

**BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
POOLED INVESTMENT PORTFOLIOS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2003**

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.

Fund ST1 was established on April 21, 1986, and invests primarily in Canadian money market investments maturing within one month.

Fund ST2 was established on September 19, 1986, and invests primarily in Canadian money market investments maturing within 15 months.

Fund ST3 was established on August 1, 1990, and invests primarily in U.S. money market investments maturing within one month.

The Indexed Government Bond Fund was established on September 1, 1993, and invests primarily in bonds which are issued or guaranteed by the government of Canada or a provincial government.

The Long Term Bond Fund was established on February 1, 1999, and invests primarily in bonds which are issued or guaranteed by the government of Canada or a provincial government.

The British Columbia Focus Fund was established on March 31, 1994. Its 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 Canadian companies situated in British Columbia. Investments are generally related to venture capital, buy-out financing or expansion and development financing for companies at various stages of development. The fund was closed as at September 1, 1994. Distribution of net assets to the unitholders will be made as investments are wound up.

The Indexed Canadian Equity Fund was established on December 12, 1989, and invests primarily in common stock of the Canadian companies that comprise the S&P/TSX Composite Index.

The Active Canadian Equity Fund was established on July 26, 1990, and invests primarily in diversified portfolios of common shares of Canadian companies.

The Enhanced Canadian Equity Fund was established on November 27, 2002 and invests primarily in diversified portfolios of common shares of Canadian companies.

The North American Equity Fund was established on October 26, 2001 and owns units of bcIMC's Indexed Canadian Equity Fund and S & P 500 Index Equity Fund.

The Active U.S. Equity Fund was established on October 20, 1993, and invests primarily in diversified portfolios of common stock of U.S. companies.

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1. The Portfolios (Continued)

The S & P 500 Index Equity Fund was established on February 6, 1995, and invests primarily in common stock of the U.S. companies that comprise the Standard and Poors 500 Composite Index.

The U.S. Index Enhanced Equity Fund was established on September 1, 1998, and invests primarily in common stock of U.S. companies.

The U.S. Value Index Equity Fund was established on October 13, 2000, and invests primarily in common stock of the U.S. companies that comprise the Standard and Poors/BARRA Value Index.

The U.S. Equity Derivatives Fund was established on December 16, 2002 and invests primarily in Canadian domestic securities and derivative products (futures contracts and swap contracts) to replicate the return of the S&P 500 Index.

The Currency Overlay Fund was established on October 8, 2002 and engages in the buying and selling of currencies through spot market, forward contracts, futures, and/or options to achieve desired currency exposure.

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 British Columbia Focus Fund. The British Columbia Focus Fund is a closed-end fund, which was limited in participation to a prescribed set of unitholders at the time the fund was established. As noted above, the British Columbia Focus Fund has not issued new units of investment since September 1, 1994.

The financial statements of Fund ST3 are presented in U.S. dollars.

For the Active U.S. Equity Fund, the S & P 500 Index Equity Fund, the U.S. Index Enhanced Equity Fund and the U.S. Value Index Equity Fund, the \$1 million unit value equated to \$1.321 million, \$1.398 million, \$1.553 and \$1.513 million in translated Canadian dollars respectively, based on foreign currency exchange rates on the funds' establishment dates as noted above. The financial statements of the U.S. equity funds are presented in Canadian dollars.

2. Significant Accounting Policies

a) Basis of Presentation

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

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2. Significant Accounting Policies (Continued)

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.

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 that can affect the reported balances. In determining the market value of some of its investments, particularly private placements, management relies on external 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 private placement investments that are recorded on the closing date. Dividend income is recognized on the ex-dividend date, and interest income on the accrual basis. 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, and amortized cost for money market securities and bonds. 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.

e) Issue and Redemption of Units

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

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).

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2. Significant Accounting Policies (Continued)

g) Futures Contracts

A futures contract is a standardized exchange-traded contract, which effectively sets the price in advance for a future transaction in a specified amount of a currency, a basket of stocks or security. The final settlement for futures contracts may result in one party taking possession of the underlying asset, but usually there is a cash settlement of net gains or losses.

During the year, the Indexed Canadian Equity Fund, the Enhanced Canadian Equity Fund, the S & P 500 Index Equity Fund, the U.S. Value Index Equity Fund and the U.S. Equity Derivatives Fund entered into stock index futures contracts. The daily income (loss) on stock index futures contracts, including brokerage commissions and miscellaneous expenses on the purchase and sale of the contracts, are reported on the Statements of Changes in Net Assets as investment income and on the Statements of Net Assets as accrued investment income (loss).

3. 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 net realized gain (loss) on sale of investments on the Statements of Changes in Net Assets.

4. Foreign Currency Contracts

For the U.S. Value Index Equity Fund, there is a net unrealized gain of \$11,014,542 (2002: \$0) based on the prevailing foreign currency exchange rates on March 31, 2003, for 20 (2002: 0) foreign exchange contracts. These contracts settled in April, May, June and July 2003.

For the Currency Overlay Fund, there is a net unrealized loss of \$104,122 (2002: \$0) based on the prevailing foreign currency exchange rates on March 31, 2003, for 106 (2002: 0) foreign exchange contracts. These contracts settled in June 2003.

5. Futures Contracts

As at March 31, 2003, the Indexed Canadian Equity Fund holds 2,210 futures contracts (2002: 1,000) to purchase the S&P/TSE 60 Composite Stock Index for settlement in June 2003. These contracts have a notional value of \$159,959,800 (2002: \$89,440,000) on March 31, 2003, resulting in accrued investment loss of \$1,040,700 (2002: accrued investment income of \$220,000). The fund intends to close out each futures contract before settlement by entering into equal, but offsetting, futures contracts. With respect to these futures contracts, \$9,908,496 (2002: \$10,000,000) of Government of Canada T-Bills, maturing in July 2003, are held on margin.

As at March 31, 2003, the Enhanced Canadian Equity Fund holds 2 futures contracts (2002: 0) to purchase the S&P/TSE 60 Composite Stock Index for settlement in June 2003. These contracts have a notional value of \$144,760 (2002: \$0) on March 31, 2003, resulting in accrued investment income of \$1,000 (2002: \$0). The fund intends to close out each futures contract before settlement by entering into equal, but offsetting, futures contracts. With respect to these futures contracts, \$96,937 (2002: \$0) of Government of Canada T-Bills, maturing in February 2004, are held on margin.

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5. Futures Contracts (Continued)

As at March 31, 2003, the S & P 500 Index Equity Fund holds 294 futures contracts (2002:320) to purchase the S&P 500 Composite Stock Index for settlement in June 2003. These contracts have a notional value of \$91,470,537 (2002: \$146,500,016) on March 31, 2003, resulting in accrued investment loss of \$1,677,808 (2002: accrued investment income of \$524,328). The fund intends to close out each futures contract before settlement by entering into equal, but offsetting, futures contracts. With respect to these futures contracts, \$10,252,949 (2002: \$11,154,500) of Government of Canada T-Bills, maturing in July 2003, are held on margin.

As at March 31, 2003, the U.S. Value Fund held no future contracts.

As at March 31, 2003, the U.S. Equity Derivatives Fund holds 943 futures contracts (2002: 0) to purchase the S&P/TSE 60 Composite Stock Index for settlement in June 2003. These contracts have a notional value of \$293,390,191 (2002: \$0) on March 31, 2003, resulting in accrued investment loss of \$5,507,561 (2002: \$0). The fund intends to close out each futures contract before settlement by entering into equal, but offsetting, futures contracts. With respect to these futures contracts, \$21,090,990 (2002: \$0) of Government of Canada T-Bills, maturing in June 2003, are held on margin.

6. 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.

7. Expenses

Custodial fees are applicable to the money market funds, the bond funds and the equity funds. Management fees are paid by the Active Canadian Equity Fund, the Enhanced Canadian Equity Fund, the Active U.S. Equity Fund, the U.S. Index Enhanced Equity Fund and the Currency Overlay Fund to external fund managers for providing investment management and advisory services. For the British Columbia Focus Fund, in most cases, management fees are expenses of the various partnership investments - not of the fund. Where management fees are incurred directly by the fund, they are reported on the financial statements. Brokerage fees are incorporated into the cost and proceeds of equity and bond transactions.

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8. 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.

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 amount 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.

9. Commitments

The British Columbia Focus Fund has outstanding commitments to invest an additional \$0.9 million with external managers.

10. Comparative Figures

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