

# ECONOMIC OUTLOOK



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# Economic Outlook

The Alberta economy turned in an impressive performance in 2004, leading all provinces with real (inflation adjusted) economic growth estimated at 4.4%. Economic gains were widespread, with the energy, manufacturing and retail sectors all experiencing strong growth. Alberta also enjoyed the highest personal income growth and lowest unemployment rate in Canada, as well as very low inflation.

In 2005, Alberta's economic growth is expected to moderate to a still-robust 3.7%, as energy prices recede from their recent highs. Over the medium term, growth is expected to average 3.1%, with declining natural gas production and reduced population growth moderating the pace of economic expansion to some degree. Alberta will remain a full-employment economy, with the province's unemployment rate expected to average 4.3% from 2005 through 2008.

## Key Energy and Economic Assumptions

<b>Fiscal Year Assumptions</b>	<b>2002-03 Actual</b>	<b>2003-04 Actual</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
<b>Prices</b>						
<b>Crude Oil Price</b>						
WTI (US\$/bbl)	29.04	31.38	45.03	42.00	32.00	31.00
Alberta Wellhead (Cdn\$/bbl) <sup>a</sup>	39.40	36.40	48.07	43.08	31.72	30.66
<b>Natural Gas Price</b>						
Alberta Reference Price (Cdn\$/mcf)	4.98	5.75	6.38	5.91	5.69	5.48
Alberta Reference Price (Cdn\$/GJ)	4.72	5.45	6.05	5.60	5.40	5.20
<b>Production</b>						
Conventional crude oil (000's barrels/day)	650	619	590	554	530	513
Non-conventional crude oil (000's barrels/day)	730	882	981	1,055	1,308	1,396
Natural gas (billions of cubic feet)	5,352	5,226	5,246	5,139	5,006	4,866
<b>Interest rates</b>						
3-month Canada treasury bills (per cent)	2.77	2.70	2.28	2.90	3.80	4.50
10-year Canada bonds (per cent)	5.18	4.68	4.52	4.50	5.25	6.00
<b>Exchange Rate (US¢/Cdn\$)</b>	64.6	74.0	78.4	83.5	85.0	85.0
<b>Calendar Year Assumptions</b>	<b>2003 Actual</b>	<b>2004 Actual</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Gross Domestic Product</b>						
Nominal (millions of dollars)	170,803	191,886 <sup>b</sup>	202,583	210,035	216,282	226,469
per cent change	13.4	12.3	5.6	3.7	3.0	4.7
Real (millions of 1997 dollars)	129,553	135,308 <sup>b</sup>	140,347	144,933	149,302	153,558
per cent change	2.7	4.4	3.7	3.3	3.0	2.9
<b>Other Indicators</b>						
Employment (thousands)	1,717.9	1,757.9	1,791.3	1,825.3	1,858.2	1,891.6
per cent change	2.8	2.3	1.9	1.9	1.8	1.8
Unemployment rate (per cent)	5.1	4.6	4.5	4.4	4.2	4.0
Housing starts (number of units)	36,171	36,270	34,200	32,300	31,200	30,500
Alberta Consumer Price Index (per cent change)	4.4	1.4	1.7	1.9	1.9	1.9
Population (thousands)	3,158.6	3,201.9	3,248.0	3,296.4	3,345.1	3,394.1
per cent change	1.4	1.4	1.4	1.5	1.5	1.5

<sup>a</sup> refers to the average price per barrel of Alberta light, medium and heavy oil

<sup>b</sup> estimated

## ALBERTA IN 2004

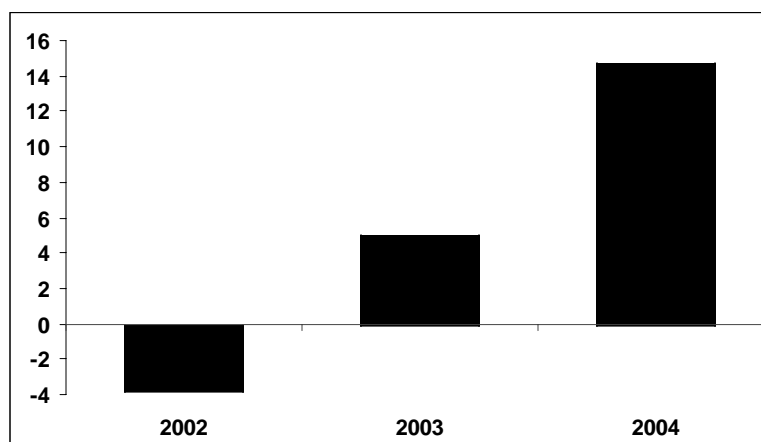
The Alberta economy grew by an estimated 4.4% in 2004 – the best performance of any province. While a thriving energy sector remained an important engine of growth, Alberta's impressive economic gains in 2004 came from several sources.

### Energy and Manufacturing Highlight Broad Economic Gains

- Alberta's energy sector enjoyed another banner year in 2004, supported by oil prices that reached record highs and averaged US\$41.40 per barrel for the year (up from US\$31 in 2003). Following a dramatic upswing in 2003, conventional energy sector investment strengthened further last year, with the average number of rigs drilling rising 4.8% to a record high of 329. Oil sands investment increased by about \$1 billion, to an estimated \$6.1 billion in 2004.
- The manufacturing sector showed impressive gains in 2004. Alberta's manufacturing shipments rose by 14.8% – well above the national growth rate of 8.4%. Sectors experiencing strong gains included machinery (+22.7%), chemicals (+16.4%), fabricated metals (+14.5%), and wood products (+27.8%).

### MANUFACTURING SECTOR GAINS MOMENTUM

Manufacturing Shipments (per cent change)



Source: Statistics Canada

- With manufacturing leading the way, Alberta's international exports rose sharply in 2004, despite a strong Canadian dollar. The value of Alberta's international exports rose by 16.6% in 2004. Manufacturing exports increased by 21.0%, while energy exports were up by 15.3%. Strong global demand generated significant increases in both prices and export volumes, with total real exports rising by an estimated 4.7%.

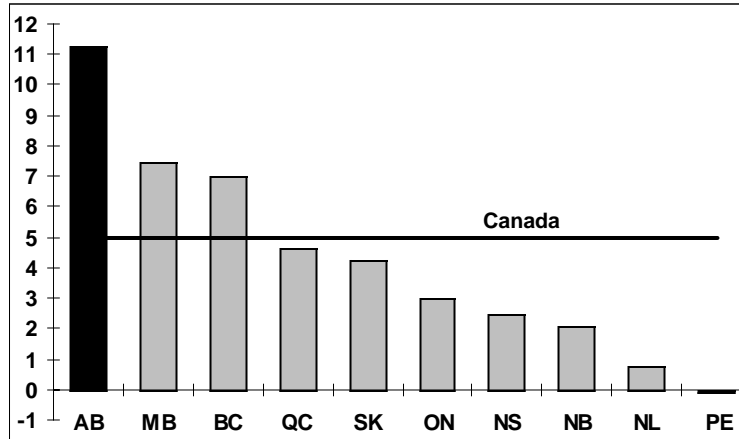
### Highest Income and Retail Sales Growth and Lowest Unemployment in Canada

- Albertans enjoyed healthy personal income gains in 2004. Alberta led all provinces with wage and salary growth of 6.5% in 2004, well above the national average of 3.9%.

- Rapid income growth contributed to a remarkable year for Alberta's retail sector. Alberta led the country in retail sales growth in 2004, with sales up 11.3%, compared to national growth of 5.0%. On a per capita basis, Alberta's retail sales remained by far the highest in Canada, 26% above the national average.

### ALBERTA LEADS IN RETAIL SALES

Retail Sales (per cent change, 2004)

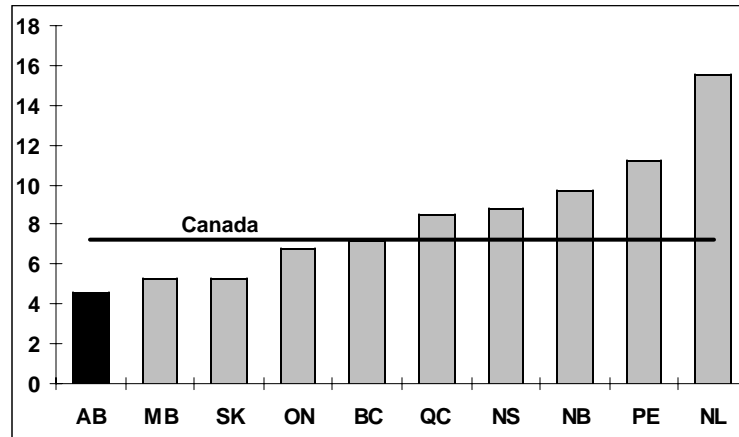


Source: Statistics Canada

- In 2004, Alberta's unemployment rate averaged just 4.6%, the lowest in Canada and down from 5.1% in 2003. The Alberta economy created 40,000 jobs, for employment growth of 2.3%. Sectors experiencing the largest job gains were construction (+15,700), oil, gas and mining (+10,300) and retail trade (+10,300).

### LOWEST UNEMPLOYMENT RATE IN CANADA

Unemployment Rate (per cent, 2004)



Source: Statistics Canada

### Other Developments

- Alberta's housing sector continued its strong run, with new housing activity remaining near the 20-year high recorded in 2002. Last year, Alberta's housing starts were essentially unchanged from 2003 levels, at 36,270 starts. This level was 16% above the most recent 5-year Alberta average of 31,162 starts.

- The agricultural sector continued to face significant challenges, with BSE having substantial economic impacts. Overall growing conditions improved significantly, although crop quality was reduced in some regions by an early frost. Farm cash receipts were up 16.0% in 2004, supported primarily by higher crop receipts. Government program payments increased by 5.2%, reaching a record high of \$1.4 billion.
- Despite rapid economic growth and very low unemployment, Alberta's CPI inflation rate fell to only 1.4% in 2004. This was down sharply from a 4.4% rate in 2003, which was caused mainly by inflation measurement anomalies associated with natural gas rebates, as well as higher automobile insurance premiums and tobacco prices.
- For the eighth consecutive year, Alberta had the highest level of net inter-provincial migration in Canada, with a net increase of almost 11,000 persons in 2004. At 1.4%, Alberta once again led all provinces in population growth.

## **GLOBAL ECONOMIC OUTLOOK**

The world economy is coming off its best performance in over two decades. In 2004, global economic growth was exceptionally strong at an estimated 4.8%, fuelled by strong growth in Asia (China in particular) and the United States. China's economy expanded by an estimated 9.5% in 2004, while U.S. economic growth was also robust at 4.4%. Strong global growth was achieved despite a substantial rise in energy prices, with the price of oil touching a then-record high of more than US\$55 in 2004, and averaging US\$41.40 for the year.

The emergence of China as a major force in the global economy became increasingly apparent in 2004. Home to one-fifth of the world's population, China's economy has expanded by over 25% in real terms over the past three years alone. The impact of this expansion was felt with particular force on global commodity markets in 2004. China's oil demand rose by 18% last year, accounting for almost 40% of the total increase in global oil demand.

Looking forward, the global economic outlook remains essentially positive. World economic growth is expected to remain strong in 2005, at over 4%. Growth in both China and the United States is expected to moderate slightly, but remain robust. Economic growth in Japan and the Euro area is expected to remain relatively sluggish, due, in significant measure, to the effects of appreciating currencies.

### **U.S. Growth Prospects Solid in the Near Term**

While U.S. economic growth is expected to subside somewhat in 2005, most indicators point to a continuation of solid growth in the near-to-medium term. U.S. growth is forecast to moderate from 4.4% in 2004 to 3.5% in 2005. The current U.S. expansion should be sustained by a continued recovery in business investment and rising U.S. exports, the latter attributable to a continued depreciation of the U.S. dollar. Over the medium term, U.S. growth is expected to average about 3% annually.

The U.S. Federal Reserve Board displayed growing confidence in the U.S. economic recovery in 2004, raising the Federal Funds rate from 1.0% at the beginning of the year to 2.25% by year's end. In 2005 and beyond, a continued tightening of U.S. monetary policy is anticipated, with U.S. short-term interest rates expected to increase at a steady pace, returning to more normal historical levels in the 4 to 5% range.

### **U.S. Imbalances Remain a Risk**

Despite the global decline in the U.S. dollar in 2004, the U.S. trade and current account deficits remained unsustainably high, with the current account deficit reaching a record high of \$666 billion (5.7% of GDP) in 2004. Concerns with the U.S. current account are compounded by the large U.S. budget deficit, which came in at \$567 billion<sup>1</sup> in 2004 despite very strong U.S. economic growth.

There is some risk that market concerns with the current account and budget deficits could lead to greater volatility in currency markets, possibly leading to a full-scale flight from the U.S. dollar. This, in turn, could cause a large spike in U.S. interest rates, with significant U.S. and global economic consequences. Near the end of 2004, currency markets displayed heightened concerns with the U.S. "twin deficits," driving the U.S. dollar to multi-year lows against several currencies.

The Alberta budget forecast assumes that appropriate U.S. policy measures will be enacted to address these risks.

### **Canadian Economy Faces Adjustments to a Higher Dollar**

Like many other countries, Canada faces significant economic adjustments as a result of the dramatic decline in the U.S. dollar. From the start of 2003 to the end of 2004, the Canadian dollar rose from 63.5 cents US to 83.1 cents US, an increase of 31%.

While the Canadian economy achieved respectable economic growth estimated at 2.8% in 2004 (up from 2.0% in 2003), there were signs of weakness in the latter part of the year, especially in exports.

Canada's annual inflation rate fell to 1.9% in 2004, down from 2.8% in 2003. With inflation remaining well within the Bank of Canada's target range of 1 to 3%, and with recent signs of slack in the Canadian economy, monetary policy remains accommodating. The Bank of Canada's overnight rate fluctuated somewhat during 2004, ending the year at 2.5% (down from 2.75% at the beginning of 2004). In view of recent economic developments, the Bank of Canada is not expected to raise its overnight rate until the second half of 2005, at the earliest.

With the U.S. Federal Funds rate rising by an additional 50 basis points in the first quarter of 2005, U.S. interest rates surpassed Canadian rates for the first time since 2001. The spread between Canadian and U.S. short-term interest

<sup>1</sup> On-budget deficit (not including transfers from the Social Security trust fund)

rates has changed dramatically over the past 15 months, falling from +175 basis points at the beginning of 2004 to -25 basis points in late March of 2005. With further U.S. rate increases anticipated in the first half of 2005, the negative Canada-U.S. interest rate spread is expected to widen over the next few months.

Changes in Canada-U.S. interest rate spreads are expected to stem the rise of the Canadian dollar, at least in the short term. The Canadian dollar is forecast to remain near its present level, averaging close to 83 cents US in 2005. Over the medium term, as Canada's economic growth picks up and Canadian interest rates rise – and with a continued global depreciation in the U.S. dollar – the Canadian dollar is forecast to appreciate further, reaching 85 cents US in 2006.

Canada's real economic growth is forecast at 2.7% in 2005, essentially unchanged from 2004. Over the medium term, Canadian growth is expected to improve to an average of 3.0% annually. With strong economic and fiscal fundamentals, including the lowest debt-to-GDP ratio among the G-7 countries and a strong current account balance (+2.6% of GDP in 2004), Canada is well positioned for a successful adjustment to developments in the global economy.

### **Energy Outlook**

Following rapid increases in 2004, with oil prices averaging a record annual high of US\$45.03 in 2004-05, oil prices are expected to moderate over the forecast period as global production rises in response to historically high prices. Prices are forecast to decline to US\$42 in 2005-06, US\$32 in 2006-07 and US\$31 in 2007-08. The long-term price forecast of US\$30 represents a US\$5 per barrel increase over the forecast price in Budget 2004, reflecting a stronger global oil demand outlook.

With world oil prices expected to decline over the forecast period, the price of natural gas is also expected to decline, albeit to a lesser degree. After averaging an estimated \$6.05 per gigajoule (GJ) in 2004-05 (a record annual high), the price of natural gas is forecast to decline to \$5.60 per GJ in 2005-06, moderating further to \$5.40 in 2006-07 and \$5.20 in 2007-08. These forecast prices remain substantially above the most recent 5-year average price of \$4.44 per GJ.

## **ALBERTA ECONOMIC OUTLOOK**

### **Strong Momentum Carries Over into 2005**

The current momentum of the Alberta economy is expected to carry over into 2005. Continued strong growth in personal incomes and investment are expected to sustain above-average economic growth of 3.7% this year.

### **Solid Medium Term Growth Prospects**

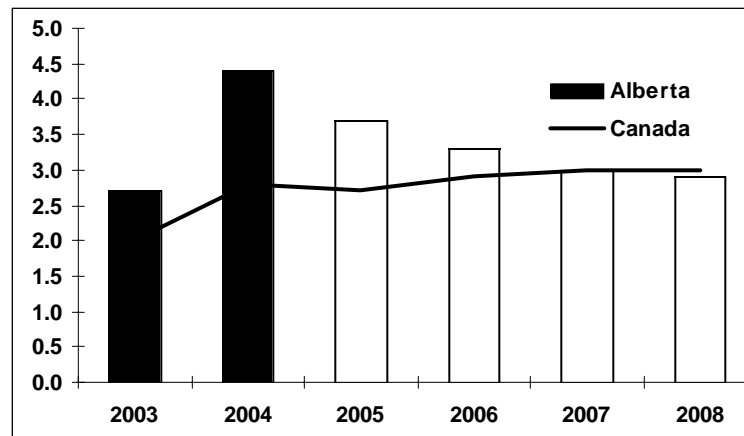
In the medium term, Alberta is expected to continue to enjoy healthy economic growth, albeit at a more moderate pace, averaging 3.1% from 2006 through 2008.



Alberta's outstanding economic and fiscal fundamentals, which include the lowest overall taxes in Canada and no accumulated provincial debt, provide a strong foundation for future economic growth. At the same time, there are some emerging developments in the Alberta economy that are expected to alter the sources of Alberta's growth over the medium and longer term. These developments include declining natural gas production and slower population growth.

### ALBERTA'S HEALTHY ECONOMIC GROWTH TO CONTINUE

Alberta and Canadian GDP Growth (per cent change)



Source: Statistics Canada and Alberta Finance

### Sources of Alberta's Economic Growth Are Changing

With Alberta's natural gas production presently in decline due to diminishing reserves, natural gas is not expected to be a future source of growth for the Alberta economy, as it has been over much of the past two decades. While Alberta's natural gas production rose by an average of 5.2% annually between 1990 and 2000 (for a total production increase of 66%), production has declined by an estimated 3.5% since 2001. Although non-conventional natural gas (e.g. natural gas in coal) offers significant potential for the future, there remains a high degree of uncertainty regarding the feasibility of large-scale production from these alternative sources.

The contribution of non-energy exports to Alberta's economic growth has become increasingly evident over the past decade. Manufacturing and services exports accounted for 68% of Alberta's total real exports in 2003 (up from 57% in 1993), reflecting the growing diversification of the Alberta economy.

In recent years, improved economic conditions in other regions of Canada have led to a moderation in the pace of migration to Alberta. In 2003 and 2004, net inter-provincial migration to Alberta averaged about 11,400 per year – still the highest of any province, but down considerably from recent historical levels (net migration averaged over 27,000 persons annually from 1997 through 2002). This development slowed Alberta's population growth, which at 1.4% in 2004 was still the highest in Canada, but down from an average of 2.0% during the 1997-2002 period. These changing migration and population patterns are expected to change the nature of Alberta's economic growth over the forecast period.

With these emerging trends, Alberta will rely increasingly on business investment, consumer spending, and non-energy exports as the key sources of future economic growth.

### **Sector Highlights**

Robust growth should continue in Alberta's consumer/household sector, supported by strong economic conditions, including low unemployment and healthy income gains. Consumer spending is expected to increase by 3.7% annually in real terms through 2008. One moderating influence on growth during the forecast period will be new housing activity, which is expected to recede gradually from its current high pace, with housing starts declining from 36,270 in 2004 to a projected 30,500 in 2008.

With an anticipated moderation in U.S. import demand over the forecast period due to both slightly lower U.S. economic growth and the impact of a depreciating U.S. dollar, Alberta exports are forecast to grow at an average rate of 2.7% annually (in real terms) through 2008. While solid, this is below the estimated 4.7% real growth rate achieved in 2004.

Alberta's employment market will remain strong, with the unemployment rate expected to average just 4.3% over the forecast period. Employment growth is forecast to remain healthy, averaging 1.9% annually through 2008, constrained primarily by the growth rate of Alberta's population and labour force.

The growth outlook for Alberta's agricultural sector remains highly uncertain. In view of the significant uncertainties associated with Canadian live cattle trade, as well as post-BSE infrastructure constraints (for example, reduced trucking capacity), only modest increases in livestock receipts are incorporated into the forecast in 2005, with further gradual improvements in future years. If, however, live cattle exports return to pre-BSE levels more rapidly than anticipated, near-term growth prospects for Alberta's agricultural sector could improve substantially.

Inflation is expected to remain low. While some additional wage pressures are anticipated as Alberta's already-low unemployment rate declines even further over the forecast period, these pressures should be offset to some degree by lower costs for imported goods, due to a higher Canadian dollar. Alberta's inflation rate is expected to average just 1.9% annually through 2008.

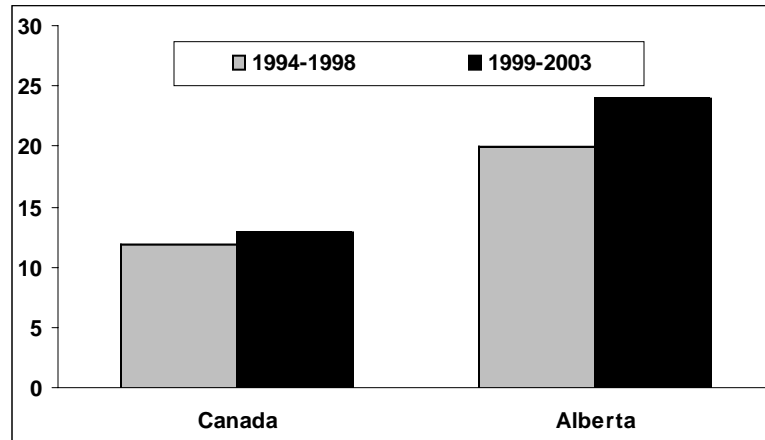
### **Alberta's Investment Strength Points to a Healthy Economic Future**

Alberta has historically enjoyed a strong advantage within Canada in terms of investment, with real business investment averaging about 20% of the province's economic output. The comparable national average has generally been in the range of 10 to 12% of GDP. Investment is an important contributor to growth, increasing current economic output and employment, and raising productivity on an ongoing basis.

In recent years, Alberta's investment advantage has strengthened even further. For the most recent 5-year period, Alberta's real business investment has averaged a remarkable 24% of GDP.

### ALBERTA'S INVESTMENT ADVANTAGE STRENGTHENS

Real Business Investment as Share of GDP (per cent, 5-year average)



Source: Statistics Canada

Alberta business investment is expected to show continued strong growth over the forecast period, sustained by an unmatched investment climate with low tax rates and sensible regulation. Investment will be further supported by lower costs for imported machinery and equipment, due to the higher Canadian dollar. Through 2008, Alberta's business investment is projected to grow by an average of 5.5% annually in real terms.

These developments suggest that Alberta will retain its position as Canada's most dynamic and prosperous economy. The Alberta economy is exceptionally well positioned to continue its evolution into a mature and increasingly diversified economy, with investment, innovation and productivity gains providing the foundation for sustained healthy economic growth.

### RISKS

- A greater than expected decline in world energy prices could have a negative impact on Alberta's energy sector. On the other hand, if energy prices remain at historically high levels, prospects for global economic growth could be negatively affected.
- A further substantial appreciation of the Canadian dollar would have a negative effect on export volumes, and thus economic growth. In addition, provincial oil and gas revenues would decline, due to lower returns for energy exporters.
- Since energy exports are transacted in U.S. dollars, higher energy prices are required to achieve a given financial return for Alberta producers. With the U.S. dollar depreciating by more than 20% against the Canadian dollar over the past two years, a US\$30 price for a barrel of oil today is roughly equivalent to a price of US\$25 two years ago.

- Developments regarding BSE remain a risk factor for the agricultural outlook. Since the forecast assumes only a very gradual increase in live cattle exports, an accelerated recovery in this sector would improve the outlook for the agricultural sector and economic growth.
- The U.S. budget and current account imbalances represent a continuing risk to the forecast, with the potential to significantly reduce U.S. and global economic growth in the medium term.

## Sensitivities to Fiscal Year Assumptions, 2005-06<sup>a</sup>

(millions of dollars)

	Annual Change	Revenue	Spending	Net Change
Oil Price (WTI US\$/bbl)	-\$1.00	-99	--	-99
Natural Gas Price (Cdn\$/GJ)	-10¢	-99	--	-99
Exchange Rate (US¢/Cdn\$)	+1¢	-117	-2	-115
Interest Rates	+1%	-85	+5	-90

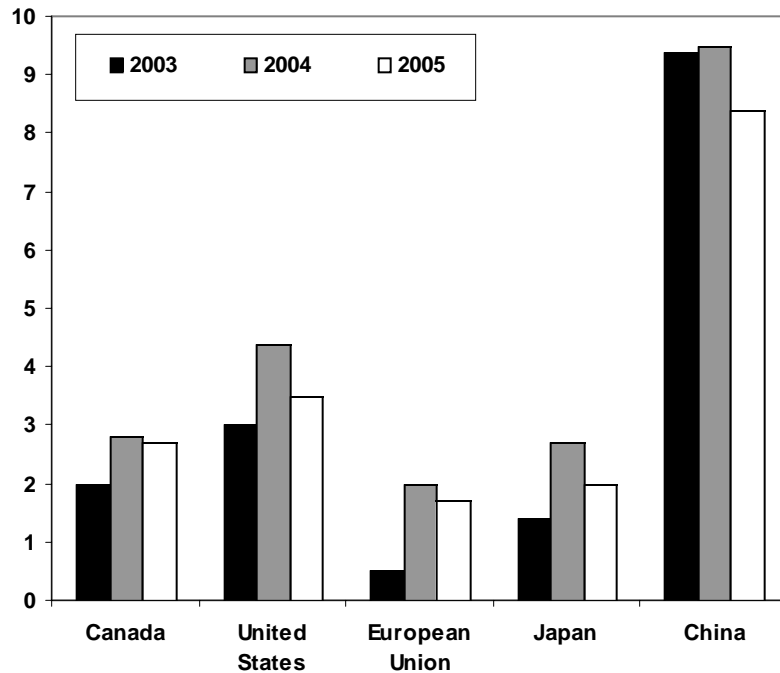
<sup>a</sup> Sensitivities are based on current assumptions of prices and rates and show the effect for a full 12 month period. Sensitivities can vary significantly at different price and rate levels. The energy price sensitivities do not include the potential impact of price changes on the revenue from land sales. The interest rate sensitivity has two components, an increase in cash interest income and a capital loss. When interest rates rise, bond prices go down, causing a capital loss.

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## STRONGEST GLOBAL GROWTH IN DECADES

Real Gross Domestic Product (per cent change)

- In 2004, the global economy had its strongest performance in over two decades, expanding by an estimated 4.8% in real terms.
- China continued its emergence as a major economic power, playing a key role in global economic developments in 2004. China's real economic growth was an estimated 9.5%.
- The United States also enjoyed robust growth of 4.4%, its strongest performance in 5 years. U.S. growth was supported by a continued recovery in business investment and strong consumer spending.



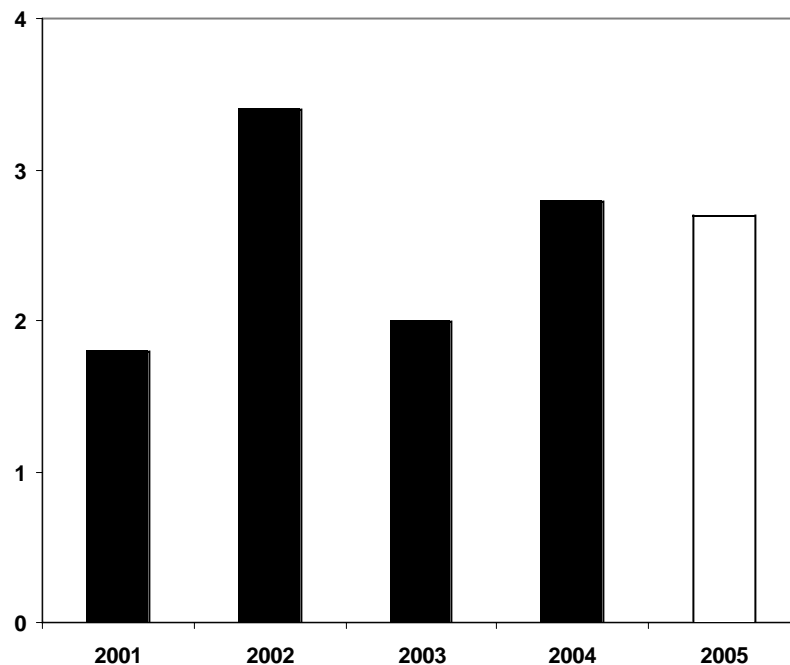
Source: International Monetary Fund, U.S. Department of Commerce and Alberta Finance

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## RISING DOLLAR AFFECTS CANADIAN ECONOMIC GROWTH

Canadian Real GDP (per cent change)

- In 2004, the continued rise of the Canadian dollar had a discernible impact on Canada's economic growth.
- Canada's real economic growth was a respectable 2.8% in 2004. Growth was constrained by a decline in exports in the latter half of the year, attributable largely to the higher Canadian dollar.
- While the Canadian economy remains fundamentally sound, adjustments to the high dollar are expected to constrain Canada's growth in the near term. Economic growth is forecast at 2.7% in 2005, rising to an average of 3.0% over the medium term.

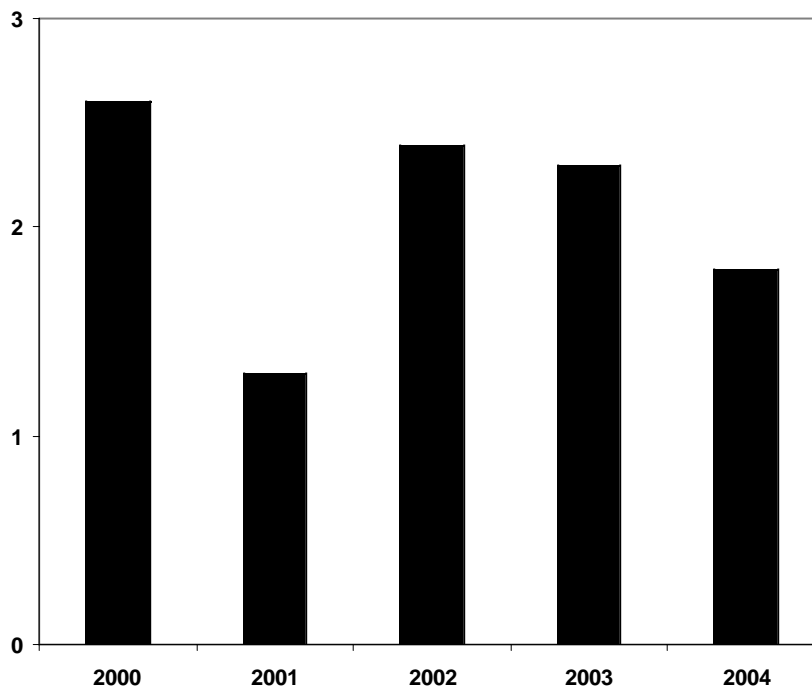


Source: Statistics Canada and Alberta Finance

## CANADIAN JOB GROWTH REMAINS STEADY

Canadian Employment Growth (per cent change)

- Despite losses in export-sensitive industries such as manufacturing, the Canadian employment market remained solid in 2004, creating 284,600 jobs, for employment growth of 1.8%.
- With continued steady job gains, Canada's unemployment rate fell from 7.3% in January 2004 to 7.0% in December. The annual unemployment rate of 7.2% was the lowest in 3 years.

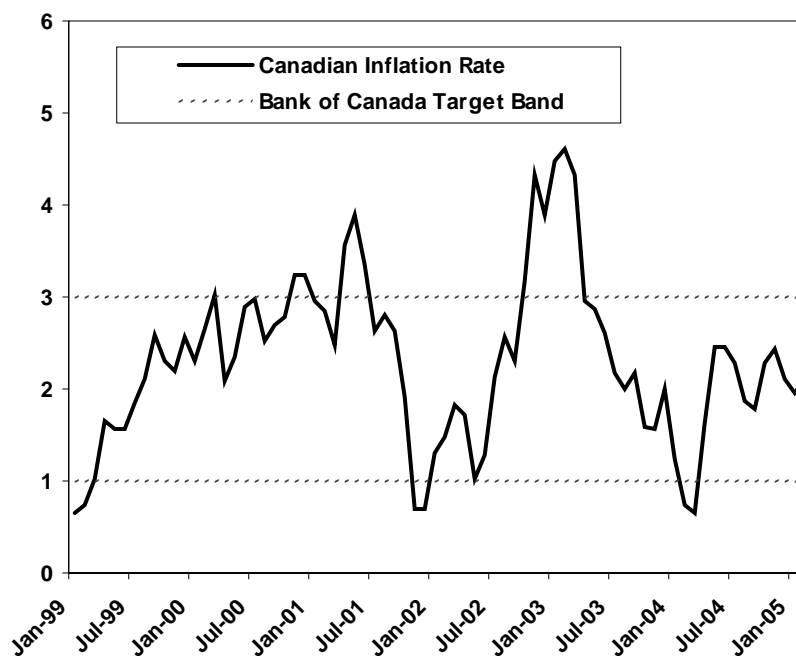


Source: Statistics Canada

## INFLATION REMAINS LOW

Consumer Price Index (per cent change)

- Despite a large jump in energy prices, Canada's inflation rate remained low in 2004. The annual CPI inflation rate fell from 2.8% in 2003 to 1.9% in 2004, remaining well within the Bank of Canada's target band of 1 to 3 per cent.
- Alberta enjoyed very low CPI inflation in 2004, at just 1.4% (down from 4.4% in 2003).
- The Bank of Canada expects core inflation to remain below 2% into late 2005, due to modest underlying price pressures and spare capacity in the Canadian economy.

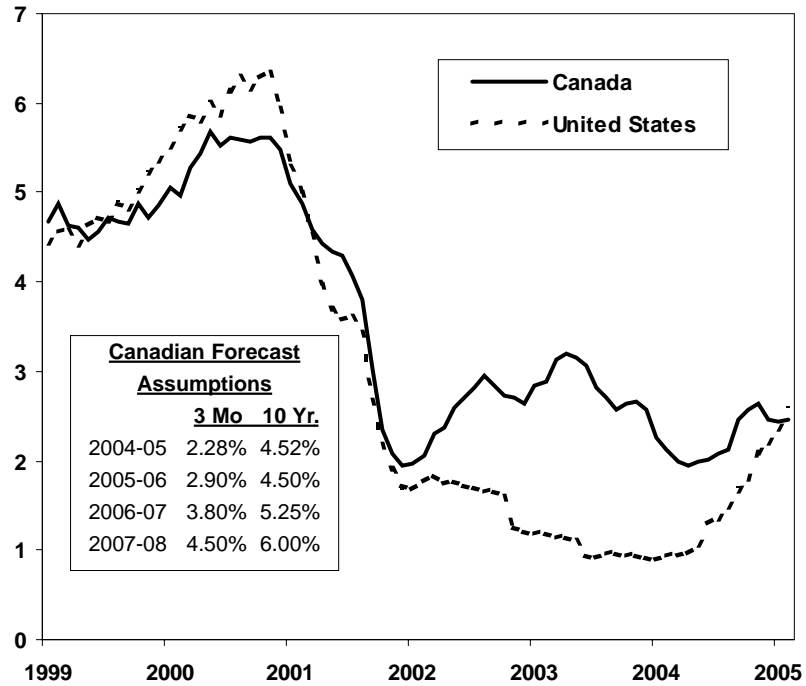


Source: Statistics Canada

## CANADA-U.S. INTEREST RATE SPREAD ELIMINATED

3-month Treasury Bills (per cent)

- The U.S. Federal Reserve raised the Federal Funds rate from 1.0% at the beginning of 2004 to 2.75% in early 2005.
- With the Bank of Canada lowering its overnight rate from 2.75% to 2.5%, the spread between Canadian and U.S. interest rates fell from +175 basis points at the beginning of 2004 to -25 basis points by late March of 2005.
- The Federal Reserve is expected to continue to raise interest rates throughout 2005, while the Bank of Canada is expected to remain cautious through the first half of the year, due to recent signs of slack in the Canadian economy.

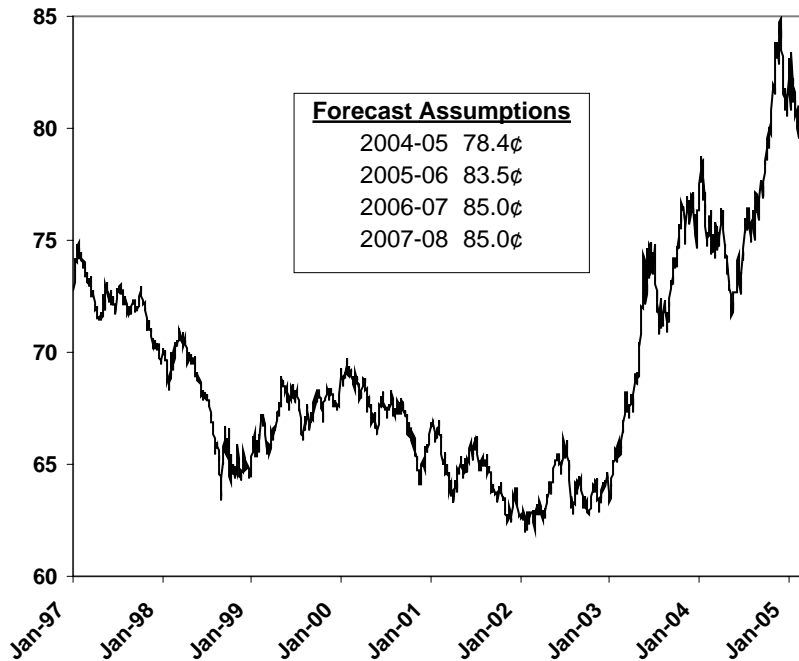


Source: Bank of Canada, Federal Reserve Bank of St. Louis and Alberta Finance

## CANADIAN DOLLAR REACHES A 12-YEAR HIGH

Canadian Exchange Rate (US¢/Cdn\$)

- Despite narrowing Canada-US interest rate spreads, the Canadian dollar continued to appreciate in 2004, touching a 12-year high of 85 cents US in November. The Canadian dollar has risen from a low of 63.5 cents at the start of 2003.
- The rapid increase in the Canadian dollar was part of a global phenomenon, which saw the U.S. dollar decline against most major world currencies.
- With the U.S. dollar expected to decline further on global currency markets in the medium term, the Canadian dollar is expected to remain strong over the forecast period, rising to 85 cents US in 2006 as Canada's economic growth strengthens.

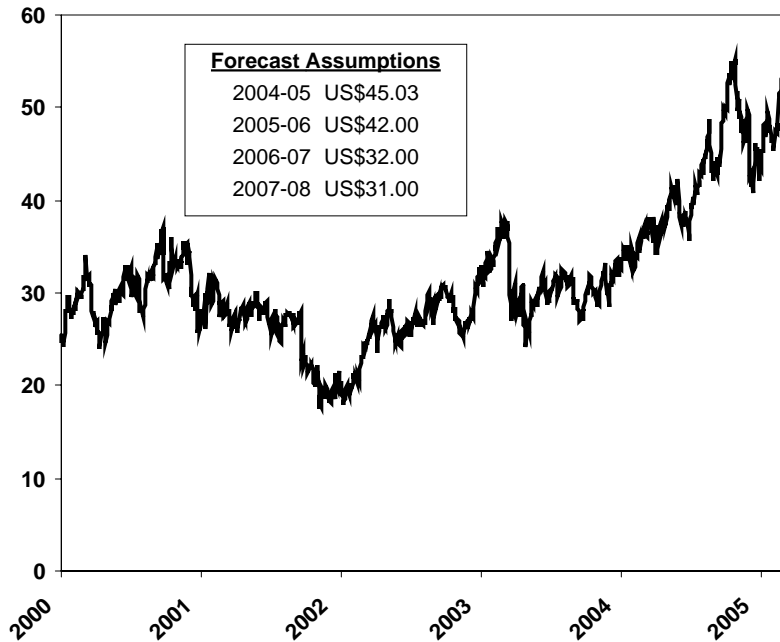


Source: Bank of Canada and Alberta Finance

## OIL PRICES REACH RECORD HIGHS

WTI Price (US\$/bbl, daily)

- As a result of robust global economic growth, particularly in China, world oil prices rose sharply in 2004, touching a then-record high of US\$55, and averaging US\$45.03 in 2004-05.
- Concerns regarding supply disruptions in Iraq, Nigeria and Russia also played a role in raising oil prices.
- With anticipated increases in global oil production in response to current high prices, supply constraints are expected to ease over the forecast period. Prices are expected to return to a long-run level of around US\$30 by 2008.

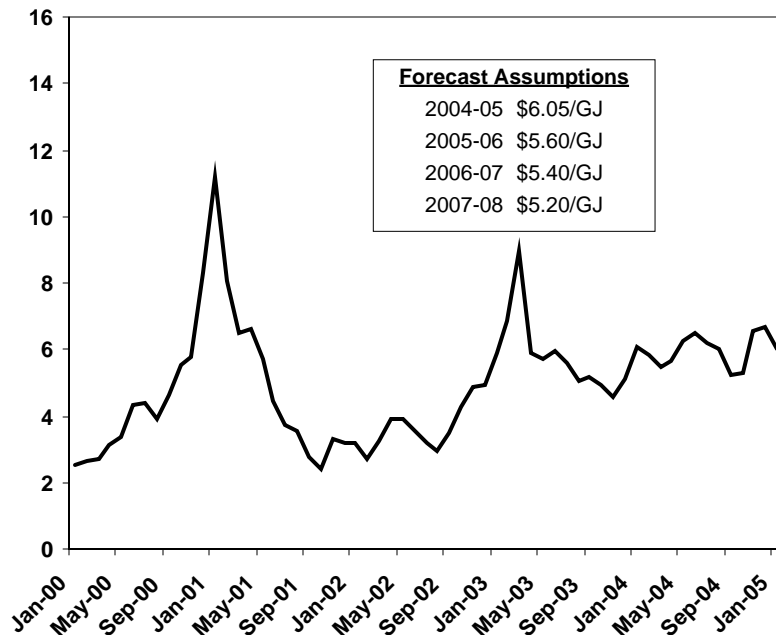


Source: Alberta Energy

## NATURAL GAS PRICES REMAIN HIGH

Alberta Reference Price (Cdn\$/GJ, monthly)

- In 2004, natural gas prices were supported at above-average levels by record high prices for oil (a substitute for natural gas) even though natural gas storage levels were healthy for most of the year. Natural gas prices averaged an estimated \$6.05 per gigajoule (GJ) in 2004-05, a record annual high.
- Prices are expected to decline to an average of \$5.60/GJ in 2005-06, moderating further to \$5.40/GJ in 2006-07 and \$5.20/GJ in 2007-08, due largely to declining oil prices.



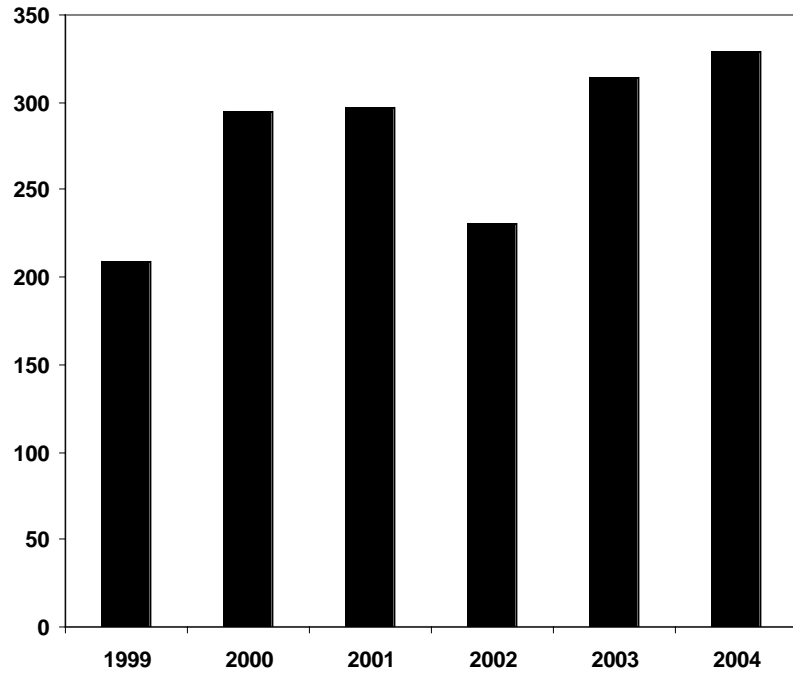
Source: Alberta Energy



## CONVENTIONAL ENERGY SECTOR SEES RECORD ACTIVITY

Average Number of Rigs Drilling (Alberta)

- Alberta's conventional oil and gas sector enjoyed another record year of activity. The average number of rigs drilling in Alberta increased by 4.8% in 2004, following a 36% increase in 2003.
- While energy prices are forecast to moderate, they are expected to remain relatively high by historical standards, sustaining drilling activity at healthy levels throughout the forecast period.

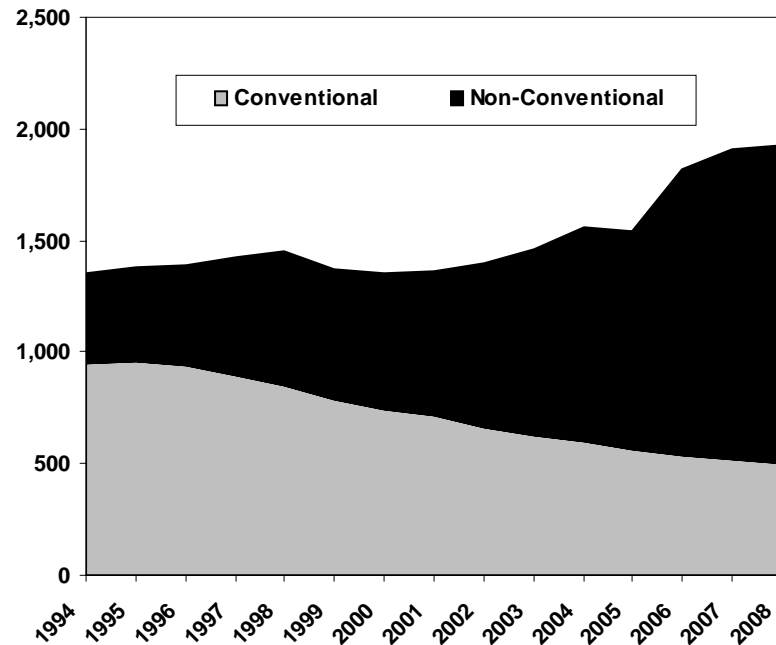


Source: Canadian Association of Oilwell Drilling Contractors

## NON-CONVENTIONAL OIL STILL GROWING

Conventional and Non-Conventional Oil (thousands of barrels per day)

- In 2002, non-conventional oil overtook conventional oil as Alberta's largest source of production.
- By 2008, it is expected that non-conventional oil will make up approximately 74% of Alberta's total oil production.



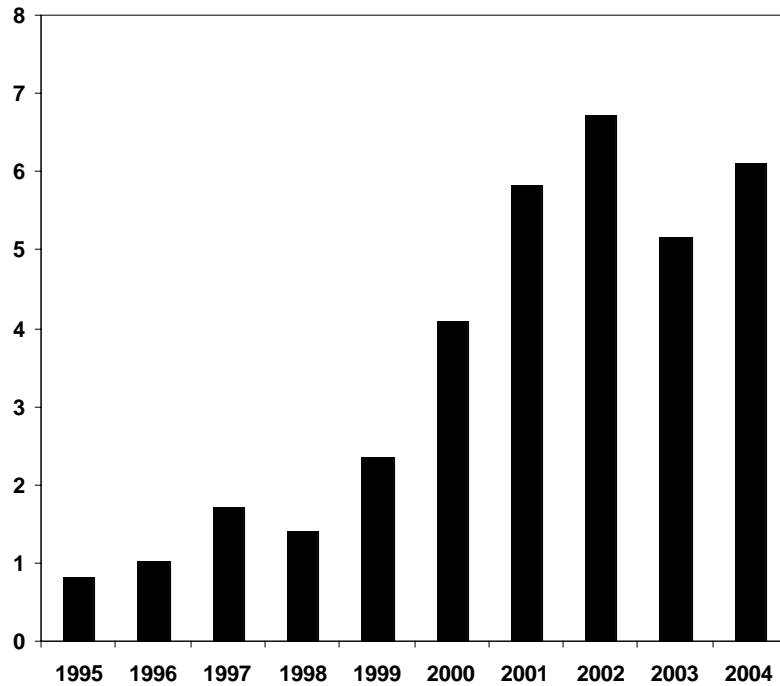
Source: Alberta Energy

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## OIL SANDS INVESTMENT REMAINS HIGH

Non-Conventional Energy Investment (billions of dollars)

- Oil sands investment increased dramatically between 1995 and 2002, rising from under \$1 billion to over \$6 billion.
- Following a moderate decline in 2003 to about \$5.2 billion, oil sands investment rose again in 2004 to an estimated \$6.1 billion.
- Ongoing projects are expected to keep investment levels high, limited primarily by construction industry capacity constraints.



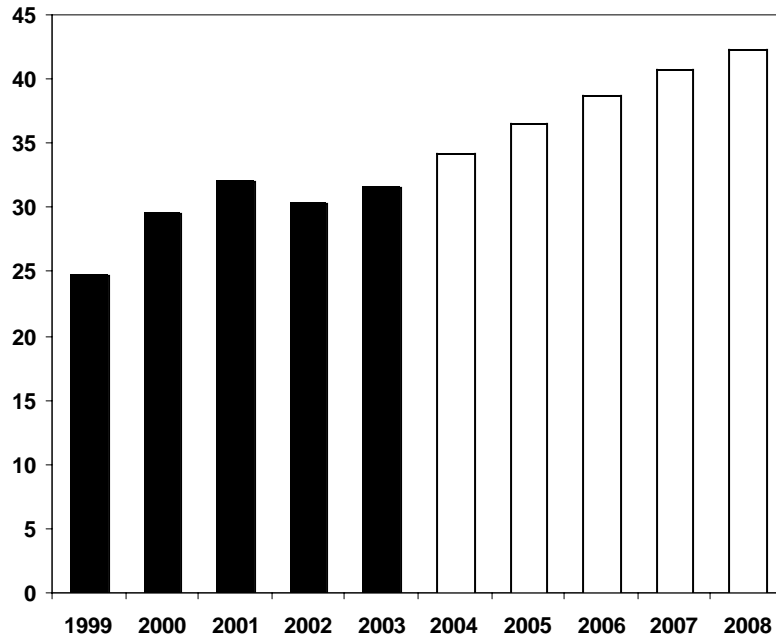
Source: Statistics Canada

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## BUSINESS INVESTMENT SUSTAINS HEALTHY ECONOMIC GROWTH

Real Business Investment (billions of 1997 dollars)

- Over the past 5 years, Alberta's real business investment has grown at an estimated rate of 6.7% annually, becoming a key engine of economic growth.
- Alberta's total real business investment is expected to increase at an average rate of 5.5% over the forecast period, supporting productivity gains and sustaining healthy economic growth.

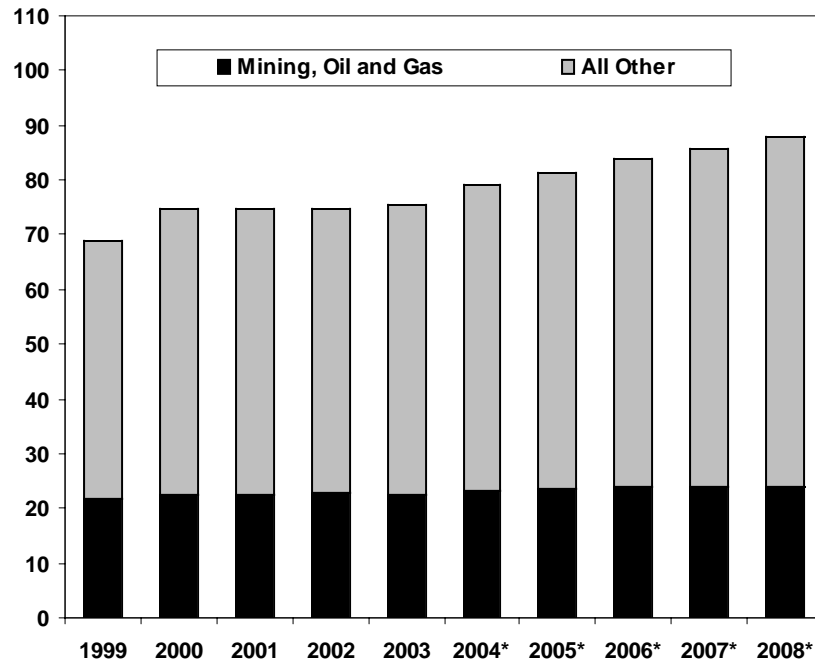


Source: Statistics Canada and Alberta Finance

## ALBERTA'S EXPORTS REMAIN STRONG

Real Exports (billions of 1997 dollars)

- Despite the rising Canadian dollar, Alberta's exports had a very strong year in 2004, rising by an estimated 4.7% in real terms. Manufacturing exports led the way, with volumes rising by an estimated 8.0%.
- Overall, Alberta's exports are expected to rise by 2.7% per year in real terms through 2008.
- Future growth will be driven increasingly by non-energy exports, as Alberta's natural gas exports decline.



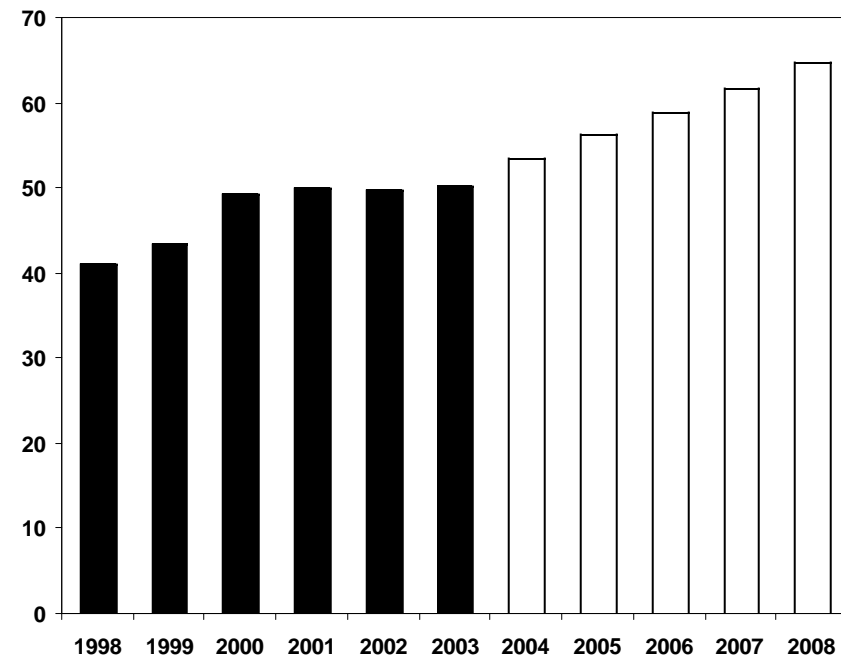
\* Forecast

Source: Statistics Canada and Alberta Finance

## MANUFACTURING AND SERVICES EXPORTS GROWING

Real Manufacturing and Services Exports (billions of 1997 dollars)

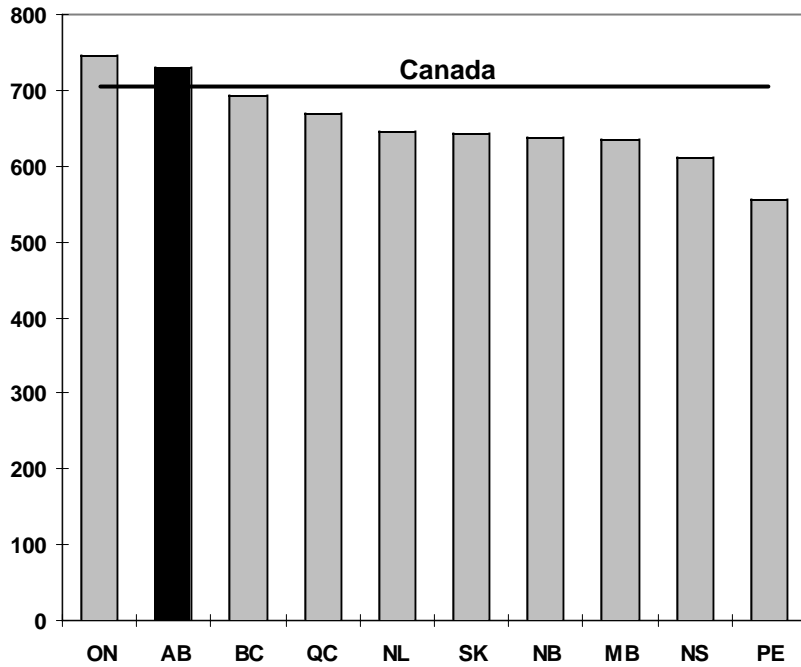
- Alberta's export profile has become increasingly diverse over the past decade, with real manufacturing and services exports rising from 57% of total exports in 1993 to 68% in 2003.
- The diversification of Alberta's export sector provides a strong foundation for broadly-based future export growth.



Source: Statistics Canada and Alberta Finance

**WAGE LEVELS AMONG HIGHEST IN CANADA**  
Average Weekly Earnings, 2004 (dollars)

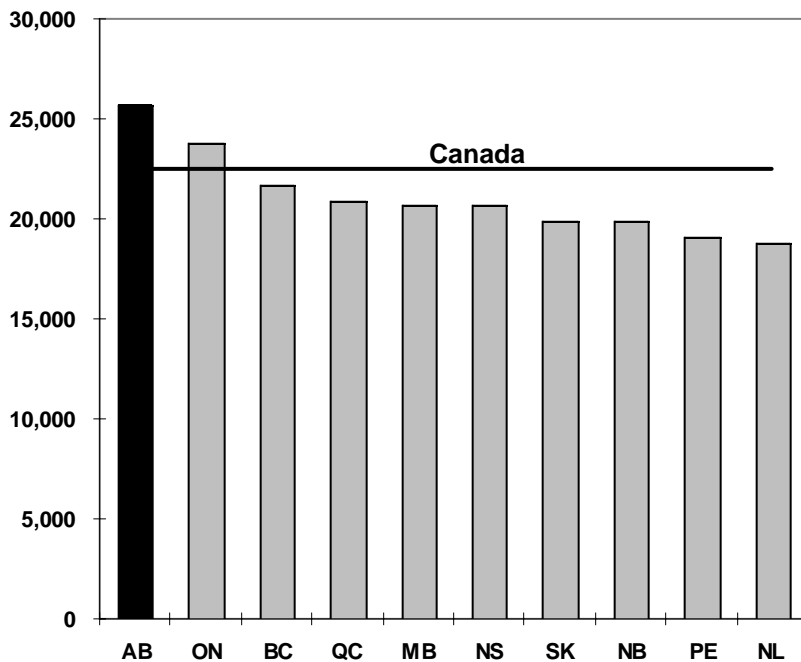
- For 2004 as a whole, Alberta's average weekly earnings were second only to Ontario's.
- In 2004, Alberta's wages and salaries grew by 6.5%, the highest rate of growth in Canada.
- Over the medium term, wages are expected to increase at a rate slightly above inflation, sustained by productivity gains in the Alberta economy.



Source: Statistics Canada

**HIGHEST DISPOSABLE INCOME IN CANADA**  
Personal Income Per Capita, 2003 (dollars)

- At \$25,654, Alberta had the highest average personal disposable income of any province in 2003, the latest year for which data is available.
- In 2003, Alberta's disposable income per capita was more than \$3,100 (13.8%) above the Canadian average of \$22,538.



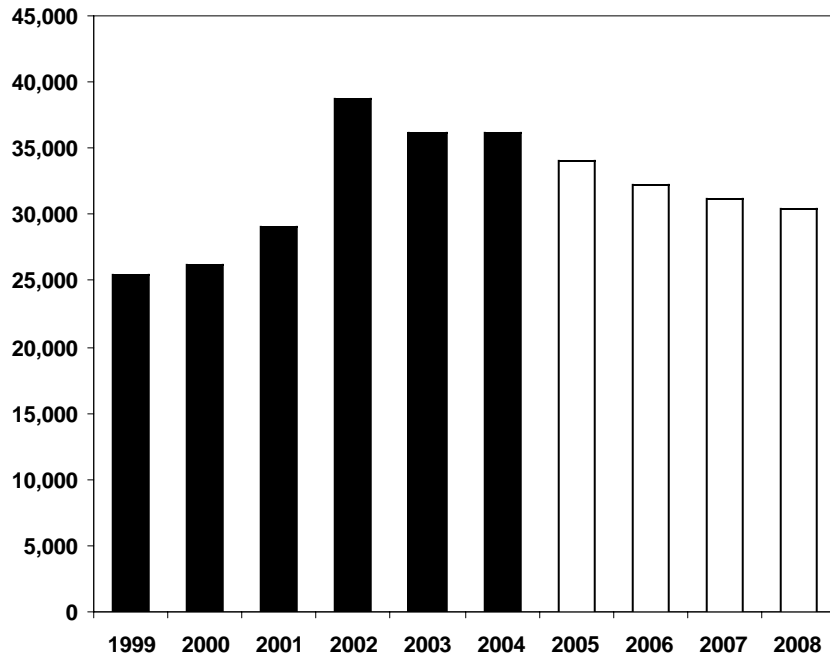
Source: Statistics Canada

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## HOUSING STARTS REMAIN STRONG

Housing Starts (units)

- Alberta's housing starts remained at high levels in 2004. Strength in the housing sector was supported by Alberta's robust economy and labour market, along with low interest rates.
- Although down slightly from the 20-year high recorded in 2002, Alberta's 36,270 housing starts in 2004 were 16% above the average number of starts over the preceding five years.
- Over the medium term, housing starts in Alberta are expected to moderate from recent highs, receding gradually to a still-healthy level of just over 30,000 starts by 2008.



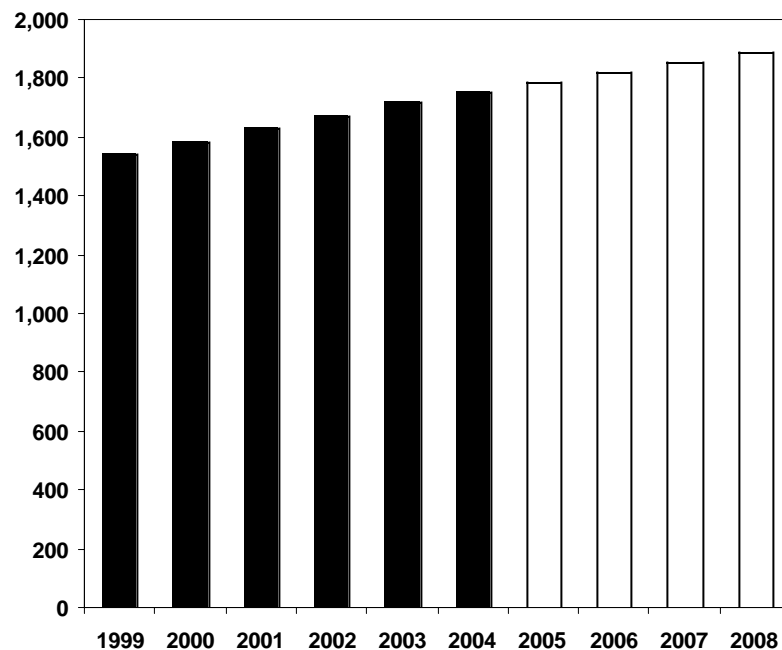
Source: Canada Mortgage and Housing Corporation and Alberta Finance

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## ALBERTA JOB GROWTH TO REMAIN STRONG

Employment (thousands)

- In 2004, the Alberta economy created 40,000 jobs, for solid employment growth of 2.3%.
- Over the forecast period, employment growth is expected to average around 1.9% per year, supported by continued healthy Alberta economic growth. Lower population growth is expected to be a key constraint.
- The Alberta economy is expected to generate almost 134,000 new jobs from 2004 to 2008, an average of about 33,400 per year.

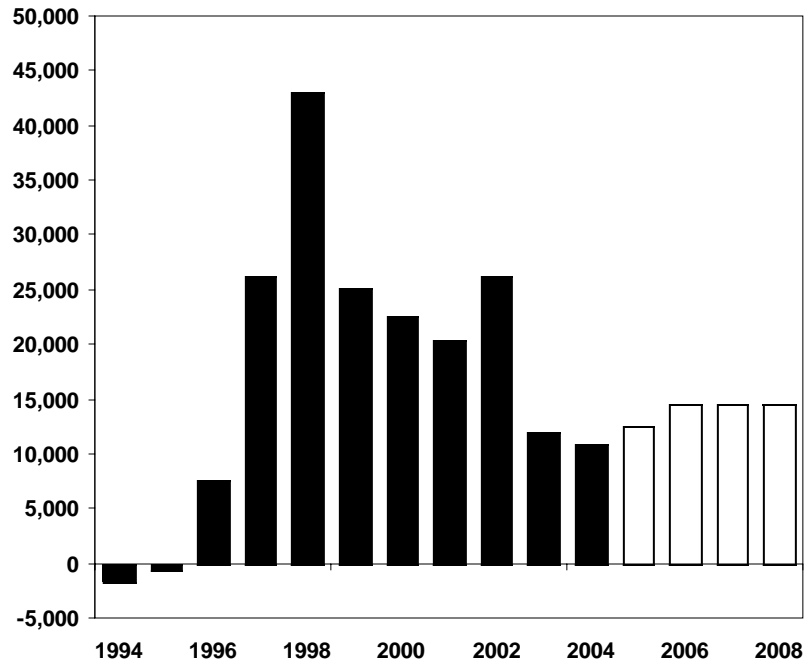


Source: Statistics Canada and Alberta Finance

## INTERPROVINCIAL MIGRATION LEVELS MODERATING

Net Interprovincial Migration to Alberta  
July 1 to June 30 (annual)

- In 2004, for the eighth consecutive year, Alberta had the highest level of net interprovincial migration of any province. From July 1, 2003 to June 30, 2004, 10,902 Canadians moved to Alberta.
- While Alberta remains the destination of choice for Canadians moving from other provinces, migration levels have been moderating in recent years, due to improving economic conditions in other regions of Canada. Net interprovincial migration to Alberta peaked at over 43,000 in 1998.
- Over the forecast period, Alberta's continuing strong economy is expected to attract an average of 14,100 net interprovincial migrants per year.

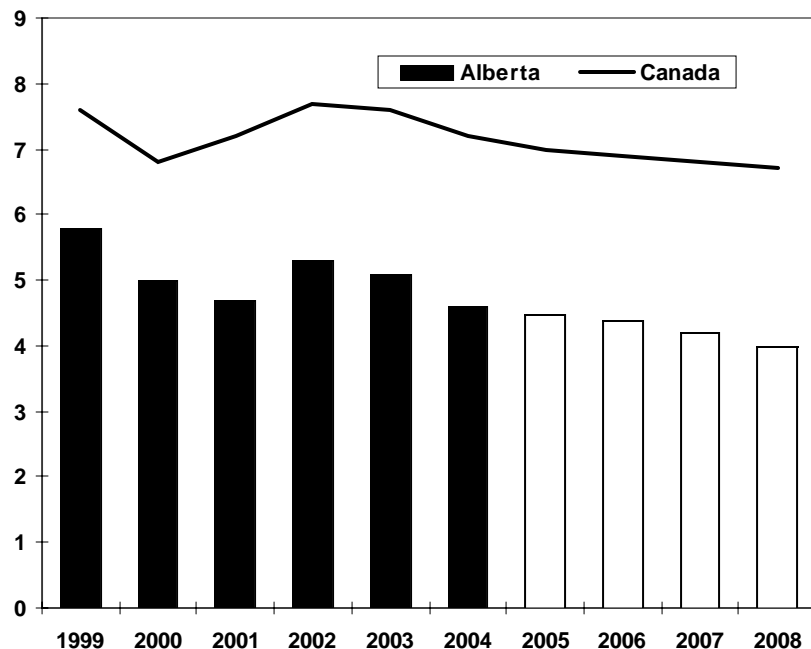


Source: Statistics Canada

## LOWEST UNEMPLOYMENT RATE IN CANADA

Unemployment Rate (per cent)

- Healthy employment growth led to a further decline in Alberta's unemployment rate, which fell from 5.1% in 2003 to 4.6% in 2004.
- Alberta's 2004 unemployment rate was the lowest of any province, and more than one third below the national unemployment rate of 7.2%.
- With continued healthy economic growth forecast for Alberta, unemployment is expected to decline further over the forecast period, averaging only 4.3% through 2008.



Source: Statistics Canada and Alberta Finance

# Oil Price Forecast Benchmark

West Texas Intermediate (US\$/bbl)

Organization	2005	2006	2007	2008
<b>National Forecasting Agencies</b>				
Conference Board of Canada (Jan/05)	39.81	37.38	36.38	35.38
Global Insight (Feb/05)	43.46	36.53	35.09	34.70
<b>Investment Dealers</b>				
CS First Boston (Nov/04)	43.00	38.00	33.00	30.00
Goldman Sachs (Mar/05)	41.25	40.00	28.00	28.00
JP Morgan (Mar/05)	45.25	40.74	n/a	n/a
Lehman Brothers (Jan/05)	42.00	37.00	33.00	28.00
RBC Capital Markets (Jan/05)	39.00	34.50	31.84	32.47
<b>Industry Analysts</b>				
Canadian Energy Research Institute (Feb/05)	42.00	37.00	32.00	32.00
Peters & Co. Limited (Mar/05)	50.00	40.00	30.00	30.00
<b>Confidential Forecasts Provided to Alberta Energy<sup>a</sup></b>				
Average	48.64	42.38	43.96	
High	52.25	50.00	52.00	35.38
Low	39.00	34.50	28.00	28.00
Average of All Private Forecasts	45.39	39.28	34.72	31.32
<b>Alberta Government (calendar year)</b>	<b>45.16</b>	<b>33.04</b>	<b>31.33</b>	<b>30.05</b>

# Tracking the Forecasts of Oil Prices

West Texas Intermediate (US\$/bbl)

Organization	How Did They Do 2004 <sup>b</sup>	What They Were Saying About 2005 in Budget 2004	What They Are Saying About 2005 in Budget 2005
<b>Actual</b>	<b>41.40</b>		
CS First Boston	-15.40	23.00	43.00
Canadian Energy Research Institute	-10.40	29.00	42.00
Conference Board of Canada	-13.67	26.42	39.81
Global Insight	-13.40	26.30	43.46
Goldman Sachs	-14.40	25.00	41.25
JP Morgan	-12.40	27.00	45.25
Lehman Brothers	-11.70	21.00	42.00
Peters & Co. Limited	-11.40	27.00	50.00
RBC Capital Markets	-15.40	24.00	39.00
Average	-13.13	25.41	42.86
<b>Alberta Government (calendar year)</b>	<b>-13.54</b>	<b>25.06</b>	<b>45.16</b>

<sup>a</sup> The Alberta Department of Energy also surveys, on a confidential basis, private forecasts from the following forecasters: EIA, PIRA, PEL, Petral, Purvin & Gertz, Groppe Long & Littell and CGES. The annual figures presented are the average forecast prices from these sources.

<sup>b</sup> This compares an organization's forecast for 2004 at the time of Budget 2004 to what actually happened. A minus sign indicates an underestimate and a plus sign indicates an overestimate.

# Natural Gas Price Forecast Benchmark

Alberta Average Reference Price (Cdn\$/GJ)

Organization	2005	2006	2007	2008
Gilbert Lausten Jung Associates (Jan/05)	5.97	5.78	5.59	5.45
National Bank Financial <sup>a</sup> (Feb/05)	5.82	5.49	4.74	4.74
Peters & Co. Limited (Mar/05)	5.88	5.88	4.98	4.98
<b>Confidential Forecasts Provided to Alberta Energy<sup>b</sup></b>				
Average	6.10	5.78	6.30	5.89
High	7.27	6.80	6.87	6.87
Low	5.22	4.44	4.74	4.74
Average of All Private Forecasts	6.04	5.76	5.79	5.47
<b>Alberta Government (calendar year)</b>	<b>5.91</b>	<b>5.18</b>	<b>5.27</b>	<b>5.10</b>

## Tracking the Forecasts of Natural Gas Prices

Alberta Average Reference Price (Cdn\$/GJ)

Organization	How Did They Do 2004 <sup>c</sup>	What They Were Saying About 2005 in Budget 2004	What They Are Saying About 2005 in Budget 2005
<b>Actual</b>	<b>5.98</b>		
Canadian Energy Research Institute	-0.25	5.27	n/a
Gilbert Lausten Jung Associates	-0.77	4.60	5.97
National Bank Financial	-2.00	4.08	5.82
Peters & Co. Limited	-0.29	5.04	5.88
Average	-0.83	4.75	5.89
<b>Alberta Government (calendar year)</b>	<b>-1.75</b>	<b>3.89</b>	<b>5.91</b>

<sup>a</sup> Excludes gathering and processing charges, which are included in the other forecasts listed.

<sup>b</sup> The Alberta Department of Energy also surveys, on a confidential basis, private forecasts from the following forecasters: EIA, PIRA, RSEG, Sproule, Petral, Purvin & Gertz and Groppe Long & Littell. The annual figures presented are the average forecast prices from these sources. Forecasts are Henry Hub prices converted to Alberta Reference Price using Alberta Energy's models and assumptions.

<sup>c</sup> This compares an organization's forecast for 2004 at the time of Budget 2004 to what actually happened. A minus sign indicates an underestimate and a plus sign indicates an overestimate.



## Canadian Short-Term Interest Rate Forecast Benchmark

3-month Government of Canada Treasury Bills (per cent)

Organization	2005	2006	2007	2008
<b>National Forecasting Agencies</b>				
Conference Board of Canada (Jan/05)	2.58	3.64	4.91	4.91
Global Insight (Mar/05)	2.49	2.50	2.06	2.62
<b>Banks and Investment Dealers</b>				
Bank of Montreal (Mar/05)	2.59	3.45	n/a	n/a
BMO Nesbitt Burns (Mar/05)	2.82	3.80	n/a	n/a
CIBC World Markets (Mar/05)	2.30	2.20	n/a	n/a
RBC Royal Bank (Mar/05)	2.63	3.56	n/a	n/a
Scotiabank (Mar/05)	2.48	2.25	n/a	n/a
Toronto Dominion Bank (Mar/05)	2.68	3.91	n/a	n/a
High	2.82	3.91	4.91	4.91
Low	2.30	2.20	2.06	2.62
Average	2.57	3.16	3.49	3.77
<b>Alberta Government (calendar year)</b>	<b>2.70</b>	<b>3.65</b>	<b>4.00</b>	<b>4.50</b>

## Canadian Long-Term Interest Rate Forecast Benchmark

10-Year Government of Canada Bonds (per cent)

Organization	2005	2006	2007	2008
<b>National Forecasting Agencies</b>				
Conference Board of Canada (Jan/05)	4.59	4.80	5.51	5.76
Global Insight (Mar/05)	4.48	4.79	4.80	4.79
<b>Banks and Investment Dealers</b>				
Bank of Montreal (Mar/05)	4.55	5.20	n/a	n/a
BMO Nesbitt Burns (Mar/05)	4.49	4.94	n/a	n/a
CIBC World Markets (Mar/05)	4.05	3.83	n/a	n/a
RBC Royal Bank (Mar/05)	4.33	4.75	n/a	n/a
Scotiabank (Mar/05)	4.48	4.23	n/a	n/a
Toronto Dominion Bank (Mar/05)	4.61	5.34	n/a	n/a
High	4.61	5.34	5.51	5.76
Low	4.05	3.83	4.80	4.79
Average	4.45	4.74	5.16	5.28
<b>Alberta Government (calendar year)</b>	<b>4.40</b>	<b>5.05</b>	<b>5.50</b>	<b>6.00</b>

## Canada/United States Exchange Rate Forecast Benchmark

(US¢/Cdn\$)

Organization	2005	2006	2007	2008
<b>National Forecasting Agencies</b>				
Conference Board of Canada (Jan/05)	79.4	78.4	80.0	81.6
Global Insight (Mar/05)	81.8	84.9	86.4	85.9
<b>Banks and Investment Dealers</b>				
Bank of Montreal (Mar/05)	81.0	81.0	n/a	n/a
BMO Nesbitt Burns (Mar/05)	81.5	83.1	n/a	n/a
CIBC World Markets (Mar/05)	80.6	76.4	n/a	n/a
RBC Royal Bank (Mar/05)	80.8	78.4	n/a	n/a
Scotiabank (Mar/05)	86.3	88.5	n/a	n/a
Toronto Dominion Bank (Mar/05)	82.3	83.0	n/a	n/a
High	86.3	88.5	86.4	85.9
Low	79.4	76.4	80.0	81.6
Average	81.7	81.7	83.2	83.8
<b>Alberta Government (calendar year)</b>	<b>82.8</b>	<b>85.0</b>	<b>85.0</b>	<b>85.0</b>

## Alberta Real Gross Domestic Product Forecast Benchmark

(per cent change)

Organization	2005	2006	2007	2008
<b>National Forecasting Agencies</b>				
Conference Board of Canada (Jan/05)	3.8	3.0	2.8	2.9
Global Insight (Jan/05)	3.7	3.0	n/a	n/a
<b>Banks</b>				
Bank of Montreal (Feb/05)	4.0	3.7	n/a	n/a
CIBC World Markets (Mar/05)	3.8	3.4	n/a	n/a
RCB Royal Bank (Mar/05)	3.7	3.7	n/a	n/a
Scotiabank (Mar/05)	3.5	3.3	n/a	n/a
Toronto Dominion Bank (Mar/05)	3.4	3.2	n/a	n/a
<b>Other</b>				
BMO Nesbitt Burns (Mar/05)	3.8	3.5	n/a	n/a
Canada Mortgage and Housing Corporation (Jan/05)	3.8	4.1	n/a	n/a
High	4.0	4.1	2.8	2.9
Low	3.4	3.0	2.8	2.9
Average	3.7	3.4	2.8	2.9
<b>Alberta Government (calendar year)</b>	<b>3.7</b>	<b>3.3</b>	<b>3.0</b>	<b>2.9</b>

# Announced Major Projects Over \$100 Million

Announced or Under Construction

Company Name	Location	Type of Project	Cost (\$millions)	Timing
<b>OIL AND GAS</b>				
Air Products Canada Ltd.	Strathcona County	Hydrogen Plant for Petro-Canada Edmonton Refinery Feed Conversion Project	160	2006
Imperial Oil Limited	Strathcona County	Strathcona Sulphur Reduction Plant for Diesel	250	2004-2006
Petro-Canada Oil and Gas	Strathcona County	Sulphur Reduction Plants at Strathcona Refinery	250	2004-2006
TransCanada Pipelines	Yellowhead City (NW of Edson)	Natural Gas Storage Facility	200	2004-2005
<b>OIL SANDS</b>				
Canadian Natural Resources Ltd.	Lakeland County (Primrose/Wolf Lake)	'Primrose North' Cyclic Steam Stimulation (CSS) Project	250	2004-2007
	RM of Wood Buffalo	'Project Horizon' Mining and Drilling Project Phase 1	6,800	2005-2008
Conoco Philips Canada/ TotalFinaElf/Devon Energy	RM of Wood Buffalo (near Anzac)	'Surmont' SAGD* Bitumen Commercial Project	1,100	2004-2013
Deer Creek Energy Ltd.	RM of Wood Buffalo	'Joslyn Creek' SAGD Project Phase 2	270	2004-2006
Devon Canada Corporation	RM of Wood Buffalo (SE of Conklin)	'Jackfish' SAGD Project	450	2005-2007
EnCana Corporation	RM of Wood Buffalo (Christina Lake)	SAGD Bitumen Production	400	2000-2009
ExxonMobil Canada Ltd.	MD of Bonnyville (near Cold Lake)	In situ Bitumen Plant	100	1997-2005
Husky Energy Inc.	MD of Bonnyville (NW of Cold Lake)	'Tucker Lake' SAGD Project	500	2005-2006
Imperial Oil Limited	MD of Bonnyville	Extension of Phases 9 & 10 'Mahihkan North'	350	2005-2006
OPTI Canada Inc./Nexen Inc.	RM of Wood Buffalo (near Anzac)	'Long Lake' SAGD Heavy Oil Project	3,500	2004-2007

\* Steam Assisted Gravity Drainage

# Announced Major Projects Over \$100 Million (cont'd)

Announced or Under Construction

Company Name	Location	Type of Project	Cost (\$millions)	Timing
<b>OIL SANDS (cont'd)</b>				
Petro-Canada Oil and Gas	Strathcona County	Strathcona Refinery Conversion to Upgrade Bitumen	1,200	2006-2008
Petrovera Resources Ltd.	Lindbergh/Elk Point/ Frog Lake/Marwayne	Bitumen Recovery	1,200	2000-2010
Suncor Energy	RM of Wood Buffalo (Fort McMurray)	'Firebag' In situ Bitumen Recovery Project	1,000	2003-2012
Synchrude Canada Ltd.	RM of Wood Buffalo (Fort McMurray)	Phase 3: Upgrader Expansion Phase 1/Aurora Mine Train 2	7,800	2001-2006
	RM of Wood Buffalo (Fort McMurray)	Continuous Improvement	1,500	1997-2007
<b>POWER</b>				
Hunt Power Company Ltd.	MD of Rocky View (S of Crossfield)	Gas-Fired Power Plant (345MW)	300	2005-2007
<b>COMMERCIAL, RETAIL AND RESIDENTIAL CONSTRUCTION</b>				
Bentall Real Estate Services	Calgary	'Livingston Place' Office Towers Phase 1	130	2005-2007
Cameron Corporation/ Grosvenor International Canada Ltd.	Edmonton	'South Edmonton Common' Retail Complex	250	1997-2005
Christenson Developments/ Western Asset Management Group (WAM)	Strathcona County (Sherwood Park)	'Centre in the Park' Housing/Retail/ Commercial Development	135	2004-2011
Heritage Partners	Calgary	'Deerfoot Meadows' Retail Complex	500	2003-2006
ProCura Real Estate Services/Westbank Projects Corp.	Edmonton	Heritage Mall Re-development to 'Century Park' Mixed-Use Development	600	2005-2010
WAM Development/Opus Building Corp.	Calgary	'Stampede Station' Retail/Office Space, Hotel and Residential Buildings	400	2004-2007

# Announced Major Projects Over \$100 Million (cont'd)

Announced or Under Construction

Company Name	Location	Type of Project	Cost (\$millions)	Timing
<b>INFRASTRUCTURE</b>				
Alberta Infrastructure and Transportation	Across Alberta	Highway Twinning Project	1,400	1998-2011
	Bow River Irrigation District	Carseland - Bow River Headworks Rehabilitation	125	2003-2009
	Calgary	Extension of Stoney Trail to Deerfoot Trail	250	2005-2007
	Edmonton	SH216 (Anthony Henday Dr) SE Section (Hwy 2 to Hwy 14/SH216)	493	2005-2007
	Near Carseland to near Vauxhall	Carseland - Bow River Headworks System Rehabilitation	100	1998-2012
Calgary Airport Authority	Calgary	Airport Improvements	800	1998-2007
City of Calgary	Calgary	Bearspaw Water Treatment Plant Upgrades	102	2004-2008
	MD of Foothills	Pine Creek Wastewater Treatment Plant	320	2005-2007
Various Irrigation Districts	Across Southern Alberta	Irrigation Systems/Rehabilitation	600	1997-2006
<b>INSTITUTIONAL</b>				
Alberta Children's Hospital Foundation/Calgary Health Region	Calgary	Alberta Children's Hospital	220	2003-2006
Bow Valley College	Calgary	Campus Re-Development and Expansion	100	2005-2010
Calgary Health Region	Calgary	Hospital for South Calgary (South Health Campus Phase 1)	500	2006-2009
Capital Health	Edmonton	Alberta Heart Institute	142	2004-2006
Capital Health/Royal Alexandra Hospital Foundation	Edmonton	Royal Alexandra Hospital North Treatment Centre (NTC)	110	2005-2008
GWL Realty Advisors Inc. (formerly listed under Alberta Infrastructure/Alberta Justice)	Calgary	Courts Centre Courthouse Complex	300	2004-2007

## Announced Major Projects Over \$100 Million (cont'd)

Announced or Under Construction

Company Name	Location	Type of Project	Cost (\$millions)	Timing
<b>INSTITUTIONAL (cont'd)</b>				
University of Alberta	Edmonton	Health Research Innovation Facility (HRIF)	165	2003-2006
University of Calgary	Calgary	Health Research Innovation Centre (HRIC)	220	2003-2005
<b>OTHER</b>				
Ainsworth Lumber Co.	Grande Prairie and Valleyview	OSB Plant Expansion plus Hardwood Sawmill Expansion	220	2005-2006
Bell Intrigna/Bell Nexxia/ Axia NetMedia and Partners	Across Alberta	Alberta SuperNet Fibre-Optic Communications Grid	300	2001-2005
Destination Resorts Inc.	Canmore	Three Sisters Resort	150	2002-2010
Enoch Paragon Limited Partnership (EPLP)	Parkland County (Enoch Cree Nation)	'River Cree Resort and Casino' Complex	140	2004-2006
Tolko Industries Inc.	Slave Lake	Facility Expansion and Improvements to OSB Plant	202	2005-2006
Tsuu T'ina Nation	MD of Rocky View	Casino/Business Centre	700	2005
Weyerhaeuser	Grande Prairie	Pulp Mill Upgrade (Boiler Re-Build)	160	2005-2007
<b>TOTAL</b>			<b>37,414</b>	

Source: Alberta Economic Development