ALBERTA MUNICIPAL FINANCING CORPORATION FINANCIAL STATEMENTS DECEMBER 31, 2002

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Shareholders of the
Alberta Municipal Financing Corporation

I have audited the balance sheet of the Alberta Municipal Financing Corporation as at December 31, 2002 and the statements of loss and retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the Corporation'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 financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, CA
Auditor General

Edmonton, Alberta
January 31, 2003

ALBERTA MUNICIPAL FINANCING CORPORATION
BALANCE SHEET
AS AT DECEMBER 31, 2002
(thousands of dollars)

	2002		2001
	Budget	Actual	Actual
ASSETS			
Cash (Note 3)	$ 19,812	$ 6,030	$ 30,917
Accrued interest receivable	133,078	135,649	128,422
Loans to local authorities (Note 4)	3,719,666	3,818,270	3,454,950
	$ 3,872,556	$ 3,959,949	$ 3,614,289
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Accrued interest payable	$ 64,616	$ 59,035	$ 62,922
Due to the General Revenue Fund (Note 10)	-	100,000	-
Debt (Note 5 and Schedule 1)	3,685,343	3,774,174	3,418,565
	3,749,959	3,933,209	3,481,487
Shareholders' equity:			
Share capital (Note 6):			
Authorized: 7,500 common shares, par value $10 per share			
Issued and fully paid:			
6,373 shares (2001 - 6,372)	64	64	64
Retained earnings	122,533	26,676	132,738
	122,597	26,740	132,802
	$ 3,872,556	$ 3,959,949	$ 3,614,289

The accompanying notes are part of these financial statements.

G.H. Sherwin, CA
Chairman of the Board

A.J. McPherson
Director

ALBERTA MUNICIPAL FINANCING CORPORATION
STATEMENT OF LOSS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2002
(thousands of dollars)

	2002		2001
	Budget	Actual	Actual
Interest Income:			
Loans	$ 322,193	$ 323,829	$ 328,622
Amortization of loan discounts	15,744	15,744	19,872
Other	500	618	1,671
	338,437	340,191	350,165
Interest Expense:			
Debt	343,206	342,743	359,532
Amortization of net discounts on debt	6,037	3,687	7,633
	349,243	346,430	367,165
Net interest expense	(10,806)	(6,239)	(17,000)
Other Income:			
Loan prepayment fees	1,000	519	141
Net interest expense and other income	(9,806)	(5,720)	(16,859)
Non-Interest Expense:			
Administration and office expenses (Note 7)	399	342	316
Net loss	(10,205)	(6,062)	(17,175)
Retained earnings, beginning of year	132,738	132,738	149,913
	122,533	126,676	132,738
Transfer to the General Revenue Fund (Note10)	-	(100,000)	-
Retained earnings, end of year	$ 122,533	$ 26,676	$ 132,738

ALBERTA MUNICIPAL FINANCING CORPORATION
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 2002
(thousands of dollars)

	2002		2001
	Budget	Actual	Actual
Operating Activities:			
Interest received on loans	$ 317,537	$ 316,602	$ 339,038
Other interest	500	618	1,671
Loan prepayment fees	1,000	519	141
Administration and office expenses	(399)	(342)	(316)
Interest paid on debt	(341,512)	(346,630)	(370,394)
Cash flows used in operating activities	(22,874)	(29,233)	(29,860)
Investing Activities:			
Loan repayments	417,028	418,565	456,062
New loans issued	(666,000)	(766,141)	(363,339)
Cash flows (used in) from investing activities	(248,972)	(347,576)	92,723
Financing Activities:			
Debt issues	1,455,476	2,281,657	722,520
Debt redemptions	(1,194,735)	(1,929,735)	(776,739)
Cash flows from (used in) financing activities	260,741	351,922	(54,219)
Net (decrease) increase in cash	(11,105)	(24,887)	8,644
Cash, beginning of year	30,917	30,917	22,273
Cash, end of year	$ 19,812	$ 6,030	$ 30,917

ALBERTA MUNICIPAL FINANCING CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2002

NOTE 1 AUTHORITY

The Alberta Municipal Financing Corporation operates under the authority of the *Alberta Municipal Financing Corporation Act*, Chapter A-27, Revised Statutes of Alberta 2000, as amended.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles 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

In preparing the financial statements, management must make estimates and assumptions concerning values of certain assets, liabilities, net income and related disclosures reported in these financial statements. Actual results could differ from these estimates.

(d) Credit Risk

Credit risk is the risk of loss due to borrowers failing to meet their obligations to the Corporation. Historically, the Corporation has not needed to record any provisions or allowances regarding credit losses nor has it suffered any such losses. The Corporation 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.

NOTE 3 CASH

Cash consists of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. CCITF 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 five years. Interest is earned on the Fund's daily cash balance at the average rate of interest earned by CCITF, which varies depending on prevailing market interest rates.

NOTE 4 LOANS TO LOCAL AUTHORITIES

	2002	2001
	(thousands of dollars)	
Loans to local authorities	$ 3,854,073	$ 3,506,497
Less: Unamortized discounts	35,803	51,547
	$ 3,818,270	$ 3,454,950

At the year-end, 2002 loan payments related to loans of $962,300 were in arrears. The book value for these loans has not been reduced as the Corporation expects the loans will be current in 2003.

NOTE 5 DEBT

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

(b) Debt amounting to $2,706,081,000 (2001 - $2,880,816,000) 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.

The Corporation may prepay debt held by the CPPIF by providing 30 days notice prior to the proposed redemption date. The debt can be prepaid at market with the debt issued prior to January 1, 1998 discounted at the Government of Canada rate and debt issued after January 1, 1998 discounted at the Province's borrowing rate.

(c) Debt redemption requirements with the assumption of no early redemption during each of the next five years, are as follows:

	Debt Redemption (thousands of dollars)
2003	$ 666,023
2004	338,491
2005	423,604
2006	395,396
2007	335,383
	$ 2,158,897

NOTE 6 SHARE CAPITAL

Particulars of share capital are summarized hereunder:

		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	Municipalities, airport authorities and hospitals	1,000	854	8,540
C	Cities	750	582	5,820
D	Towns and villages	750	301	3,010
E	Schools, universities and colleges	500	136	1,360
		7,500	6,373	$ 63,730

During the year, two Class B shares were issued and one Class D share was cancelled at $10.00 each.

NOTE 7 DIRECTORS' FEES AND RELATED PARTY TRANSACTIONS

Directors' fees paid by the Corporation are as follows:

	2002		2001	
	Number of Individuals	Total	Number of Individuals	Total
Chairman of the Board	1	$ 2,500	1	$ 2,100
Board members	6	$ 14,400	6	$ 11,100

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

The Corporation has no employees. Included in administration and office expenses of $342,126 (2001 - $316,549) is the amount of $214,024 (2001 - $184,617) that was paid to the controlling shareholder, Province of Alberta, at prices which approximate market.

NOTE 8 INTEREST RATE RISK

Interest rate risk refers to the potential impact of changes in interest rates on the Corporation's earnings and the fair value of the financial instruments when maturities of its financial assets are not matched with the maturities of its financial debt. The following table shows the maturities and effective rates of the Corporation's financial assets and liabilities:

As at December 31, 2002
(thousands of dollars)

Maturities	Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	2002 Total	2001 Total
Assets							
Cash	$ 6,030	$ -	$ -	$ -	$ -	$ 6,030	$ 30,917
Accrued Interest Receivable	135,649	-	-	-	-	135,649	128,422
Loans	67,660	89,750	801,041	1,246,809	1,648,813	3,854,073 (i)	3,506,497
Effective Rate	9.1%	10.3%	9.2%	9.2%	7.0%	8.3%	9.0%
Total	$ 209,339	$ 89,750	$ 801,041	$ 1,246,809	$ 1,648,813	$ 3,995,752	$ 3,665,836
Liabilities							
Accrued Interest Payable	$ 59,035	$ -	$ -	$ -	$ -	$ 59,035	$ 62,922
Debt	665,573	338,491	1,153,791	1,293,952	322,367	3,774,174	3,418,565
Effective Rate	9.6%	13.3%	9.7%	7.4%	6.2%	8.9%	10.2%
Total	$ 724,608	$ 338,491	$ 1,153,791	$ 1,293,952	$ 322,367	$ 3,833,209	$ 3,481,487
Net Gap	$ (515,269)	$ (248,741)	$ (352,750)	$ (47,143)	$ 1,326,446	$ 162,543	$ 184,349

(i) This total is not reduced by unamortized discount of $35,803 (2001 - $51,547).

The Corporation 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 Corporation's surplus position.

NOTE 9 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair value represents the Corporation's estimate of amounts for loans and debt that could be exchanged with unrelated parties who are interested in acquiring these instruments. For loans and debt, fair value is calculated using net present value techniques where the Corporation's future cash flows are discounted at the Corporation's cost of funds.

Changes in interest rates are the main cause of changes in the fair value of the Corporation'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 recorded value at December 31:

	2002		2001	
	Fair Value	Book Value	Fair Value	Book Value
	(thousands of dollars)			
Loans, including accrued interest receivable	$ 4,530,131	$ 3,953,919	$ 4,133,534	$ 3,583,372
Debt, including accrued interest payable	$ 4,404,516	$ 3,833,209	$ 4,063,567	$ 3,481,487

NOTE 10 TRANSFER OF RETAINED EARNINGS TO THE GENERAL REVENUE FUND

On December 9, 2002, the Minister of Finance directed the transfer of $100 million of the Corporation's retained earnings to the General Revenue Fund. The transfer was made in accordance with Section 33 of the *Financial Administration Act*.

NOTE 11 BUDGET

The 2002 budget was approved by the Board of Directors on March 20, 2002.

Schedule 1

ALBERTA MUNICIPAL FINANCING CORPORATION
SCHEDULE OF DEBT
AS AT DECEMBER 31, 2002
(thousands of dollars)

Maturity Date	Interest Rate	Principal Outstanding
Canada Pension Plan Investment Fund (Note 5(b))		
Apr 05, 2003	13.82	$ 209,284
Dec 01, 2003	11.50	231,739
Dec 03, 2004	13.25	338,491
Nov 01, 2005	11.66	283,604
Nov 03, 2006	9.85	395,396
Nov 02, 2007	9.66	335,383
Oct 03, 2008	10.04	259,294
Oct 02, 2009	9.99	291,414
Nov 01, 2009	9.62	32,457
Dec 01, 2009	9.26	6,652
Oct 01, 2020	6.28	222,367
Jun 01, 2022	6.06	100,000
Total		2,706,081
Public		
Apr 03, 2003	2.74	32,500
Apr 03, 2003	2.74	32,500
Aug 01, 2003	4.91	160,000
Jun 01, 2005	4.60	140,000
Sep 01, 2011	5.70	200,000
Jun 01, 2012	5.85	500,000
Total		1,065,000
		3,771,081
Net unamortized premium		3,093
Total debt 2002		$3,774,174
Total debt 2001		$3,418,565