

**BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
POOLED INVESTMENT PORTFOLIOS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2004**

**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.

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**1. The Portfolios (Continued)**

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.

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 Poor's 500 Composite Index.

The Enhanced Indexed U.S. 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 Poor's/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 Standard & Poor's 500 Composite 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.

The U.S. Currency Hedging Fund was established on June 23, 2003 and engages in the buying and selling of currencies through spot market, forward contracts, and/or futures to protect clients' foreign investments from the impact of the appreciating Canadian dollar relative to the U.S. currency.

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 Enhanced Indexed U.S. 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.

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**2. Significant Accounting Policies**

a) Basis of Presentation

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

b) Valuation of Investments

Short term investments are valued at fair value 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. Forward foreign currency contracts are valued at the prevailing forward exchange rates on the valuation date. Stock index futures contracts are valued based on the value of the respective index on the valuation date.

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 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 a trade date basis. 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 and derivative contracts, 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.

The income (loss) arising on the settlement of foreign currency contracts is reported as net realized gain (loss) on sale of investments on the Statements of Changes in Net Assets. The daily variation income (loss) on stock index futures contracts, including brokerage commissions and miscellaneous expenses on the purchase and sale of the contracts, is reported as investment income on the Statements of Changes in Net Assets.

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**2. Significant Accounting Policies (Continued)**

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).

**3. Changes in Accounting Presentation**

In prior fiscal years, the net unrealized gains and losses on foreign currency contracts were shown as net receivables from or as net payables for foreign currency contracts on the Statements of Net Assets. The accrued variation margin income and losses on futures contracts were shown as accrued investment income or accrued investment losses on the Statements of Net Assets. In the current fiscal year, these amounts are included in the fair value of investments on the Statements of Net Assets and the Statements of Investments.

**4. Derivative Contracts**

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, commodities, indices, interest rates or currency rates. The derivative contracts held by the pooled investment portfolios include foreign currency contracts and stock index futures contracts.

Foreign Currency Contracts

A foreign currency contract is a contract to exchange a specified amount of one currency for another currency on a specific date in the future for a specified price.

For the Currency Overlay Fund, there is a net unrealized gain of \$1,285,109 (2003: \$104,122 loss) based on the prevailing foreign currency exchange rates on March 31, 2004, relating to 258 (2003: 106) foreign exchange contracts. These contracts settled in May and June 2004.

Stock Index Futures Contracts

A stock index futures contract is an exchange-traded contract to buy or sell a fixed value of the index. These contracts are transacted either in the over-the-counter (OTC) market or regulated exchanges. The final settlement for stock index futures contract does not result in one party taking possession of the underlying asset, but rather a cash settlement of net gains or losses.

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**4. Derivative Contracts (Continued)**

As at March 31, 2004, the Indexed Canadian Equity Fund holds 325 futures contracts (2003: 2,210) to purchase the S&P/TSE 60 Composite Stock Index for settlement in June 2004. These contracts have a notional value of \$30,914,000 (2003: \$159,959,800) on March 31, 2004, resulting in an accrued investment loss of \$185,800 (2003: accrued investment loss of \$1,040,700). 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, \$5,000,000 (2003: \$9,908,496) of Government of Canada T-Bills, maturing in April 2004, is held on margin.

As at March 31, 2004, the Enhanced Canadian Equity Fund holds 3 futures contracts (2003: 2) to purchase the S&P/TSE 60 Composite Stock Index for settlement in June 2004. These contracts have a notional value of \$285,360 (2003: \$144,760) on March 31, 2004, resulting in an accrued investment loss of \$1,740 (2003: accrued investment gain of \$1,000). 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, \$100,000 (2003: \$96,937) of Government of Canada T-Bills, maturing in August 2004, is held on margin.

As at March 31, 2004, the S & P 500 Index Equity Fund holds 57 futures contracts (2003:294) to purchase the S&P 500 Composite Stock Index for settlement in June 2004. These contracts have a notional value of \$21,007,086 (2003: \$91,470,537) on March 31, 2004, resulting in an accrued investment loss of \$23,075 (2003: accrued investment loss of \$1,677,808). 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, \$5,242,000 (2003: \$10,252,949) of Government of Canada T-Bills, maturing in July 2004, is held on margin.

As at March 31, 2004, the U.S. Value Index Equity Fund holds 14 futures contracts (2003: 0) to purchase the S&P/BARRA Value Stock Index for settlement in June 2004. These contracts have a notional value of \$2,597,935 (2003: \$0) on March 31, 2004, resulting in accrued investment income of \$4,586 (2003: \$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, \$262,100 (2003: \$0) of Government of Canada T-Bills, maturing in July 2004, is held on margin.

As at March 31, 2004, the U.S. Equity Derivatives Fund holds 6,969 futures contracts (2003: 943) to purchase the S&P 500 Composite Stock Index for settlement in June 2004. These contracts have a notional value of \$2,568,392,631 (2003: \$293,390,191) on March 31, 2004, resulting in accrued investment loss of \$2,744,875 (2003: accrued investment loss of \$5,507,561). 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, \$163,812,500 (2003: \$21,090,990) of Government of Canada T-Bills, maturing in June and July 2004, are held on margin.

**5. 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.

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**6. Expenses**

The custodial fees are applicable to the money market funds, bond funds and equity funds. Management fees are paid by the Active Canadian Equity Fund, the Enhanced Canadian Equity Fund, the Active U.S. Equity Fund, the Enhanced Indexed U.S. 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.

**7. Related Party Transactions**

All inter-portfolio transactions are conducted at fair 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.

bcIMC allocates fees, calculated on a cost recovery basis, to the various pooled investment portfolios in which clients participate.

**8. Commitments**

The British Columbia Focus Fund has outstanding commitments to invest an additional \$0.7 million with external managers.

**9. Comparative Figures**

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

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**10. Units Outstanding**

The following is a summary of the changes in units outstanding during the year:

	<b>FUND ST1</b>		<b>FUND ST2</b>		<b>FUND ST3</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Outstanding, beginning of year	309.965	428.630	479.942	496.131	52.494	124.179
Issued	6,982.437	7,127.328	3,344.211	1,807.421	1,030.423	566.729
Redeemed	<u>(7,023.696)</u>	<u>(7,245.993)</u>	<u>(2,704.070)</u>	<u>(1,823.610)</u>	<u>(963.818)</u>	<u>(638.414)</u>
Outstanding, end of year	<u>268.706</u>	<u>309.965</u>	<u>1,120.083</u>	<u>479.942</u>	<u>119.099</u>	<u>52.494</u>
	<b>INDEXED GOVERNMENT BOND FUND</b>		<b>LONG TERM BOND FUND</b>		<b>BRITISH COLUMBIA FOCUS FUND</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Outstanding, beginning of year	95.437	102.738	1,297.933	1,257.836	5.498	9.032
Issued	6.751	1.549	111.310	68.197	-	-
Redeemed	<u>(10.945)</u>	<u>(8.850)</u>	<u>(68.590)</u>	<u>(28.100)</u>	<u>(1.039)</u>	<u>(3.534)</u>
Outstanding, end of year	<u>91.243</u>	<u>95.437</u>	<u>1,340.653</u>	<u>1,297.933</u>	<u>4.459</u>	<u>5.498</u>
	<b>INDEXED CANADIAN EQUITY FUND</b>		<b>ACTIVE CANADIAN EQUITY FUND</b>		<b>ENHANCED CANADIAN EQUITY FUND</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Outstanding, beginning of year	3,134.758	2,959.908	1,138.546	1,170.487	99.745	-
Issued	92.150	742.891	31.391	39.616	0.476	99.745
Redeemed	<u>(682.364)</u>	<u>(568.041)</u>	<u>(31.391)</u>	<u>(71.557)</u>	<u>-</u>	<u>-</u>
Outstanding, end of year	<u>2,544.544</u>	<u>3,134.758</u>	<u>1,138.546</u>	<u>1,138.546</u>	<u>100.221</u>	<u>99.745</u>

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**10. Units Outstanding (Continued)**

	<b>NORTH AMERICAN EQUITY FUND</b>		<b>ACTIVE U.S. EQUITY FUND</b>		<b>S &amp; P 500 INDEX EQUITY FUND</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Outstanding, beginning of year	8,984.738	7,326.529	577.023	561.333	777.921	631.771
Issued	53.389	1,861.419	20.260	21.325	23.151	346.922
Redeemed	<u>(2,196.239)</u>	<u>(203.210)</u>	<u>(3.395)</u>	<u>(5.635)</u>	<u>(168.686)</u>	<u>(200.772)</u>
Outstanding, end of year	<u>6,841.888</u>	<u>8,984.738</u>	<u>593.888</u>	<u>577.023</u>	<u>632.386</u>	<u>777.921</u>
	<b>ENHANCED INDEXED U.S. EQUITY FUND</b>		<b>U.S. VALUE INDEX EQUITY FUND</b>		<b>U.S. EQUITY DERIVATIVES FUND</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Outstanding, beginning of year	140.802	140.802	892.811	685.394	300.000	-
Issued	0.098	-	5.650	219.583	1,691.602	300.000
Redeemed	<u>(27.565)</u>	<u>-</u>	<u>(74.516)</u>	<u>(12.166)</u>	<u>(21.128)</u>	<u>-</u>
Outstanding, end of year	<u>113.335</u>	<u>140.802</u>	<u>823.945</u>	<u>892.811</u>	<u>1,970.474</u>	<u>300.000</u>
	<b>CURRENCY OVERLAY FUND</b>		<b>U.S. CURRENCY HEDGING FUND</b>			
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>		
Outstanding, beginning of year	4.000	-	-	-		
Issued	23.823	4.000	3.355	-		
Redeemed	<u>(3.557)</u>	<u>-</u>	<u>(3.355)</u>	<u>-</u>		
Outstanding, end of year	<u>24.266</u>	<u>4.000</u>	<u>-</u>	<u>-</u>		