BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
POOLED INVESTMENT PORTFOLIOS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

1. The Portfolios

British Columbia Investment Management Corporation (“bcIMC”) was established under the *Public Sector Pension Plans Act* as a trust company authorized to carry on trust business and investment management services. These financial statements have been prepared by bcIMC staff and are the responsibility of bcIMC management.

Under the *Public Sector Pension Plans Act* and the *Pooled Investment Portfolios Regulation*, B.C. Reg. 447/99, bcIMC may establish and operate pooled investment portfolios "…. in which money from trust funds, special funds or other funds, other public money and the money of government bodies and designated institutions may be combined in common for the purpose of investment by means of investment units of participation in a pooled investment portfolio." In addition, pooled investment portfolios previously established under the *Financial Administration Act* and the *Pooled Investment Portfolios Regulation*, B.C. Reg. 84/86, were continued under the *Pooled Investment Portfolios Regulation*, B.C. Reg. 447/99, to be held in trust by bcIMC and invested by the Chief Investment Officer of bcIMC.

The Canadian Corporate Bond Fund was established on July 25, 1991, and invests primarily in Canadian corporate debentures.

The Short Term Bond Fund was established on November 1, 1995, and invests primarily in bonds that are issued or guaranteed by the government of Canada or a provincial government. The bonds have a maturity date of less than ten years.

The Pension Bond Fund was established on January 1, 1995, and invests primarily in bonds issued or guaranteed by the government of Canada or a provincial government.

The Realpool Investment Fund was established on July 3, 1991, and invests primarily in diversified Canadian income-producing properties through wholly-owned corporations.

The Realpool International Fund 1999,Realpool International Fund 2001, and the Realpool International Fund 2002 were established on March 26, 1999, January 10, 2001, and March 27, 2002 respectively and invest only in non-Canadian real estate-related assets that may include externally managed funds, direct real estate holdings and private real estate companies. Investments will often be in illiquid investments with a combination of short and longer term investment horizons.

The Fixed Term Mortgage Fund was established on June 30, 1995, and invests primarily in Canadian commercial and multi-family mortgage products.

The Construction Mortgage Fund was established on December 1, 1995, and invests primarily in Canadian construction mortgages.

The Specialty Mortgage Fund was established on September 28, 1999, and invests primarily in Canadian mortgages in regions with strong and growing economies. Mortgages are purchased as both shared loans and loans where the fund is the sole investor.

The Private Placement Funds 1995, 1996, 1997, 1998, 1999, 1999A, 2000, 2001, and 2002 were established on October 25, 1995, March 20, 1996, March 12, 1997, March 13, 1998, March 17, 1999, March 17, 1999, January 18, 2000, January 9, 2001, and March 12, 2002 respectively. Private placement investments are long term in nature, and are generally made in partnership with other investors, outside the structure of public markets. The partnerships invest primarily in debt and equity investments in domestic and international companies at various stages of development, and are generally related to venture capital, buy-out financing or expansion and development financing.

1. The Portfolios (Continued)

The Asian Equity Fund was established on January 2, 1998, and invests primarily in the common shares of companies that comprise the Morgan Stanley Capital International Pacific Basin Index.

The European Equity Fund was established on January 2, 1998, and invests primarily in the common shares of companies that comprise the Morgan Stanley Capital International Europe Free Composite Index.

The International Equity Fund was established on January 2, 1998, and invests primarily in the common shares of companies that comprise the Morgan Stanley Capital International EAFE Composite Index.

The Infrastructure Fund was established on October 8, 2002 and invests primarily in tangible assets with favourable risk-return characteristics that are an attractive match with pension liabilities. Investing in infrastructure projects cuts across traditional asset class boundaries. A single project within the Fund may encompass fixed income, real estate and private equities.

Participation in each portfolio is expressed in units, each unit giving its holder a proportionate share in net assets. Unitholders may only acquire and redeem units on respective valuation dates. The value of a unit is $1 million on establishment, and on subsequent valuation dates is determined by dividing the market value of the net assets of the portfolio by the total number of units outstanding.

The number of portfolio units available for issue is unlimited, except for the Realpool International Fund 1999, Realpool International Fund 2001, Realpool International Fund 2002, Specialty Mortgage Fund and private placement funds. These are closed-end funds, which were limited in participation to a prescribed set of unitholders at the time the funds were established. Each unitholder owns a specific percentage of a fund.

2. Principle of Consolidation

The corporations of the Realpool Investment Fund are consolidated with the parent accounts after adjusting them to a basis consistent with the accounting policies described below. Inter-organization accounts and transactions are eliminated upon consolidation.

3. Significant Accounting Policies

a) Basis of Presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles.

b) Valuation of Investments

Short term investments are valued at market derived from external quotations. Securities listed on a stock exchange are valued at their closing sale price on the valuation date. Securities not traded on that date are valued at the mean price between the latest bid and asked price. Securities not listed on any stock exchange, or which are traded over-the-counter, are valued in the same manner based on available public quotations from recognized dealers in such securities or at the price estimated by the fund manager to be the fair value.

3. Significant Accounting Policies (Continued)

Real estate properties are reported at internal valuation where there is no external appraisal or at lower of internal and external valuation where there is an external appraisal. Properties are valued internally by the Realpool Investment Fund's external asset managers at the end of each quarter and are appraised externally once every ten to eighteen months by accredited independent appraisers. Historical cost information is maintained and is presented in the statement of investments. Accounting policies for historical costs are as follows: depreciation on buildings is provided on a straight-line basis over the expected life of the property not to exceed a 40 year period. Leasing and building improvement costs are capitalized and amortized over the period during which the costs are expected to be recovered. For development properties only, operating costs, certain indirect costs and property taxes are also capitalized. Investments in real estate co-ownership are accounted for by the proportionate consolidation method.

Mortgages are valued by an independent external source.

Private placement investments made in partnership with other investors are valued by the external managers at their estimates of fair value. Fair value is defined as the expected realization if investments were disposed of in an orderly distribution over a reasonable period of time. These valuations are reviewed by management. Private placement investments made directly in private companies are valued at a price estimated by management to be the fair value. Private placement investments made directly in public companies are valued at their closing stock exchange sale price on the valuation date less appropriate discounts for escrow and volume limitations. Securities not traded on that date are valued at the mean price between the latest bid and asked price.

c) Measurement Uncertainty

Financial statements prepared in conformity with Canadian generally accepted accounting principles require management to make certain estimates and assumptions which can affect the reported balances. In determining the market value of some of its investments, particularly real estate and private placements, management relies on external appraisers' or fund managers' assumptions regarding investment industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. By nature, these asset valuations are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the reported market values may change by a material amount.

d) Investment Transactions and Income

Investment transactions are accounted for on the trade date basis, except for real estate, mortgages and private placements investments that are recorded on the closing date. Dividend income is recognized on the ex-dividend date, and interest income on the accrual basis. Rental income is recorded net of property-related expenses. Income on foreign investments is reported net of withholding tax expense. Net realized gain (loss) on sale of investments and net unrealized gain (loss) on investments are calculated based on cost for private placements, average cost for equities, depreciated cost for real estate, and amortized cost for money market securities, bonds and mortgages. The amortized cost is the cost of acquisition adjusted by amortization of discounts and premiums on a true constant yield basis over the terms of the investments for money market securities and bonds, and on a straight line basis for mortgages.

e) Issue and Redemption of Units

The issue and redemption of units are recorded on the trade date basis.

3. Significant Accounting Policies (Continued)

f) Foreign Currency Translation

Assets, liabilities and commitments in foreign currencies are translated into Canadian dollars at the fiscal year-end exchange rate. Income, purchases and sales of investments are translated at the rate prevailing on the respective dates of such transactions. Net realized gain (loss) on sale of investments and net unrealized gain (loss) on investments includes foreign currency translation gains (losses).

4. Changes in Accounting Presentation

In the prior fiscal years, the foreign currency translation gains (losses) were included in net unrealized gain (loss) on investments on the Statements of Changes in Net Assets. In the current fiscal year, these gains (losses) have been included in the net realized gain (loss) on sale of investments on the Statements of Changes in Net Assets.

5. Other Assets

As at December 31, 2002, the Realpool Investment Fund has prepaid expenses, goodwill and deferred financing charges totalling $36,656,703 (2001: $19,120,751).

6. Mortgages and Other Payables

As at December 31, 2002, the Realpool Investment Fund has mortgages, notes and loans payable bearing interest at rates up to 10.875% and mature at various dates to the year 2013. Principal repayments due are as follows:

2003	$125,758,331
2004	70,318,566
2005	80,963,082
2006	28,078,236
2007 and subsequent	565,376,288
	870,494,503
Plus:	
Unamortized premium	929,280
Net unrealized increase in value	33,776,052
	34,705,332
Market value of mortgages, notes and loans payable	$905,199,835

The change in the unrealized increase (decrease) in the value of the mortgage liabilities is included in net unrealized gain (loss) on investments in the Statement of Change in Net Assets. Other payables include accounts payable and accrued liabilities of $77,412,469 (2001: $87,331,467) and rent received in advance and deposits of $19,247,688 (2001: $17,361,232).

7. Recoverable Advances

Recoverable Advances in the Construction Mortgage Fund represented legal fees and operating costs advanced on one mortgage in default. Management recovered the outstanding principal, accrued interest, legal fees and operating costs from the borrower or the guarantor, the Canada Mortgage and Housing Corporation during the fiscal year 2002.

8. Foreign Currency Contracts

For the Asian Equity Fund, there is a net unrealized loss of $4,349,078 (2001: $9,422,325 gain) based on prevailing foreign currency exchange rates on December 31, 2002, for 8 (2001: 8) foreign currency contracts. These contracts settled in January and February 2003.

For the European Equity Fund, there is a net unrealized loss of $37,514 (2001: $39,297 loss) based on prevailing foreign currency exchange rates on December 31, 2002, for 4 (2001: 3) foreign currency contracts. These contracts settled in January 2003.

For the International Equity Fund, there is a net unrealized loss of $2,819,357 (2001: $2,644,322 gain) based on prevailing foreign currency exchange rates on December 31, 2002, for 14 (2001: 32) foreign currency contracts. These contracts settled in January and February 2003.

9. Risk Management

In general, all pooled investment portfolios are exposed to price risk and credit risk. There are three types of price risk: currency risk, interest rate risk and market risk. Currency risk relates to the possibility that investments may change in value due to future changes in foreign exchange rates. Interest rate risk relates to the possibility that investments may change in value due to future changes in market interest rates. Market risk relates to the possibility that investments may change in value due to future changes in market prices. Credit risk relates to the possibility that a loss may occur if another party fails to discharge an obligation. In order to avoid undue investment risk, bcIMC has established specific investment criteria for each pooled investment portfolio, such as minimum credit ratings for investees and counterparties, and investment diversification requirements. There is no undisclosed exposure in the funds' investments.

10. Expenses

Custodial fees are applicable to the bond funds and the equity funds. The mortgage funds pay mortgage servicing and brokerage fees. Management fees are paid by the real estate and the equity funds to external managers for providing investment management and advisory services. For the private placement funds, in most cases, management fees are expenses of the various partnership investments - not of the funds. Where management fees are incurred directly by the funds, they are reported on the financial statements. Brokerage fees are incorporated into the cost and proceeds of equity and bond transactions.

11. Related Party Transactions

All inter-portfolio transactions are conducted at market value.

Third party costs that are attributable to a specific pooled investment portfolio are charged to that portfolio and shared on a pro-rata basis by the portfolio unitholders. Other costs are initially borne by bcIMC. bcIMC recovers these costs by charging management fees.

11. Related Party Transactions (Continued)

Effective October 2001, bcIMC changed its funds management fees policy from client billings to allocating the fees, calculated on a cost recovery basis, to the various pooled investment portfolios in which clients participate. The amounts charged during the period is reported on the Statement of Changes in Net Assets and the amount payable is reported on the Statement of Net Assets of each pooled investment portfolio. Prior to this bcIMC recovered costs by charging clients a management fee based on the market value of the unitholders' investment holdings administered by bcIMC.

Included in the investments of the Fixed Term Mortgage Fund are mortgages receivable from the Realpool Investment Fund with a market value of $0 (2001: $55,853,641).

External managers of the wholly owned corporations of the Realpool Investment Fund were paid property management fees of $14,897,864(2001: $14,108,575).

12. Commitments

Wholly-owned corporations of the Realpool Investment Fund have property purchase and development commitments of $28.7 million and have issued letters of credit totalling $9,913,745. The corporations have also committed to pay a third party $225,000 per year to 2003, $300,000 per year from 2004 to 2023 and a minimum of $300,000 per year from 2024 to 2083 for the development rights to the land.

The Realpool International Fund 1999 has commitments for investment contracts totalling $88.5 million. The Realpool International Fund 2002 has commitments for investment contracts totalling $39.4 million. The Fixed Term Mortgage Fund and the Construction Mortgage Fund have commitments for mortgage contracts totalling approximately $43.2 million and $205.5 million respectively. Private Placement Funds 1995, 1996, 1997, 1998 1999, 1999A , 2000, 2001 and 2002 have commitments for investment contracts totalling approximately $7.0 million, $7.8 million, $128.2 million, $99.5 million, $171.1 million, $45.4 million, $258.5 million, $227.7 million and $343.2 million respectively.

13. Comparative Figures

Certain comparatives have been reclassified to conform to the current year's presentation.