)).

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been restated to be consistent with 2005 presentation.

NOTE 12 RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

PUBLIC SERVICE 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	$ 65,269	$ 83,082
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	583,721	533,482
Provincial		
Alberta, direct and guaranteed	7,148	627
Other, direct and guaranteed	225,706	240,187
Municipal	6,073	13,020
Corporate	444,221	370,530
Private		
Corporate	277,580	252,037
	1,544,449	1,409,883
Receivable from sale of investments and accrued investment income	13,926	12,124
Liabilities for investment purchases	(158)	(8,104)
	13,768	4,020
	$ 1,623,486	$ 1,496,985

(a) Fixed income securities held as at December 31, 2005 had an average effective market yield of 3.96% per annum (2004 4.00% 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	27	31
6 to 10 years	30	28
11 to 20 years	17	15
over 20 years	24	24
	100	100

PUBLIC SERVICE PENSION PLAN

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES — Schedule B

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 6,735	$ 8,265
Public equities (a) (b)		
Consumer discretionary	54,297	66,629
Consumer staples	33,193	41,755
Energy	248,487	148,903
Financials	294,913	257,268
Health care	10,765	16,740
Industrials	55,026	66,917
Information technology	39,265	48,910
Materials	135,328	149,349
Telecommunication services	47,742	36,240
Utilities	9,831	5,159
	928,847	837,870
Passive index	17,248	1,119
	946,095	838,989
Receivable from sale of investments and accrued investment income	26,087	8,269
Liabilities for investment purchases	(11,787)	(510)
	14,300	7,759
	$ 967,130	$ 855,013

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $396,281,000 (2004 $192,175,000) which were used as underlying securities to support the notional amount of 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.

PUBLIC SERVICE PENSION PLAN

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES — Schedule C

December 31, 2005

	Plan's Share 2005	Plan's Share 2004
	($ thousands)	
Deposits and short-term securities	$ 20,577	$ 28,819
Public equities (a) (b)		
Consumer discretionary	106,721	138,892
Consumer staples	85,593	76,969
Energy	88,431	61,009
Financials	210,548	176,009
Health care	130,466	109,714
Industrials	115,496	113,481
Information technology	146,101	125,138
Materials	34,991	31,482
Telecommunication services	26,118	23,658
Utilities	33,850	25,038
	978,315	881,390
Passive index	741	-
	979,056	881,390
Receivable from sale of investments and accrued investment income	26,781	5,638
Liabilities for investment purchases	(17,058)	(6,448)
	9,723	(810)
	$ 1,009,356	$ 909,399

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $792,189,000 (2004 $489,975,000), which were used as underlying securities to support the notional amount of US 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

December 31, 2005

	Plan's Share 2005	2004
	($ thousands)	
Deposits and short-term securities	$ 3,691	$ 17,878
Public equities (a) (b)		
Consumer discretionary	116,678	125,995
Consumer staples	67,688	51,246
Energy	75,463	76,149
Financials	277,221	245,104
Health care	79,445	53,531
Industrials	126,929	99,824
Information technology	67,106	43,420
Materials	77,983	72,455
Telecommunication services	64,015	77,277
Utilities	41,375	35,146
	993,903	880,147
Passive index	30,731	19,938
Receivable from sale of investments and accrued investment income	10,634	8,854
Liabilities for investment purchases	(7,494)	(4,003)
	3,140	4,851
	$ 1,031,465	$ 922,814

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $138,487,000 (2004 $118,691,000), 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	2004
	($ thousands)	
Japan	$ 221,878	$ 157,555
United Kingdom	198,950	196,246
France	101,753	79,874
Switzerland	74,790	59,804
Germany	58,725	61,292
Netherlands	53,369	48,797
Australia	38,235	40,819
Italy	31,177	36,663
Spain	27,000	21,770
Korea	23,964	15,851
Other	164,062	161,476
	$ 993,903	$ 880,147

PUBLIC SERVICE PENSION PLAN

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

December 31, 2005

	Plan's Share	
	2005	2004
	($ thousands)	
Deposits and short-term securities	$ 43	$ 27
Real estate (a)		
Office	167,681	129,276
Retail	111,835	92,834
Industrial	33,431	20,392
Residential	15,343	12,529
	328,290	255,031
Passive index	7,403	3,223
Receivable from sale of investments and accrued investment income	703	368
	$ 336,439	$ 258,649

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

	Plan's Share	
	2005	2004
	($ thousands)	
Ontario	$ 203,629	$ 165,328
Alberta	89,186	56,540
Quebec	29,298	28,724
British Columbia	6,177	4,439
	$ 328,290	$ 255,031