Treasury Board and Finance

Annual Report
2013–2014

Alberta
Government

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Treasury Board and Finance

Annual Report 2013–2014

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Preface

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Fiscal Management Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 19 ministries.

The annual report of the Government of Alberta contains ministers' accountability statements, the consolidated financial statements of the province and the *Measuring Up* report, which compares actual performance results to desired results set out in the government's strategic plan.

This annual report of the Ministry of Treasury Board and Finance contains the minister's accountability statement, the audited consolidated financial statements of the ministry and a comparison of actual performance results to desired results set out in the ministry business plan. This ministry annual report also includes:

- **the financial statements of entities making up the ministry, including the Department of Treasury Board and Finance, regulated funds, provincial agencies and Crown-controlled corporations for which the minister is responsible;**
- **other financial information as required by the *Financial Administration Act* and *Fiscal Management Act*, either as separate reports or as a part of the financial statements, to the extent that the ministry has anything to report; and**
- **financial information relating to trust funds.**

Minister's Accountability Statement

The ministry's annual report for the year ended March 31, 2014, was prepared under my direction in accordance with the *Fiscal Management Act* and the government's accounting policies. All of the government's policy decisions as at June 4, 2014, with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

[Original signed by]

Doug Horner
President of Treasury Board and
Minister of Finance

Message from the President of Treasury Board and Minister of Finance

This past year presented both challenges and opportunities. While our strong and growing economy remained the envy of many jurisdictions, the flooding in southern Alberta was a devastating and costly natural disaster. At the same time, Alberta's finances were pressured by low bitumen prices and market access issues.

I was proud of government's quick response to help those affected by the flood and provide $1 billion in initial emergency funding. I was even more proud of the response and actions of everyday Albertans in the face of challenges and devastation the floods presented. We demonstrated to the world what Alberta and Albertans are truly made of.

Alberta's economy gained momentum in 2013 as it continued to power ahead - and we're not the only ones who feel Alberta is the place to be. A record 105,000 people from other provinces and countries moved to Alberta in 2013. Going forward, economic expansion is expected to accelerate to 3.7 per cent in 2014, continuing to outperform the rest of Canada and the U.S.

Our current revenue forecast has also improved from *Budget 2013*. Wages and personal incomes are expected to continue to grow and strong equity markets are forecast to boost investment income this year and next. Oil prices are expected to be slightly higher than forecasted for the current and next two years, while the Canadian/U.S. dollar exchange rate is forecast to continue to be lower than expected - all good news for Alberta's bottom line.

We have a renewed purpose for the province's savings, which will grow to $26 billion over the next three years. We are committing $1.4 billion to innovation and strengthening labour market capacity through two new endowments - the Agricultural and Food Innovation Endowment and the Social Innovation Endowment - in addition to the new Alberta Future Fund and more funding to the existing Alberta Heritage Scholarship Fund.

These steps will help us deliver the next phase of our government's Building Alberta Plan to:

- Invest in families and communities, including the new roads, schools and health facilities our growing province needs;
- Ensure we live within our means, by limiting the rate of growth in our operating expense, and by completing the results-based budgeting process, and
- Open new markets for Alberta's resources by advancing our world-leading resource stewardship, as well as increase support for Alberta's International Strategy.

Alberta's fiscal responsibility and strong financial position allowed the province to respond to the floods while still ensuring government could continue to invest in programs and services, as well as capital projects, outlined in *Budget 2013.*

Our future is bright and I'm looking forward to continuing the work we started in *Budget 2013*. I am proud of this ministry's contributions in making this province such an attractive place to work and live, as well as helping Albertans in their greatest time of need.

[Original signed by]

Doug Horner
President of Treasury Board and
Minister of Finance

Management's Responsibility for Reporting

The Ministry of Treasury Board and Finance includes:

- Department of Treasury Board and Finance
- Alberta Capital Finance Authority
- Alberta Gaming and Liquor Commission
- Alberta Local Authorities Pension Plan Corporation
- Alberta Pensions Services Corporation
- Alberta Securities Commission
- Alberta Insurance Council
- Alberta Investment Management Corporation
- Alberta Cancer Prevention Legacy Fund
- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Savings Trust Fund
- Alberta Heritage Scholarship Fund
- Alberta Heritage Foundation for Science and Engineering Research Endowment Fund
- Alberta Risk Management Fund
- Supplementary Retirement Plan Reserve Fund
- Provincial Judges and Masters in Chambers Reserve Fund
- Automobile Insurance Rate Board
- Alberta Treasury Branches Financial and its subsidiaries
- Credit Union Deposit Guarantee Corporation
- Lottery Fund
- N.A. Properties (1994) Ltd.
- Gainers Inc.

The executives of the individual entities within the ministry have the primary responsibility and accountability for the respective entities. Collectively, the executives ensure the ministry complies with all relevant legislation, regulations and policies.

Ministry business plans, annual reports, performance results and the supporting management information are integral to the government's fiscal and strategic plan, annual report, quarterly reports and other financial and performance reporting.

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the ministry rests with the President of Treasury Board and Minister of Finance. Under the direction of the minister, I oversee the preparation of the ministry's annual report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, by way of necessity, include amounts that are based on estimates and judgments. The consolidated financial statements are prepared in accordance with Canadian public sector accounting standards. The performance measures are prepared in accordance with the following criteria:

- Reliability – information agrees with underlying data and the sources used to prepare it.
- Understandability and Comparability – current results are presented clearly in accordance with the stated methodology and are comparable with previous results.
- Completeness – performance measures and targets match those included in *Budget 2013.*

As deputy minister, in addition to program responsibilities, I am responsible for the ministry's financial administration and reporting functions. The ministry maintains systems of financial management and internal control which give consideration to costs, benefits and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of public money;
- provide information to manage and report on performance;
- safeguard the assets and properties of the province under ministry administration;
- provide Executive Council as well as the President of Treasury Board and Minister of Finance information needed to fulfill their responsibilities; and
- facilitate preparation of ministry business plans and annual reports required under the *Fiscal Management Act.*

In fulfilling my responsibilities for the ministry, I have relied as necessary, on the executives of the individual entities within the ministry.

[Original signed by]

Ray Gilmour
Deputy Minister Treasury Board and Finance
June 4, 2014

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Results Analysis

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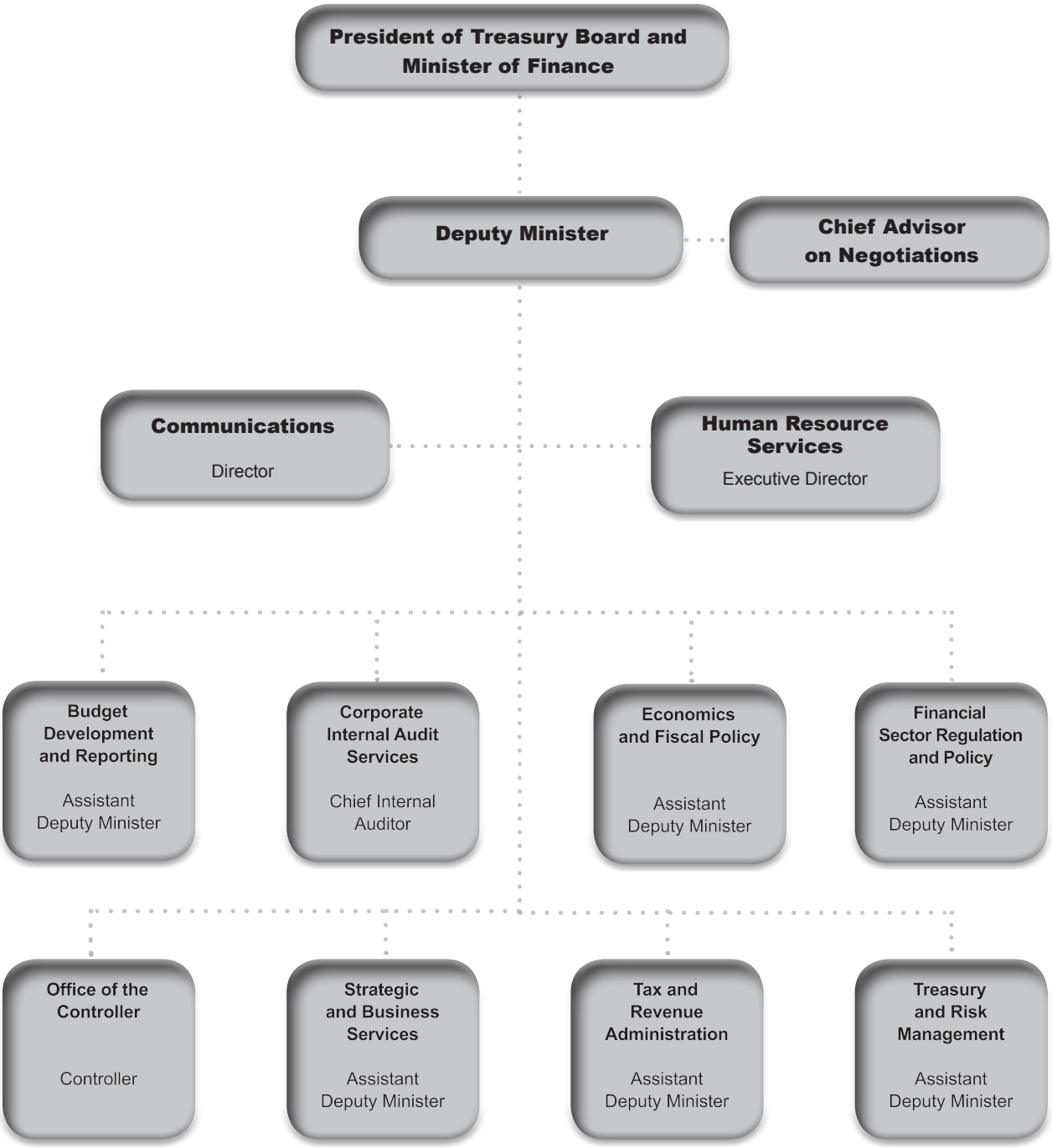
Organizational Chart



Ministry Goals

Goals

Goal 1: Strong and sustainable government finances

Goal 2: Policy and regulatory oversight for the financial, insurance and pensions sectors that is effective, fair and in the interests of Albertans

Goal 3: Effective and efficient government

Operational Overview

Oxbridge Place	Terrace Building	Haultain Building	Labour Building	HP Tower
9820 - 106 St.	9515 - 107 St.	9811 - 109 St.	10808 - 99th Ave.	715 - 5th Ave.
Edmonton, Alberta	Edmonton, Alberta	Edmonton, Alberta	Edmonton, Alberta	Calgary, Alberta
T5K 2J6	T5K 2C3	T5K 2L5	T5K 0G5	T2P 2X6

Budget Development and Reporting (BDR)

Budget Development and Reporting provides timely, relevant and accurate fiscal planning analysis, advice and recommendations to decision-makers (Minister, Treasury Board Committee, Cabinet, Executive Council and other bodies). The division provides guidance to ministries on budgets, business and strategic planning, as well as performance measurement and reporting. BDR is accountable for the government's budgeting (annual budget and quarterly updates) and performance reporting process, including results-based budgeting (RBB). In addition, BDR is responsible for the executive summary of the *Government of Alberta Annual Report* as well as *Measuring Up.*

Communications (COMM)

Communications advises and supports the President of Treasury Board and Minister of Finance, as well as the ministry as a whole, by providing clear, accurate and timely information to the public about key initiatives, programs and services. Communications also provides consulting services in issues management, strategic planning, media relations, writing, publishing, social media and website content.

Corporate Internal Audit Services (CIAS)

Corporate Internal Audit Services performs internal audits across government. CIAS helps ministries achieve their goals by bringing a systematic, disciplined approach to evaluating and improving risk management, control and governance processes.

Economics and Fiscal Policy (EFP)

Economics and Fiscal Policy is primarily responsible for overseeing the province's legislated fiscal framework and advising the government on fiscal, economic and tax policy issues. The division prepares the province's official economic and demographic projections and analysis which are a key input into the budget and quarterly updates. In addition, the division forecasts federal transfers and tax revenues. EFP also consolidates and disseminates official statistics and other key government data to support the strategic management of information for policy development and decision-making processes across the Government of Alberta (GoA).

Financial Sector Regulation and Policy (FSRP)

Financial Sector Regulation and Policy provides policy support and analysis for insurance, private-sector and public-sector pension plans, as well as the Canadian Pension Plans. FSRP is responsible for the regulation and supervision of loan and trust corporations, financial institutions, insurance companies and registered private-sector pension plans.

Human Resource Services (HR)

Human Resource Services plans, develops and delivers strategic human resource programs, as well as day-to-day human resource services. The division's responsibilities include: promoting strategic HR planning in alignment with business goals and objectives; supporting the attraction and engagement of high-calibre staff; and building employee capacity to achieve business plan goals.

Office of the Controller (OC)

The Office of the Controller is responsible for government accounting standards and financial reporting, financial management and control policies, enterprise risk management, and financial business process management. The division is seen as a leader in sponsoring, supporting and facilitating initiatives with outcomes focused on effectiveness, efficiency, best practice and continual improvement by the corporate and GoA financial community.

Strategic and Business Services (SBS)

Strategic and Business Services supports the ministry's operations by: leading and overseeing the ministry's business planning and annual reporting activities; offering a full range of financial advisory, planning and accounting services; managing information and records, including the administration of the Freedom of Information and Protection of Privacy processes; establishing departmental technology direction and providing information technology support; managing facility operations; and coordinating and supporting policy development as it pertains to the Alberta Gaming and Liquor Commission (AGLC) and Horse Racing Alberta. SBS is also responsible for providing the GoA with Air Transportation Services.

Tax and Revenue Administration (TRA)

Tax and Revenue Administration administers tax, revenue and other programs under ten acts, including the Alberta corporate income, fuel, tobacco tax, and tourism levy acts. The focus of the division's work is to ensure a fair, efficient and effective provincial tax and revenue administration system. TRA also contributes to the development of Alberta tax and revenue policy.

Treasury and Risk Management (TRM)

Treasury and Risk Management provides investment policy advice as well as portfolio planning and evaluation for investments in the General Revenue Fund and the government endowment funds. In addition, TRM manages short-term borrowing and investments, banking and cash forecasting, as well as arranges financing for the government and provincial corporations. The division also provides policy analysis and advice on the regulation of capital markets. TRM is responsible for promoting a level and competitive environment for financial institutions in Alberta and minimizing the risk of loss to deposit holders and consumers of trust products. As well, TRM assists in the identification, measurement, control and financing of the risks of accidental loss to government.

Summary of Key Activities in the Past Year

- Developed and coordinated *The Building Alberta Plan: Budget 2014*, which implements the next phase of the Building Alberta Plan. This plan outlines how the government is investing in families and communities, living within its means and opening new markets for Alberta's resources to position Alberta for a stronger and even more prosperous future. This budget continues the work that began in *Budget 2013* and reflects the priorities Albertans expressed through extensive consultations in the fall of 2013 by investing in the core programs, services and infrastructure needed to support the fastest growing province in Canada.
- Put Alberta's growing savings to work for our future, through the *Savings Management Act,* which created the largest social innovation endowment in Canada, supports agriculture innovation and apprentices and saves for future strategic opportunities. The endowments, additional funding for the Heritage Scholarship Funds and the Alberta Future Fund will be allocated from within the Alberta Heritage Savings Trust Fund. The total combined allocation for 2014-15 is $1.1 billion.
- Presented more than 300 recommendations to Treasury Board after results-based budgeting (RBB) reviews of government programs. Recommendations ranged from streamlining grant programs, to investing in systems and strategies that enhance information management and increase access. The second *Results-based Budgeting: Report to Albertans* was released in November 2013 and highlights some of the recommendations resulting from Cycle 1. Cycle 2 was completed and Cycle 3 is underway with expected completion in fall 2014.
- Provided quarterly updates to Albertans on the province's fiscal and economic situation, as well as *Alberta Population Projections by Census Division for 2012-2041*. Also provided the weekly/monthly release of key economic information and analysis, such as *Economic Trends* and the *Weekly Economic Review*. Delivered presentations on Alberta's economic situation and outlook to government and industry audiences.
- Maintained the province's tax competitiveness, with Albertans and Alberta businesses paying $11.6 billion less in taxes each year than they would in any other province. Alberta has low personal and corporate income taxes, the lowest fuel taxes among provinces, no capital tax, no payroll tax, no health care premiums and no sales tax.
- Worked with insurers to ensure Albertans affected by the June 2013 floods were assisted in the most timely and helpful way possible.
- Coordinated the new Hand-up Plan to assist Alberta's flood-affected small businesses, agricultural producers and not-for-profit groups to get back on their feet through two loan and interest rebate programs. The Alberta Flood Recovery Interest Rebate Program provides rebates of four per cent interest to those participating in the Alberta Flood Recovery Loan Guarantee Program.
- Held the 2013 Economic Summit in Edmonton to gather input from industry experts, business and not-for-profit leaders, academics, elected officials and citizens. Discussions included the importance of saving in both good and challenging times, how to maximize the potential of Alberta's resource revenue, what constitutes a "rainy day" and the need for critical infrastructure to facilitate business and economic growth.
- Asked Albertans to share their budget priorities by attending one of 11 open house sessions across the province or by completing an online survey.

- Co-hosted a fiscal planning and energy forecasting summit in Calgary with the Conference Board of Canada, to hear the latest insights of financial, energy and economic leaders from the academic, private and public sectors.
- Developed the new *Compensation Disclosure Directive* in partnership with Service Alberta. The directive, along with the new portal, provides Albertans with salary and severance information of senior government employees. This initiative continued the ministry's efforts to improve accountability and transparency of financial activity.
- Continued reviewing Alberta's automobile insurance system including facilitating recommended changes in Bill 39 - *Enhancing Consumer Protection in Auto Insurance Act*, the Automobile Insurance Premiums Regulation and the Diagnostic and Treatment Protocols Regulation. The review has helped identify improvements to maintain a sustainable and fair automobile insurance system.
- Assisted Municipal Affairs by developing an insurance regulation supporting the *New Home Buyer Protection Act*. This legislation ensures every new home built in Alberta has a warranty.
- Developed the Emergency 911 Levy Regulation and designed the framework and system to collect the levy, in partnership with Municipal Affairs and the Alberta Emergency Management Agency. The funding will result in enhanced reliability and consistency of 911 services in Alberta.
- Continued to monitor Alberta-based financial institutions so that they operate in a safe and sound manner, in order to minimize the risk of loss to deposit holders and consumers of trust products in Alberta.
- Issued a consultation paper containing proposals for ensuring the sustainability of public sector pension plans and, after extensive feedback from pension plan stakeholders and the general public, modified the proposals to reflect Albertans' concerns.
- Passed the *Pooled Registered Pension Plans Act, 2013*, making Alberta one of the first provinces to make this retirement savings tool available for its residents. The legislation will allow employers, employees and the self-employed to access pooled registered pension plans. These large, defined contribution plans will be professionally managed by plan providers, such as banks and insurance companies, and will be open to any employer or to individuals.
- Continued developing a comprehensive and user friendly regulation to support the *Employment Pension Plans Act, 2012*. Extensive consultation with stakeholders in the pension industry have been held over the past year, preparing them for the change arising from the new legislation.
- Designed tax and revenue programs, collected revenue owing under those programs, administered tax and revenue laws, made payments of refunds and rebates and provided information to stakeholders, taxpayers and claimants.
- Collected $7.6 billion in revenue from corporate income, fuel, tobacco and insurance taxes, and the tourism levy. Corporate and commodity returns processed exceeded 309,900 and more than 12,950 benefit claims were processed in the same period.
- Recovered more than $61 million in 2013-14 through audits of corporate and commodity tax programs. The ministry continues to work cooperatively with tax administrations across Canada to ensure compliance with Alberta's tax laws.

- Collected 161,526 returns using the ministry's Net File system in 2013-14, constituting 69.3 per cent of all corporate income tax returns. Net File provides Alberta's corporate taxpayers with faster processing than a return sent through the mail, and saves the costs of handling, printing and mailing paper returns.
- Advanced electronic commerce for Alberta's tax and revenue programs by introducing an option for corporate and commodity taxpayers to pay by credit card using a third-party, fee-for-service provider. This increases the number of options for payment of corporate and commodity taxes.
- Produced a step-by-step instructional video to assist corporate and commodity taxpayers with setting up their Tax and Revenue Administration Client Self-service (TRACS) accounts. Produced two other instructional videos to assist Alberta accommodation providers and International Fuel Tax Agreement carriers with online filing.
- Maintained a central listing of 20,000 unclaimed items in the Alberta unclaimed property registry and paid out more than $413,000 to more than 1,022 owners during 2013-14. The registry is a service to Albertans who have lost track of their personal or business property such as uncashed government cheques, utility deposits and matured life insurance policies.
- Collaborated with other provinces and with the federal government to improve securities regulation in Canada. Alberta continues to meet with other provinces to discuss reform, improvement and modernization.
- Developed an alternative cooperative model to improve and enhance the provincial-territorial securities regulatory system of Canada while addressing the concerns of British Columbia, Ontario and the federal government.
- Passed the *Alberta Securities Amendment Act, 2014* in March 2014 with measures to strengthen the regulation and oversight of over-the-counter derivatives. These measures support international commitments made by Canada and serve to increase transparency in the derivatives market, helping to protect investors and reducing systemic risk.
- Posted a record net profit at Alberta Treasury Branches Financial and its subsidiaries (ATB Financial) last year. For the fiscal year ending March 31, 2014, ATB Financial reported a net income of $276.4 million, an increase of 14.5 per cent over the previous year, on operating revenues of $1.4 billion. ATB Financial contributes to Alberta's future by providing excellent service to Albertans and ensuring stable access to core financial services throughout the province.
- Generated $1.484 billion from provincial gaming activities for the Alberta Lottery Fund and $747 million from liquor operations for the General Revenue Fund. The Alberta Lottery Fund contributes to Albertans' quality of life by providing funding to government programs, as well as supporting volunteer, public and community-focused initiatives. In addition, nearly 13,000 charitable and religious groups benefited from funds raised through charitable gaming activities.
- Led the joint release of a study on *Inter-provincial Employees in Alberta*. The final report was published by Statistics Canada to ensure broad accessibility. The completion of the study addresses a long-standing gap in reliable information on Alberta's 'shadow population'. The study produced high quality data and increased the availability of information for cross-ministry initiatives.

Ministry Financial Highlights

Revenue
(millions of dollars)

2013-14		2012–13
Budget	Actual	Actual
$23,505	$25,926	$23,285

Revenue for the ministry is $2,641 million, or 11.3 per cent, higher than in 2012-13.

(Actual - Actual)

- Revenue for 2013-14 was $25,926 million compared to revenue for 2012-13 of $23,285 million.
- Personal income tax revenue is $916 million higher than the prior year due to higher personal incomes in 2013, and adjustments for higher than expected 2012 assessments.
- Corporate income tax revenue along with related interest and penalties is $731 million higher than the prior year due to higher corporate income from continued strong economic conditions.
- Other tax revenue was higher than the prior year by $68 million primarily due to increased consumption and price inflation. Fuel tax revenue increased $28 million, tobacco tax revenue increased $10 million, insurance tax revenue increased $27 million and tourism levy revenue increased $5 million; other tax revenues decreased $2 million.
- Transfers from the Government of Canada are $96 million higher due to Alberta's increased share of the national population.
- Net investment income was $721 million higher than the previous year. Market conditions were extremely favourable.
- Net income from government business enterprises was $53 million higher from the prior year. The income from the AGLC increased by $18 million and from ATB Financial by $35 million.
- Premiums, fees and licences increased by $26 million compared to the prior year. This is a result of higher payment in lieu of taxes and deposit guarantee fee by $20 million from ATB Financial, $2 million from the Alberta Securities Commission (ASC) along with a $4 million increase in other premiums, fees and licences.
- Other revenue was higher by $30 million from the prior year due to a $29 million increase in service fee revenue of Alberta Investment Management Corporation (AIMCo), $4 million from the Alberta Pensions Services Corporation (APS) and a $3 million decrease in other revenue.

Revenue for the ministry is $2,421 million, or 10.3 per cent, higher than budget.

(Budget - Actual)

- Revenue for 2013-14 of $25,926 million was higher compared to the 2013-14 budgeted revenue of $23,505 million.
- Personal income tax revenue is $536 million higher than budget due to adjustments for higher than expected 2012 assessments.
- Corporate income tax revenue along with related interest and penalties is $543 million higher than budget due to higher than expected corporate profits.
- Other tax revenue was $57 million higher than budget mainly due to a $25 million increase in fuel tax revenue from increased consumption and insurance taxes that were $26 million higher than budget due to increased premium revenues.
- Transfers from the Government of Canada were $37 million higher than budget mainly due to Alberta's increased share of the national population.
- Net investment income was $1,076 million higher than budget mainly due to $903 million higher than anticipated investment income from the Alberta Heritage Savings Trust Fund and $165 million from the other endowment funds.
- Net income from government business enterprises was $62 million higher than budget due to a strong year for all entity operations comprised of $30 million from the AGLC, $30 million from ATB Financial and $2 million from the Credit Union Deposit Guarantee Corporation (CUDGC).
- Premiums, fees and licences were $23 million higher than budget. This was primarily attributed to the higher payment in lieu of taxes and deposit guarantee fee from ATB Financial.
- Other revenue was $87 million higher than budget mainly due to higher service revenue of AIMCo to cover increased investment fees.

Expenses

(millions of dollars)

2013–14		2012–13
Budget	Actual	Actual
$2,404	$2,967	$2,308

Ministry expenses are $659 million, or 28.6 per cent, more than in 2012-13.

(Actual - Actual)

- Expenses for 2013-14 of $2,967 million were more than expenses for 2012-13 of $2,308 million.
- Investment, Treasury and Risk Management expenses were $63 million higher than the prior year - $29 million is due to AIMCo increased investment fees that are recoverable through revenue, $10 million in increased investment expense of the ministry and $20 million in increased transfers from the endowment funds.

- Due to greater utilization of programs, the Alberta Family Employment/Scientific Research and Experimental Tax Credits are $31 million higher over the prior year.
- The Teachers' Pension liability funding was $10 million higher than the prior year as benefit payments are higher due to actual experience.
- The pension provision is $435 million more in the current year mainly due to the change in the discount rate and mortality assumptions for the teacher's pre-1992 pension obligation.
- Provision for the change in corporate income tax allowance for doubtful accounts is $47 million, up over the prior year.
- Debt servicing costs are $74 million higher than the prior year comprised of $16 million for the Alberta Capital Finance Authority (ACFA) due to increased borrowings to meet client demand in the municipal sector, $61 million for general government mainly due to increased capital borrowings, and a $3 million decrease for school construction debentures due to reduced principal outstanding.
- The net of all other expenditure variances is a decrease of $1 million.

Expenses for the ministry were $563 million, or 23.4 per cent, over budget.

(Budget - Actual)

- Expenses for 2013-14 of $2,967 million were higher compared to the 2013-14 budgeted expenses of $2,404 million.
- Investment, Treasury and Risk Management expenses were $151 million higher than budget due to increased AIMCo investment costs of $81 million recovered through revenue, $62 million of increased investment expense for the Alberta Heritage Savings Trust Fund and other endowment funds, a $6 million claim expense increase in the Risk Management Fund, and $2 million in other expenses.
- Financial Sector Regulation and Policy expenses are $11 million under budget mainly due to the ASC that is $4 million below budget and the APS, which is $3 million below budget.
- The Teachers' Pension liability funding is $10 million under budget due to fewer than expected retirements.
- The pension provision is $443 million more than budget mainly due to the change in the discount rate and mortality assumptions for the teacher's pre-1992 pension obligation.
- Provision for change in the corporate income tax allowance for doubtful accounts is $52 million higher than anticipated.
- Debt servicing costs were $48 million lower than budget comprised of $28 million for the ACFA and $20 million for capital borrowings in general government, both resulting from delays to the full extent of anticipated borrowings.
- The net of all other expenditure variances is $14 million lower than budget.

AUDITOR GENERAL Alberta

Review Engagement Report

To the Members of the Legislative Assembly

I have reviewed the performance measure identified as reviewed by the Office of the Auditor General in the Department of Treasury Board and Finance's Annual Report 2013-2014. The reviewed performance measure is the responsibility of the department and is prepared based on the following criteria:

- *Reliability* – The information used in applying performance measure methodologies agrees with underlying source data for the current and prior years' results.
- *Understandability* – The performance measure methodologies and results are presented clearly.
- *Comparability* – The methodologies for performance measure preparation are applied consistently for the current and prior years' results.
- *Completeness* – The goals, performance measures and related targets match those included in the department's budget 2013.

My review was made in accordance with Canadian generally accepted standards for review engagements and, accordingly, consisted primarily of enquiry, analytical procedures and discussion related to information supplied to me by the department.

A review does not constitute an audit and, consequently, I do not express an audit opinion on the performance measure. Further, my review was not designed to assess the relevance and sufficiency of the reviewed performance measure in demonstrating department progress towards the related goals.

Based on my review, nothing has come to my attention that causes me to believe that the performance measure identified as reviewed by Office of the Auditor General in the department's annual report 2013-2014 are not, in all material respects, presented in accordance with the criteria of reliability, understandability, comparability, and completeness as described above.

[Original signed by Merwan N. Saher, FCA]

Auditor General

May 15, 2014

Edmonton, Alberta

Performance Measures Summary Table

Goals/Performance Measure(s)	Prior Year's Results				Target	Current Actual
1. Strong and sustainable government finances						
*1.a Alberta's credit rating (blended credit rating for domestic debt)	AAA	AAA	AAA	AAA	AAA	AAA
	2009-10	2010-11	2011-12	2012-13		2013-14
1.b Ratio of amounts added to the net tax revenue to costs of administration (as a measure of efficiency)[1]	12:1	13:1	13:1	20:1	12:1	18:1
	2009-10	2010-11	2011-12	2012-13		2013-14
**1.c The Alberta Heritage Savings Trust Fund five-year annualized rate of return	4.4% (2.9% below target)	3.5% (3.8% below target)	2.7% (4.7% below target)	5.2% (2.1% below target)	7.3%	12.7% (5.4% above target)
	2009-10	2010-11	2011-12	2012-13		2013-14

[1] The ratios for 2012-13 and 2013-14 were higher than previous years' results and the targets as a result of significant recoveries made by applying reassessments made by the Canadian Revenue Agency (CRA) in a similar fashion in Alberta. Most of these reassessments are currently under objection. Removing the impact of these reassessments results in a revised ratio of 12:1 for 2012-13 and a revised ratio of 13:1 for 2013-14.

2. Policy and regulatory oversight for the financial, insurance and pensions sectors that is effective, fair and in the interests of Albertans

ATB Financial return on average risk weighted assets[2]	0.62%	0.99%	0.63%	0.76%	1.0%	1.10%
	2009-10	2010-11	2011-12	2012-13		2013-14

[2] The methodology for this measure was modified to improve the alignment of ATB Financial's returns with the level of risk underwritten.

3. Effective and efficient government

Sustainable operating spending growth (operating spending relative to the rate of population growth plus CPI)	Operating spending growth	4.4%	6.3%	2.7%	6.5%	Operating spending growth equal to or less than population plus CPI growth	3.3%
	Population plus CPI	1.8%	2.5%	4.3%	3.6%		5.6%
		2009-10	2010-11	2011-12	2012-13		2013-14

Performance Measures Summary Table, continued

Note: For more detailed information please refer to the Appendix: Performance Measures Methodology on page 659.

* Indicates Performance Measures that have been audited by the Office of the Auditor General as part of *Measuring Up 2014* .

** Indicates Performance Measures that have been reviewed by the Office of the Auditor General.

The performance measures indicated with an asterisk were selected for review by ministry management based on the following criteria established by government:

- Enduring measures that best represent the goal,
- Measures for which new data is available, and
- Measures that have well established methodology.

Discussion and Analysis of Results

GOAL 1

Strong and sustainable government finances

Alberta's tax system is designed to raise the revenue necessary to pay for programs and services in a manner that is fair and makes the province a great place to live, work and invest. In 2013, as part of the ongoing priority to monitor the tax system, Treasury Board and Finance (TBF) examined the progressivity and stability of the tax system. Alberta was found to have a very progressive tax system that compares well with the tax systems of other provinces. This progressivity is due in part to high personal basic and spousal credits in the personal income tax system, no provincial sales tax and no health premiums. However, there is a trade-off in relying on fewer taxes, as it subjects the province to increased tax revenue volatility.

Following the implementation of Alberta's new fiscal framework that was announced in *Budget 2013*, TBF undertook the second phase of its renewal of the province's fiscal and savings strategies. Public consultations on the appropriate roles and policies for managing the province's savings were conducted throughout the year. This concluded with the introduction of Bill 1, the *Savings Management Act*, in spring 2014. This act allows for the creation of two innovation-oriented endowment accounts, enhances the Alberta Heritage Scholarship Fund, creates the Alberta Future Fund and makes small changes to some of the province's other endowment accounts to improve consistency of the endowments' policies/rules.

In December 2013, TBF hosted the Alberta Forecast Consultations, receiving input from Canada's major banks on Alberta's economic forecast. Throughout the year, the ministry provided custom economic impact analysis for Alberta organizations, as well as analytical support on a number of cross-ministry issues such as the impact of the Southern Alberta floods, environmental policy, foreign investment and the future of Alberta's labour force.

The ministry maintains programs and documentation which allow for the most efficient and cost-effective access to capital for the province and its Crown agencies. This year the province renewed its Global Medium Term Note (GMTN) program, which allows for access to foreign markets. The province also maintained access to the domestic capital markets through its domestic borrowing program.

TBF set a new asset mix for the Alberta Heritage Savings Trust Fund that came into effect at the end of fiscal year 2010-11. The asset mix called for broader global diversification through an increase to global developed equities and infrastructure as well as emerging market equities. This policy decision has benefitted the Alberta Heritage Savings Trust Fund as those asset classes have substantially outperformed their Canadian equivalents. The policy benchmark, which reflects the asset mix set by TBF, has a four-year annualized return of 10.3 per cent. This exceeds the Canadian inflation +4.5 per cent target of 6.3 per cent. Additionally, through prudent investment execution, AIMCo has added a further 1.2 per cent exceeding their target of 1.0 per cent.

The ministry also manages the funding requirements and appropriate asset-liability management services of the ACFA through the funding tools referenced above, as well as through the careful use of derivative transactions, primarily interest rate swaps. The policies surrounding these operations are reviewed and approved by the ACFA Board of Directors on a regular basis. This year, the ACFA Board established an Assets Liability Committee

(ALCo), which includes representatives of the ministry to regularly review both these policies and performance results.

Finally, TBF completed the policy work necessary for the introduction of a provincial tax regime for Qualifying Environmental Trusts (QETs) which was formally announced in *Budget 2014*. Similar to the regimes already in place federally and in British Columbia, Saskatchewan and Ontario, QETs will help to facilitate corporations' accumulation of funds for future site reclamation as a result of oil sands and pipeline operations.

GOAL 2

Policy and regulatory oversight for the financial, insurance and pensions sectors that is effective, fair and in the interests of Albertans

TBF is the primary regulatory authority for two provincial deposit-taking-institutions that have assets exceeding $39 billion and serve over 600,000 Albertans as well as six provincial special-purpose trust companies that do not accept deposits. As well, throughout the year, the ministry provided policy support for the public sector pension system, comprising 10 plans with over 230,000 active members and over 150,000 retired members. The plans cover employees of provincial and municipal governments, schools, colleges, universities and health care institutions.

TBF also monitored 772 private sector pension plans to ensure they complied with the provisions of the *Employment Pension Plans Act,* which includes the obligation to fund promised benefits. Of these plans, 678 are active, four are in the process of being registered, six are suspended and 84 are in the process of winding down. These plans have over 240,000 active members and over 140,000 deferred and retired members. As of March 31, 2014, total contributions for the year were approximately $3.2 billion. The total market value of assets was approximately $33.8 billion for the year ended March 31, 2014.

The ministry licensed and monitored 307 insurance companies and special brokers. Of these, 227 are insurance companies (187 federal, 30 extra provincial and 10 provincial), 11 are fraternal societies, 20 are reciprocal insurance exchanges (15 provincial and five extra provincial), one is an exempt warranty provider and 48 are special brokers.

In September 2013, the British Columbia, Ontario, and federal governments published a proposal to create a Capital Markets Regulator and invited other provincial and territorial governments to participate. In early 2014, Alberta developed an alternative cooperative model that provides a better framework for improving and enhancing the provincial-territorial securities regulatory system of Canada, while addressing the concerns of British Columbia, Ontario and the federal government. Alberta is working with other provinces and territories to further develop the alternative cooperative model.

The *Alberta Securities Amendment Act, 2014* was passed in March 2014 with measures to strengthen the regulation and oversight of over-the-counter derivatives. These measures support international commitments made by Canada and serve to increase transparency in the derivatives market, helping to protect investors and reducing systemic risk.

GOAL 3

Effective and efficient government

As part of ensuring effective and efficient government activities, TBF is tasked with managing the Results-based budgeting (RBB) process for the GoA. This process involves reviewing the programs and services delivered to Albertans for relevance, effectiveness and efficiency in accordance with the *Results-based Budgeting Act*. All reviews will be completed by fall 2014, ahead of the initial three-year schedule. As a result of this review, the ministry is working on establishing a Performance Management Framework that integrates the components of the full management cycle of planning, budgeting, reporting and performance measurement and monitoring.

In 2013, the ministry provided leadership and interpretation in the implementation of financial and accounting policies related to the recovery of the flood damages suffered in Southern Alberta. The accounting treatment developed by TBF provided corporate direction on how disaster recovery program and non-disaster recovery program funds were to be budgeted and accounted throughout the year. This initiative also supported the delivery of federal funding to expedite financial relief.

TBF was also a significant partner with Service Alberta in the development of the new *Compensation Disclosure Directive*. The directive, along with the new portal, provides Albertans with a list of public service salaries, benefits, contract details and termination agreements. This initiative continued the efforts of TBF to champion pro-active disclosure allowing for the enhanced transparency of financial activity. TBF also started a project to proactively disclose grants in a similar manner. The project is expected to be completed in the coming fiscal year.

A new public sector accounting standard for government grants was also implemented. This process standardizes the review, qualifications and multi-year accounting treatment of program-operational grant disbursements across the GoA.

The Federal/Provincial/Territorial Council on Statistical Policy approved a proposal from Alberta to expand the statistical use of administrative data while adhering to privacy protocols. This pan-Canadian initiative is in the pilot phase, utilizing data sets collected through the delivery of financial supports to low-income Canadians. The quality and comparability of this new data series will improve the evidence available for social policy decision-making.

In May 2013, the department also participated in the launch of the GoA's Open Data initiative and improved access to government data under its stewardship by making it available under an open licence. An initial collection of 13 data sets that cover a range of financial, economic and demographic topics, such as population, taxation, insurance and more are available to Albertans through data.alberta.ca.

Finally, TBF implemented significant automated changes enhancing the production of the *Government of Alberta Details Expenditure by Payee Report* (Blue Book) in order to reduce staff time and duplicate work. TBF also implemented the first phase of an automated financial consolidations process that leverages delivered system functionality with the GoA's Enterprise Resource Planning (ERP) system. This eliminated manual integration, data entry and reconciliations. The final phases of the project will be implemented in the coming fiscal year.

Financial Information

Financial Statements of the Ministry of Treasury Board and Finance and Other Organizations

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Ministry of Treasury Board and Finance

Consolidated Financial Statements

Year Ended March 31, 2014

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Independent Auditor's Report

To the Members of the Legislative Assembly

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Ministry of Treasury Board and Finance, which comprise the consolidated statement of financial position as at March 31, 2014, and the consolidated statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Ministry of Treasury Board and Finance as at March 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 4, 2014

Edmonton, Alberta

Consolidated Statement of Operations

Year ended March 31, 2014

($ millions)

	2014		2013
	Constructed Budget	Actual	Actual
	(Schedule 2)		(Restated Note 4)
Revenues (Schedules 1 and 2)			
Income taxes	$ 14,944	$ 16,023	$ 14,376
Other taxes	2,238	2,295	2,227
Transfers from Government of Canada	1,378	1,415	1,319
Net investment income	2,082	3,158	2,437
Net income from government business enterprises	2,478	2,540	2,487
Premiums, fees and licences	145	168	142
Other revenue	240	327	297
	23,505	25,926	23,285
Expenses (Schedules 2 and 3)			
Ministry Support Services	14	13	13
Budget Development and Reporting	6	5	4
Fiscal Planning and Economic Analysis	6	6	6
Investment, Treasury and Risk Management	570	721	658
Office of the Controller	4	4	4
Corporate Internal Audit Services	4	4	4
Tax and Revenue Management	46	44	47
Financial Sector Regulation and Policy	182	171	169
Air Services	7	8	7
Gaming	35	29	31
Alberta Family Employment / Scientific Research and Experimental Development Tax Credit	215	210	179
Teachers' pre-1992 pension liability funding	456	446	436
Pension provision (Schedule 14)	200	643	208
Corporate income tax provision for doubtful accounts	120	172	125
Debit servicing - school construction debentures	6	6	9
Debit servicing - Alberta Capital Finance Authority	252	224	208
Debit servicing - general government	281	261	200
	2,404	2,967	2,308
Net operating results	$ 21,101	$ 22,959	$ 20,977

The accompanying notes and schedules are part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at March 31, 2014

	($ millions)	
	2014	2013 (Restated Note 4)
Assets		
Cash and cash equivalents (Schedule 4)	$ 2,241	$ 2,270
Accrued interest and accounts receivable (Schedule 5)	2,536	1,876
Portfolio investments (Schedule 6)	23,218	21,777
Equity in government business enterprises (Schedule 7)	3,414	2,987
Loans and advances to government entities (Schedule 8)	2,009	1,899
Other loans and advances (Schedule 9)	13,963	12,664
Tangible capital assets (Schedule 10)	145	123
Inventories	2	2
	$ 47,528	$ 43,598
Liabilities		
Accrued interest and accounts payable (Schedule 11)	$ 1,655	$ 1,622
Unmatured debt (Schedule 12)	9,450	5,515
Debt of Alberta Capital Finance Authority (Schedule 13)	13,848	12,325
Pension obligations (Schedule 14)	10,678	10,035
Other accrued liabilities (Schedule 15)	117	132
	35,748	29,629
Net Assets		
Net assets at beginning of year	13,969	18,013
Net operating results	22,959	20,977
Net financing provided for general revenues (Note 3b)	(25,195)	(24,971)
Change in accumulated unrealized losses (Schedule 7)	47	(50)
Net assets at end of year	11,780	13,969
	$ 47,528	$ 43,598

Contractual obligations and contingent liabilities (Notes 8 and 9).

The accompanying notes and schedules are part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended March 31, 2014

	($ millions)	
	2014	**2013**
Operating transactions		
Net operating results, as restated (Note 4)	$ 22,959	$ 20,977
Non-cash items included in net operating results	99	(338)
	23,058	20,639
Increase in accounts and accrued interest receivable	(659)	(76)
Increase in accounts and accrued interest payable	31	15
Other	(262)	31
Cash provided by operating activities	22,168	20,609
Capital transactions		
Purchase of tangible capital assets	(37)	(44)
Cash applied to capital activities	(37)	(44)
Investing transactions		
Proceeds from disposals, repayments and redemptions of portfolio investments	6,862	10,998
Portfolio investments purchased	(7,834)	(5,875)
Repayments of loans and advances	840	252
Loans and advances made	(2,246)	(2,388)
Cash provided by investing activities	(2,378)	2,987
Financing transactions		
Debt issues	18,261	16,916
Debt retirement	(12,828)	(14,821)
Grants for school construction debenture principal repayment	(20)	(26)
Net financing provided for general revenues	(25,195)	(24,971)
Cash applied to financing activities	(19,782)	(22,902)
Increase in cash and cash equivalents	(29)	650
Cash and cash equivalents at beginning of year	2,270	1,620
Cash and cash equivalents at end of year	$ 2,241	$ 2,270

The accompanying notes and schedules are part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

March 31, 2014

(All dollar amounts in millions, unless otherwise stated)

NOTE 1 AUTHORITY

The President of Treasury Board and Minister of Finance has been designated as responsible for various Acts by the *Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000, and its regulations. To fulfill these responsibilities, the President of Treasury Board and Minister of Finance administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the Ministry of Treasury Board and Finance (the Ministry).

Department of Treasury Board and Finance (the Department)
Government Organization Act, Chapter G-10, Revised Statutes of Alberta 2000

Alberta Cancer Prevention Legacy Fund
Alberta Cancer Prevention Legacy Act, Chapter A-14.2

Alberta Heritage Foundation for Medical Research Endowment Fund
Alberta Research and Innovation Act, Chapter A-31.7, Statutes of Alberta 2009

Alberta Heritage Savings Trust Fund
Alberta Heritage Savings Trust Fund Act, Chapter A-23, Revised Statutes of Alberta 2000

Alberta Heritage Scholarship Fund
Alberta Heritage Scholarship Act, Chapter A-24, Revised Statutes of Alberta 2000

Alberta Heritage Science and Engineering Research Endowment Fund
Alberta Research and Innovation Act, Chapter A-31.7, Statutes of Alberta 2009

Alberta Risk Management Fund
Financial Administration Act, Chapter F-12, Revised Statutes of Alberta 2000

Provincial Judges and Masters in Chambers Reserve Fund
Treasury Board Directive pursuant to the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000

Supplementary Retirement Plan Reserve Fund
Treasury Board Directive pursuant to the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000

Alberta Capital Finance Authority (ACFA)
Alberta Capital Finance Authority Act, Chapter A-14.5, Revised Statutes of Alberta 2000

Alberta Insurance Council
Insurance Act, Chapter I-3, Revised Statutes of Alberta 2000

Alberta Gaming and Liquor Commission (AGLC)
Gaming and Liquor Act, Chapter G-1

Alberta Local Authorities Pension Plan Corp.
Incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000

Alberta Lottery Fund
Gaming and Liquor Act, Chapter G-1

Alberta Investment Management Corporation (AIMCo)
Alberta Investment Management Corporation Act, Chapter A-26.5

Alberta Pensions Services Corporation
Incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000

Alberta Securities Commission
Incorporated June 1, 1995 under the *Securities Act*, Chapter S-4, Revised Statutes of Alberta 2000

ATB Financial and its subsidiaries
Alberta Treasury Branches Act, Chapter A-37, Revised Statutes of Alberta 2000

Credit Union Deposit Guarantee Corporation (CUDGC)
Credit Union Act, Chapter C-32, Revised Statutes of Alberta 2000

N.A. Properties (1994) Ltd.
Amalgamated corporation under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000

Gainers Inc.
Incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000

NOTE 2 PURPOSE

The Ministry's mission is to provide expert economic, financial and fiscal policy advice to government and effective tax and regulatory administration to enhance Alberta's present and future prosperity, to ensure integrity, accountability and social responsibility in Alberta's gaming and liquor industries, and to ensure an efficient, effective and accountable government, with a vibrant and innovative public service. Its core businesses are:

- budget development and reporting;
- economics and fiscal policy;
- treasury management;
- risk management and insurance;
- government accounting standards and financial management policies;
- tax and revenue administration;
- financial sector regulation and policy;
- responsible liquor and gaming regulation; and
- government air transportation services.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards.

a) METHOD OF CONSOLIDATION

The Department, Alberta Cancer Prevention Legacy Fund, Alberta Heritage Foundation for Medical Research Endowment Fund, Alberta Heritage Savings Trust Fund, Alberta Heritage Scholarship Fund, Alberta Heritage Science and Engineering Research Endowment Fund, Alberta Risk Management Fund, Alberta Capital Finance Authority, Alberta Insurance Council, Alberta Local Authorities Pension Plan Corp., Alberta Lottery Fund, Alberta Pensions Services Corporation, Alberta Securities Commission, Alberta Investment

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Management Corporation, N.A. Properties (1994) Ltd., and Gainers Inc., which all report under Canadian public sector accounting standards, and Provincial Judges and Masters in Chambers Reserve Fund, and Supplementary Retirement Plan Reserve Fund which are reported under Canadian accounting standards for pension plans, are consolidated after adjusting them to a basis consistent with the accounting policies described below in (c). Intra-ministry transactions (revenues, expenses, capital, investing and financing transactions, and related asset and liability accounts) have been eliminated.

The government business enterprises of AGLC, ATB Financial, and Credit Union Deposit Guarantee Corporation, which report under International Financial Reporting Standards (IFRS) are consolidated on a modified equity basis.

b) NET FINANCING PROVIDED FOR GENERAL REVENUES

All departments of the Government of Alberta (the Province) operate within the General Revenue Fund. The President of Treasury Board and Minister of Finance administers the General Revenue Fund. All cash receipts of departments are deposited into the General Revenue Fund and all cash disbursements made by departments are paid from the General Revenue Fund. Net financing provided for general revenues is the difference between all cash deposits by other departments and all cash disbursements made on their behalf by the Ministry.

c) FUTURE CHANGES IN ACCOUNTING POLICY

PS 3450 Financial Instruments

In June 2011 the Public Sector Accounting Board issued this accounting standard effective for fiscal years starting on or after April 1, 2015.

The ministry has not yet adopted this standard and has the option of adopting it in fiscal year 2015-16 or earlier. Adoption of this standard requires corresponding adoption of: PS 2601, Foreign Currency Translation; PS 1201, Financial Statement Presentation; and PS 3041, Portfolio Investments in the same fiscal period. These standards provide guidance on: recognition, measurement, and disclosure of financial instruments; standards on how to account for and report transactions that are denominated in a foreign currency; general reporting principles and standards for the disclosure of information in financial statements; and how to account for and report portfolio investments. Management is currently assessing the impact of these standards on the financial statements.

d) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported using the accrual method of accounting.

Income Taxes

Corporate income tax revenue is recognized when installments are received from taxpayer corporations. Corporate income tax refunds payable are accrued based on the prior year's corporate income tax refunds paid on assessments. Corporate income tax receipts from corporations in anticipation of an upward reassessment of Alberta income tax payable are described as corporate income tax receipts in abeyance and recorded as accounts payable. An estimated corporate income tax allowance based on the flow of the accounts

receivable to the Department and ultimate collectibility, is net of the corporate income tax receivable (schedule 5). The change in the allowance provision is an expense.

Personal income tax is recognized on an accrual basis based on an economic estimate of the various components of personal income tax for the fiscal year. Gross personal income tax for the taxation year is a key component of the estimate for the fiscal year.

The Provincial tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not report all of their income. The Ministry has implemented systems and controls in order to detect and correct situations where taxpayers are not complying with the various acts it administers. These systems and controls include performing audits of taxpayer records when determined necessary by Tax and Revenue Administration. However, such procedures cannot identify all sources of unreported income or other cases of non-compliance with tax laws. The Ministry does not estimate the amount of unreported tax.

Transfers from Government of Canada

Transfers from Government of Canada are recognized as revenue when authorized by federal legislation or federal/provincial agreements, eligibility criteria if any are met and a reasonable estimate of the amounts can be made. Overpayments related to Canada Social Transfer entitlements and transfers received before revenue recognition criteria have been met are included in accounts payable and accrued liabilities.

Expenses

Expenses represent the cost of resources consumed during the year on Ministry operations as well as pension liability funding, pension provision, tax credits, corporate income tax provision for doubtful accounts, and debt servicing costs. Expenses include amortization of tangible capital assets. Grants are recognized as expenses when authorized, eligibility criteria if any are met, and a reasonable estimate of the amounts can be made.

The pension provision for pension obligations include interest on the Ministry's share of the unfunded liability and amortization of deferred adjustments over the expected average remaining service life of employees.

Also included in expenses is pension costs comprised of the cost of employer contributions for current service of employees during the year and additional government and employer contributions for service relating to prior years.

Certain expenses, primarily for office space and legal advice, incurred on behalf of the Ministry by other ministries are not reflected in the consolidated statement of operations. Schedule 16 discloses information on these related party transactions.

Derivative Contracts

Income and expense from derivative contracts are included in investment income or debt servicing costs.

Certain derivative contracts which are primarily interest rate swaps are reported as interest rate derivatives for which there is an underlying matching asset and liability, are recorded at cost plus accrued interest. Gains and losses from these derivatives are recognized in the same period as the gains and losses of the specific assets and liabilities.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Derivative contracts without an underlying matching asset and liability, which are primarily bond index swaps reported as interest rate derivatives, equity index swaps and equity index futures are reported as equity replication derivatives, and forward foreign exchange contracts are reported as foreign currency derivatives are recorded at fair value.

The estimated amounts receivable and payable from derivative contracts are included in accrued interest receivable and payable respectively.

Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of business. Financial assets of the Ministry are limited to financial claims, such as advances to and receivables from other organizations, taxpayers, employees and other individuals.

Cash and Cash Equivalents

Cash includes deposits in banks and cash in transit. Cash equivalents includes directly held interest bearing securities with terms to maturity of primarily less than three months.

Inventory

Inventory is valued at the lower of cost and net replacement costs.

Portfolio Investments

Portfolio investments, which are investments authorized by legislation to provide income for the long term or for other special purposes, are carried at cost. Cost includes amortization of discount or premium using the straight line method over the life of the investments. Realized gains and losses on disposals of these investments are included in the determination of net operating results for the year. Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

Loans

Loans are recorded at cost less any allowance for credit loss. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Tangible Capital Assets

Assets acquired by right are not included. Tangible capital assets of the Ministry are recorded at historical cost and amortized on a straight line basis over the estimated useful lives of the assets (see Schedule 10). The threshold for capitalizing new systems development is $250 thousand and the threshold for all other capital assets is $5 thousand. Amortization is only charged if the tangible capital asset is in use.

Liabilities

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

The value of pension obligations and changes therein during the year are based on an actuarial extrapolation, of the most recent actuarial valuation, which uses the

projected benefit method pro-rated on service, and management's best estimate as at the extrapolation date of various economic and non-economic assumptions. Where the Province is a participating employer in the plan, experience gains and losses to the extent of the Province's employer share are amortized over the estimated average remaining service life of employees.

Debentures included in unmatured debt are recorded at the face amount of the issue less unamortized discount, which includes issue expenses and hedging costs.

Income or expense on interest rate swaps used to manage interest rate exposure is recorded as an adjustment to debt servicing costs.

Net Assets

Net assets represents the difference between the carrying value of assets held by the Ministry and its liabilities.

Canadian public sector accounting standards require a "net debt" presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as "net debt" or "net financial assets" as an indicator of the future revenues required to pay for past transactions and events. The Ministry operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

Foreign Currency

Assets and liabilities denominated in foreign currency are translated at the year end rate of exchange.

Foreign currency transactions are translated into Canadian dollars using the average rate of exchange for the day, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts.

Exchange gains and losses that arise on translation of fixed term foreign currency denominated monetary items are deferred and amortized over the life of the contract.

Amortization of deferred exchange gains and losses and other exchange differences on unhedged transactions are included in the determination of net operating results for the year.

Measurement Uncertainty

Estimates are used in accruing revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty that is material to these financial statements exists in the accrual of personal and corporate income taxes, the valuation of private investments and hedge funds and the provisions for pension obligations.

Personal income tax revenue, totaling $10,537 million (2013: $9,621 million), see schedule 1, is subject to measurement uncertainty due primarily to the use of economic estimates of personal income growth. Personal income growth is inherently difficult to

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

estimate due to subsequent revisions to personal income data. The estimate of personal household income growth used in determining personal income tax for the current fiscal year is 6.7% (2013: 6.8%). Based on historical data, there is an uncertainty of plus or minus $536 million (2013: $503 million) in the personal income tax revenue estimate.

Corporate income tax revenue, totaling $5,358 million (2013: $4,713 million), see schedule 1, is subject to measurement uncertainty due primarily to the timing differences between tax collected and future tax assessments, along with the estimate for allowance for doubtful accounts.

The pension obligations of $10,678 million (2013: $10,035 million), schedule 14, are subject to measurement uncertainty because a pension plan's actual experience may differ significantly from assumptions used in the calculation of the pension obligations.

While best estimates have been used for reporting items subject to measurement uncertainty, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

NOTE 4 TRANSFER OF STRATEGIC CAPITAL PLANNING PROGRAM

The Strategic Capital Planning Program, as of April 1, 2013, was transferred to the Ministry of Infrastructure. The 2013 comparatives for Treasury Board and Finance have been restated as follows: expenses decreased by $1 million from $2,309 to $2,308; net operating results increased by $1 million from $20,976 to $20,977 and net financing provided for general revenues increased by $1 million from $24,970 to $24,971.

NOTE 5 VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Due to their short term nature, the fair values of cash and cash equivalents, accrued interest and accounts receivable, accrued interest and accounts payable, and other accrued liabilities are estimated to approximate their book values.

The methods used to determine the fair values of portfolio investments are explained in the following paragraphs.

Public fixed-income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Mortgages and certain non-public provincial debentures are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

The fair value of alternative investments including absolute return strategy investments, investments in limited partnerships, private investment funds, private equities and securities with limited marketability is estimated using methods such

as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate.

Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers using methods such as replacement cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models as appropriate.

As quoted market prices are not readily available for private and alternative investments and private real estate, estimated fair values may not reflect amounts that could be realized upon immediate sale, nor amounts that may ultimately be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

The fair value of loans and advances made under the authority of the *Alberta Capital Finance Authority Act* is based on the net present value of future cash flows discounted using the ACFA's current cost of borrowing. Fair values of other loans and advances are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair values with sufficient reliability. The fair value of unmatured debt and debt held by ACFA is an approximation of its fair value to the holder.

The fair value of derivative contracts related to portfolio investments are included in the fair value of portfolio investments. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest. Forward foreign exchange contracts and equity index and interest rate futures contracts are valued based on quoted market prices. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure change in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

At the year end, the fair values of investments and any other assets and liabilities denominated in a foreign currency are translated at the year end exchange rate.

NOTE 6 FINANCIAL RISK MANAGEMENT

a) LIABILITY MANAGEMENT

The objective of the Ministry's liability management program is to achieve the lowest cost on debt within an acceptable degree of variability of debt servicing costs. In order to achieve this objective, the Ministry manages four risks: interest rate risk, currency exchange risk, credit risk, and refinancing risk. The Ministry manages these four risks within approved policy guidelines.

NOTE 6 FINANCIAL RISK MANAGEMENT CONTINUED

The management of these risks and the policy guidelines apply to the Ministry's unmatured debt, excluding debt raised to fund requirements of provincial corporations. Debt of provincial corporations is managed separately in relation to their assets.

The Ministry's risk management strategy is to allow existing debt instruments to mature in accordance with their terms.

b) ASSET MANAGEMENT

A large percentage of the Ministry's portfolio investments are in the Alberta Heritage Savings Trust Fund. Income and financial returns of the Alberta Heritage Savings Trust Fund are exposed to credit risk and market risk. Market risk is comprised of currency risk, interest rate risk and price risk. Risk is reduced through asset class diversification, quality constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. The investment objective is to invest in a diversified portfolio to maximize long-term returns at an acceptable level of risk. The target policy asset mix is: interest-bearing securities 15-45%, equities 35-70%, and inflation sensitive and alternative investments 15-40%.

The investments in the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Scholarship Fund, the Alberta Heritage Science and Engineering Research Endowment Fund and the Alberta Cancer Prevention Legacy Fund are managed to provide an annual level of income for the purpose of making grants to researchers in the fields of medicine, science and engineering, and to students.

The investments of the Department are used to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, disasters, and settlements with First Nations.

NOTE 7 CONTRACTUAL OBLIGATIONS

Obligations to outside organizations in respect of contracts entered into before March 31, 2014 amounted to $430 million (2013: $615 million), of which $237 million (2013: $383 million) is for contracts belonging to government business enterprises. These amounts include obligations under operating leases which expire on various dates. The aggregate amounts payable for the unexpired terms of these leases are as follows:

	($ millions)
2014-15	$ 221
2015-16	95
2016-17	31
2017-18	20
2018-19	14
Thereafter	49
	$ 430

NOTE 8 CONTINGENT LIABILITIES

Set out below are details of contingent liabilities resulting from guarantees, indemnities and litigation, other than those reported as liabilities.

Any losses arising from the settlement of contingent liabilities are treated as current year expenses.

a) GUARANTEES AND INDEMNITIES

The Province of Alberta ensures the debt of ACFA of $4,834 million (2013: $5,601 million) and Alberta Social Housing Corporation of $65 million (2013: $67 million) that is held external to the Government of Alberta would be repaid.

The Credit Union Deposit Guarantee Corporation, operating under the authority of the *Credit Union Act* guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The *Credit Union Act* provides that the Province of Alberta, through the Department, will ensure that this obligation of the Corporation is carried out. At March 31, 2014, credit unions in Alberta held deposits totaling $20,053 million (2013: $18,700 million). Substantial assets are available from credit unions to safeguard the Department from the risk of loss from its potential obligation under the Act.

The Province of Alberta ensures the repayment of all deposits without limit, including accrued interest, for ATB Financial. The Department assesses an annual deposit guarantee fee of $38 million (2013: $29 million) payable by ATB Financial. Payments under the guarantee are under authority of a supply vote. At March 31, 2014, ATB Financial had deposits totalling $30,011 million (2013: $26,327 million).

ATB Financial, at March 31, 2014, had a potential liability under guarantees and letters of credit amounting to $550 million (2013: $437 million).

Payments under guarantees are a statutory charge on the Ministry.

b) LEGAL ACTIONS

At March 31, 2014, the Ministry was involved in various legal actions through the consolidated entities, the outcomes of which are not determinable. Accruals have been made in specific instances where it is probable that losses will be incurred which can be reasonably estimated. The resulting loss, if any, from claims in excess of the amounts accrued cannot be determined.

Of the various legal actions, the Department is jointly or separately named as a defendant in seventeen (2013: sixteen) legal claims of which the outcome is not determinable. Of the seventeen claims, thirteen have specified amounts totaling approximately $102 million (2013: $111 million) and four claims have no specified amount. Six (2013: four) claims totaling less than $1 million (2013: less than $1 million) are covered by the Alberta Risk Management Fund.

In addition, at March 31, 2014, some taxes assessed were being appealed. The resulting loss, if any, cannot be reasonably estimated.

NOTE 9 DERIVATIVE CONTRACTS

A derivative is a financial contract with the following three characteristics: (1) its value changes in response to the change in a specified interest rate, equity index price, foreign exchange rate or credit rating; (2) it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market; and (3) it is settled in the future. The Ministry uses various types of derivative contracts held indirectly through pooled investment funds or directly held by ATB Financial and ACFA to gain access

NOTE 9 DERIVATIVE CONTRACTS CONTINUED

to equity markets and enhance returns or to manage exposure to interest rate risk, currency risk and credit risk.

The following is a summary of the fair values of the Ministry's derivative contracts by type:

	($ millions)	
	2014	**2013**
	Fair Value [(a)(b)(c)]	**Fair Value**
Interest rate derivatives [(d)]	$ (152)	$ (641)
Equity replication derivatives [(e)]	108	119
Foreign currency derivatives [(f)]	(80)	(39)
Credit risk derivatives [(g)]	(4)	5
Commodity derivatives	10	13
Derivative-related receivables, net	(118)	(543)
Deposits in futures contracts margin accounts	108	32
Deposits as collateral for derivative contracts	21	25
Net derivatives	$ 11	$ (486)

(a) Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Ministry attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing (A+ or greater).

(b) The method of determining the fair value of derivative contracts is described in Note 3.

(c) Includes derivatives of ATB Financial with a net fair value of $68 million (2013: $79 million). The exposure to credit risk on these derivatives of $393 million (2013: $286 million) is impacted by $74 million (2013: $nil) entering into master netting agreements and is not reduced by any collateral agreements (2013: $81 million) with counterparties leaving a residual credit exposure of $319 million (2013: $205 million).

Includes ACFA interest rate derivatives with a net fair value of $(220) million (2013: $(721) million) of which 1% will mature in under one year, 23% in one to three years and 76% in over three years.

(d) Interest rate derivatives allow the Ministry to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps, futures contracts and options.

(e) Equity replication derivatives provide for the Ministry to receive or pay cash based on the performance of a specific market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants and options.

(f) Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(g) Credit risk derivatives include credit default swaps, allowing the Ministry to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount, in exchange for a contingent payment, should a defined credit event occur with respect to the underlying security.

NOTE 10 TRUST AND OTHER FUNDS UNDER ADMINISTRATION

The Ministry administers trust and other funds that are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the Ministry has no equity in the funds and administers them for the purposes of various trusts, they are not included in the Ministry's consolidated financial statements.

As at March 31, 2014, the fair value of trust and other funds under administration were as follows:

	($ millions)	
	2014	**2013**
Local Authorities Pension Plan Fund	$ 27,960	$ 23,950
Public Service Pension Plan Fund	8,989	7,692
Management Employees Pension Plan Fund	3,632	3,141
Universities Academic Pension Plan Fund	2,843	3,079
Special Forces Pension Plan Fund	2,125	1,832
The Workers' Compensation Board Accident Fund	717	659
Other	529	543
	$ 46,795	$ 40,896

NOTE 11 DEFINED BENEFIT PLANS

The Department jointly sponsors and participates in three multi-employer pension plan: Management Employees Pension Plan, the Public Service Pension Plan and the Supplementary Retirement Plan for Public Service Managers. The expense for these plans is equivalent to the annual contributions of $8 million for the year ended March 31, 2014 (2013: $7 million). The Department is not responsible for future funding of the plans' deficits other than through contribution increases.

At December 31, 2013, the Management Employees Pension Plan reported a surplus of $50 million (2012: deficiency of $303 million), Public Service Pension Plan reported a deficiency of $1,254 million (2012: $1,645 million) and Supplementary Retirement Plan for Public Service Managers reported a deficiency of $12 million (2012: $52 million).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2014, the Bargaining Unit Plan reported a surplus of $75 million (2013: surplus $51 million) and the Management, Opted Out and Excluded Plan reported a surplus of $24 million (2013: surplus $18 million). The expense for these two plans is limited to the employer's annual contributions for the year.

NOTE 12 COMPARATIVE FIGURES

Comparative figures have been reclassified, where necessary, to conform to 2014 presentation.

NOTE 13 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the senior financial officer and the deputy minister of Treasury Board and Finance

Schedules to the Consolidated Financial Statements

March 31, 2014

(All dollar amounts in millions, unless otherwise stated)

REVENUES — SCHEDULE 1

($ millions)

	2014 Constructed Budget	2014 Actual	2013 Actual
Income taxes			
Personal income tax	$ 10,001	$ 10,537	$ 9,621
Corporate income tax	4,943	5,358	4,713
Interest and penalties on corporate income tax	-	128	42
	14,944	16,023	14,376
Other taxes			
Tobacco tax	920	922	912
Fuel tax	900	925	897
Insurance taxes	326	352	325
Alberta tourism levy	85	87	82
Special broker tax	7	7	10
Interest and penalties on other tax	-	2	1
	2,238	2,295	2,227
Transfers from Government of Canada			
Canada Social Transfer	1,374	1,410	1,315
Unconditional subsidy	4	5	4
	1,378	1,415	1,319
Net investment income	2,082	3,158	2,437
Net income from government business enterprises			
Alberta Gaming and Liquor Commission	2,202	2,232	2,214
ATB Financial	250	280	245
Credit Union Deposit Guarantee Corp.	26	28	28
	2,478	2,540	2,487
Premiums, fees, and licences			
ATB Financial payment in lieu of taxes	75	84	73
ATB Financial deposit guarantee fee	29	38	29
Alberta Securities Commission	29	30	28
Alberta Insurance Council	5	5	5
Other	7	11	7
	145	168	142
Other revenue			
Pensions administration	51	47	43
Service revenue	169	252	223
Insurance services	17	23	24
Securities settlements	1	3	1
Refunds of expenditure and miscellaneous	2	2	6
	240	327	297
	$ 23,505	$ 25,926	$ 23,285

BUDGET

SCHEDULE 2

($ millions)

	2013-14 Estimates (a)	Adjustment to conform to Accounting Policy (b)(c)	2013-14 Constructed Budget (d)
Revenues			
Income taxes	$ 14,824	$ 120	$ 14,944
Other taxes	2,238	-	2,238
Transfers from Government of Canada	1,378	-	1,378
Net investment income	2,082	-	2,082
Net income from government business enterprises	2,478	-	2,478
Premiums, fees, and licences	145	-	145
Other revenue	240	-	240
	23,385	120	23,505
Expenses			
Ministry Support Services	14	-	14
Budget Development and Reporting	6	-	6
Fiscal Planning and Economic Analysis	6	-	6
Investment, Treasury and Risk Management	570	-	570
Office of the Controller	4	-	4
Corporate Internal Audit Services	4	-	4
Tax and Revenue Management	46	-	46
Financial Sector Regulation and Policy	182	-	182
Air Services	7	-	7
Gaming	35	-	35
Teachers' pre-1992 pension liability funding	456	-	456
Alberta Family Employment / Scientific Research and Experimental Development Tax Credit	215	-	215
Pension Provisions	-	200	200
Corporate income tax provision for doubtful accounts	-	120	120
Debt servicing costs			
School boards	6	-	6
ACFA	252	-	252
General government	137	144	281
	1,940	464	2,404
Net operating results	$ 21,445	$ (344)	$ 21,101

Financial Information

BUDGET — SCHEDULE 2, CONTINUED

(a) Estimates were approved on April 29, 2013.

(b) Adjustment in accordance with PS1200.125 to conform fiscal plan numbers to accounting policy.

(c) Subject to the *Fiscal Responsibility Act*, expense estimates excludes annual changes in unfunded pension obligations, which are a non-cash expense reported by the Department at year end. The amount estimated for pension provisions for 2014 was $200 million.

(d) There were no adjustments or supplementary estimates to the Ministry 2014 estimates.

EXPENSE BY OBJECT — SCHEDULE 3

($ millions)

	2014		2013
	Constructed Budget	Actual	Actual
			(Restated Note 4)
Salaries, wages and employee benefits	$ 166	$ 204	$ 196
Supplies and services	321	426	390
Grants	498	508	466
Interest and amortization of unrealized exchange gains and losses	-	(21)	(26)
Pension liability funding	533	522	514
Interest payments on corporate tax refunds	9	11	15
Pension provision (Schedule 14)	200	643	208
Corporate income tax allowance provision	120	172	125
Amortization of tangible capital assets	23	16	11
Other financial transactions	1	1	1
Debt servicing costs	533	485	408
	$ 2,404	$ 2,967	$ 2,308

CASH AND CASH EQUIVALENTS — SCHEDULE 4

($ millions)

	2014	2013
Cash	$ (43)	$ 200
Cash equivalents	2,284	2,070
	$ 2,241	$ 2,270

At March 31, 2014, deposits in banks had a time-weighted return of 1.2% (2013: 1.3%) per annum and securities have an average effective yield of 1.2% (2013: 2.2%) per annum.

ACCRUED INTEREST AND ACCOUNTS RECEIVABLE

SCHEDULE 5

	($ millions)	
	2014	**2013**
Corporate income tax[(a)]	$ 629	$ 527
Personal income tax	841	763
Proceeds from debt issuance	595	-
Accrued interest and receivable from sale of investments	222	206
Interest and penalties receivable on taxes	256	214
Receivable from ATB Financial	121	102
Insurance corporations tax	93	86
Fuel tax	76	76
Tobacco tax	9	13
Tourism levy	8	8
Financial institutions capital tax	2	2
Other	62	127
	2,914	2,124
Less corporate income tax allowance	(377)	(247)
Less allowance for doubtful accounts	(1)	(1)
	$ 2,536	$ 1,876

[(a)] Corporate income tax receivable aging is as follows:

	2014	**2013**
Less than one year	$ 279	$ 214
1-2 years	112	92
2-3 years	45	45
3-4 years	37	27
4-5 years	12	124
Over 5 years	144	25
Total	$ 629	$ 527

In 2014, 851 ($401 million) corporate income tax files were under objection/dispute. Comparatively in 2013, 656 ($295 million) corporate income tax files were under objection/dispute. The outcome of the disputes are uncertain; therefore, the outcome of collection may change.

PORTFOLIO INVESTMENTS

SCHEDULE 6

($ millions)

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Interest-bearing securitites				
Bonds and mortgages	$ 8,884	$ 8,904	$ 7,673	$ 7,785
	8,884	8,904	7,673	7,785
Equities				
Canadian public equities	1,558	1,755	1,531	1,633
Global developed public equities	6,451	7,369	6,288	6,963
Emerging markets public equities	850	989	943	1,059
Private equities	1,211	1,462	1,045	1,222
	10,070	11,575	9,807	10,877
Inflation sensitive and alternative investments				
Private real estate	2,726	3,810	2,487	3,420
Private infastructure investments	1,221	1,383	1,186	1,285
Timberland	317	438	273	333
Private debt and loan	-	-	351	353
	4,264	5,631	4,297	5,391
Total portfolio investments	$ 23,218	$ 26,110	$ 21,777	$ 24,053
Interest-bearing securitites				
Department [(a)]	$ 4,562	$ 4,522	$ 3,314	$ 3,305
Alberta Heritage Savings Trust Fund [(b)]	3,053	3,113	3,155	3,259
Other entities	1,269	1,269	1,204	1,221
	$ 8,884	$ 8,904	$ 7,673	$ 7,785

EQUITY IN GOVERNMENT BUSINESS ENTERPRISES

SCHEDULE 7

	($ millions)	
	2014	**2013**
Accumulated surpluses		
Accumulated surpluses at beginning of year	$ 2,832	$ 2,626
Restatement [(a)]	-	(12)
Restated opening surpluses	2,832	2,614
Total revenue	5,484	5,230
Total expense [(b)]	2,944	2,743
Net income	2,540	2,487
Change in accumulated unrealized losses [(c)]	47	(50)
Transfers from AGLC to Finance	(2,234)	(2,219)
Accumulated surpluses at end of year	$ 3,185	$ 2,832
Represented by		
Assets		
Loans	$ 33,892	$ 29,663
Investments	1,178	1,214
Other assets	3,382	2,989
Total assets	38,452	33,866
Liabilities		
Accounts payable	1,594	1,366
Deposits [(d)]	30,011	26,327
Unmatured debt	3,411	3,103
Capital investment deposits	251	238
Total liabilities	35,267	31,034
	$ 3,185	$ 2,832
Accumulated surpluses at end of year		
ATB Financial	$ 2,588	$ 2,256
Alberta Gaming & Liquor Commission	361	363
Credit Union Deposit Guarantee Corporation	236	213
	3,185	2,832
Subordinated debentures in support of deposit guarantees	229	155
Equity in commercial enterprises at end of year	$ 3,414	$ 2,987

(a) During the prior year, AGLC had a restatment related to its pension liability. The total impact to equity in government business enterprises was $12 million.

(b) Included in total expense is $46 million (2013: $32 million) of interest expense of ATB Financial that was paid to the Department for amounts borrowed directly by the Province on behalf of ATB Financial.

(c) The change of $47 million (2013: ($50) million) in accumulated unrealized losses is comprised of changes in other comprehensive income in government business enterprises. At March 31, 2014, the Ministry has $6 million in accumulated unrealized losses (2013: $63 million), after the inclusion of a $10 million prior year restatement by ATB Financial from other comprehensive income to retained earnings.

(d) Included in the deposits are ATB Financial wholesale borrowings that include amounts borrowed by the Province on behalf of ATB Financial totaling $2,694 million (2013: $2,196 million).

LOANS AND ADVANCES TO GOVERNMENT ENTITIES

SCHEDULE 8

($ millions)

	2014	2013
Agriculture Financial Services Corporation	$ 1,931	$ 1,793
Alberta Social Housing Corporation	78	106
	$ 2,009	$ 1,899

OTHER LOANS AND ADVANCES

SCHEDULE 9

	2014			2013
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Realizable Value
ACFA loans [(a)]	$ 13,807	$ -	$ 13,807	$ 12,500
Alberta Heritage Savings Trust Fund Act [(b)]	270	(114)	156	164
	$ 14,077	$ (114)	$ 13,963	$ 12,664

(a) The fair value of the ACFA loans as at March 31, 2014 was $14,755 million (2013: $13,927 million). Loans to the municipal and SUCH (schools, universities, colleges and hospitals) sectors on average yield 4.16% per annum (2013: 4.36%).

(b) Other amounts under the *Alberta Heritage Savings Trust Fund Act* include an 11% participating first mortgage bond with principal and deferred interest totaling $156 million (2013: $161 million) due July 31, 2015, non-interest bearing debentures of $114 million due July 2035, and a loan principal of $nil due July 2046. At March 31, 2014 these investments have carrying values excluding accrued interest of $156 million, $nil, and $nil respectively (2013: $161 million, $nil and $3 million).

TANGIBLE CAPITAL ASSETS

SCHEDULE 10

($ millions)

	2014			
	Equipment	Computer Hardware and Software	Leaseholds	Total
Estimated useful life	10 years	5 years	10 years	
Historical Cost				
Beginning of year	$ 36	$ 126	$ 23	$ 185
Additions	1	36	-	37
Disposals - including write-downs	-	(3)	-	(3)
	37	159	23	219
Accumulated Amortization				
Beginning of year	(13)	(43)	(5)	(61)
Amortization expense	(3)	(8)	(3)	(14)
Effect of disposals	-	1	-	1
	(16)	(50)	(8)	(74)
Net book value at March 31, 2014	$ 21	$ 109	$ 15	$ 145
Net book value at March 31, 2013	$ 23	$ 83	$ 18	$ 123

ACCRUED INTEREST AND ACCOUNTS PAYABLE

SCHEDULE 11

	2014	2013
Corporate income tax receipts in abeyance	$ 605	$ 570
Corporate income tax refunds payable	472	438
Accrued interest on unmatured debt of the Department and debt of ACFA	235	196
Other	343	418
	$ 1,655	$ 1,622

UNMATURED DEBT

SCHEDULE 12

($ millions)

	2014				2013	
	Effective Rate (a)	Modified Duration (b)	Book Value (a)	Fair Value (a)	Book Value (a)	Fair Value (a)
	%	years				
Canadian dollar debt						
Floating rate and short-term fixed rate [c]	1.01	0.45	$ 1,723	$ 1,739	$ 64	$ 65
Fixed rate long-term	3.20	10.00	7,727	8,000	5,451	5,901
	2.72	8.30	$ 9,450	$ 9,739	$ 5,515	$ 5,966

Total unmatured debt is comprised of:

Amounts borrowed on behalf of Government entities: [d]				
Agriculture Financial Services Corporation	1,931	2,012	1,793	1,931
Alberta Social Housing Corporation	78	83	106	116
	$ 2,009	$ 2,095	$ 1,899	$ 2,047
Amounts borrowed for other purposes:				
Teachers' Pension Plan liability	1,187	1,303	1,187	1,384
Capital borrowing	6,254	6,341	2,429	2,536
	$ 9,450	$ 9,739	$ 5,515	$ 5,967

(a) Book value represents the amount the Department owes. Fair value is an approximation of market value to the holder. The book value, fair value and weighted average effective rate include the effect of interest rate and currency rate swaps. For non-marketable issues, the effective rate and fair value are determined by reference to yield curves for comparable quoted issues.

(b) Modified duration is the weighted average term to maturity of the security's cash flows (i.e. interest and principal) and is a measure of price volatility; the greater the modified duration of a bond, the greater its percentage price volatility.

(c) Floating rate debt includes short-term debt, term debt with less than one year remaining to maturity, and term debt with interest rate reset within a year.

(d) The Department borrows money, and loans it to various government entities (see schedule 8) with the exact same repayment terms and interest rates. In addition to the entities listed above, the Province borrowed funds on behalf of ATB Financial totaling $2,694 million (2013: $2,196 million) (see schedule 7) and ACFA totaling $9,564 million (2013: $6,724 million) (see schedule 13).

The consolidated gross debt of the Ministry totaling $25,992 million (2013: $20,036 million) is comprised of direct unmatured of the Ministry totaling $9,450 million (2013: $5,515 million) (schedule 12), unmatured debt of ACFA totaling $13,848 million (2013: $12,325 million) (schedule 13) and unmatured debt of ATB Financial totaling $2,694 million (2013: $2,196 million).

The total debt servicing cost of the Ministry totaling $537 million (2013: $449 million) is comprised of $261 million (2013: $200 million) for general government, $224 million (2013: $208 million) for ACFA, $6 million (2013: $9 million) for school construction debentures, all reported on the statement of operations, as well as $46 million (2013: $32 million) for ATB Financial for amounts borrowed directly by the Province on behalf of ATB Financial.

Debt principal repayment requirements at par in each of the next five years, including short-term debt maturing in 2014-15, and thereafter, are as follows:

	($ millions)
2014-15	1,224
2015-16	140
2016-17	202
2017-18	69
2018-19	686
Thereafter to 2040	7,277
	9,598
Unamortized discount	(148)
	$ 9,450

None of the debt has call provisions (2013: none).

DEBT OF ALBERTA CAPITAL FINANCE AUTHORITY — SCHEDULE 13

	($ millions)			
	2014		2013	
	Book Value	Fair Value	Book Value	Fair Value
ACFA Canadian dollar and foreign currency fixed rate debt [(a)]	$ 10,294	$ 10,872	$ 8,788	$ 9,429
ACFA Canadian dollar floating rate debt	3,554	3,607	3,537	3,557
Total [(b)]	$ 13,848	$ 14,479	$ 12,325	$ 12,986
Effective rate per annum		4.1%		4.4%

(a) Includes fixed note US dollar debt of $600 million (fair value: $663 million Canadian dollars) and floating note US dollar debt of $700 million (fair value: $773 million Canadian dollars).

(b) Included in the total ACFA debt are amounts borrowed directly by the Province on behalf of ACFA totaling $9,564 million (2013: $6,724 million).

Debt principal repayment requirements in each of the next five years, including short-term debt maturing in 2014-15 and thereafter are as follows:

	($ millions)
2014-15	1,956
2015-16	1,621
2016-17	1,500
2017-18	2,568
2018-19	1,600
Thereafter	4,661
	13,906
Unamortized discount	(58)
	$ 13,848

LIABILITY FOR PENSION OBLIGATIONS

SCHEDULE 14

The President of Treasury Board and Minister of Finance is trustee for the following pension plans under the *Public Sector Pension Plans Act*: Local Authorities Pension Plan (LAPP), Management Employees Pension Plan (MEPP), Public Service Pension Plan (PSPP), Special Forces Pension Plan (SFPP), and the Public Service Management (Closed Membership) Pension Plan (PSMC). The President of Treasury Board and Minister of Finance is also trustee for the Provincial Judges and Masters in Chambers (Registered) Pension Plan (PJMCPP) under the *Provincial Court Act* and the Supplementary Retirement Plan for Public Service Managers (MSRP) under the Supplementary Retirement Plan – Retirement Compensation Arrangement Directive (Treasury Board Directive 01/99). All of these pension plans are open with the exception of PSMC. Financial statements for all of these pension plans as of their December 31, 2013 year end or March 31, 2014 year end are reported as supplementary information in the Ministry of Treasury Board and Finance Annual Report. All of the plans, except PJMCPP, are multi-employer plans.

The following is a summary of the plans for the year ending March 31, 2014:

Pension Plan	Approximate Number of Active Employees	Average Age of Active Employees	Number of Retireees Receiving Benefits	Employee Contributions	Employer Contributions	Benefit Payments	Deferred Members
				($ millions)			
LAPP	150,213	45	52,904	$ 1,030	$ 1,107	$ 1,115	28,746
PSPP	41,391	44	23,132	327	311	456	15,750
MEPP	5,311	48	4,231	68	113	175	1,063
MSRP	1,091	52	784	3	3	4	129
PJMCPP [(a)]	130	60	146	1	2	7	2
PSMC [(a)]	-	-	1,923	-	-	55	110
SFPP [(a)]	4,231	39	2,360	38	40	97	182

(a) These three plans also received during the year contributions, primarily related to pre-1992 commitments, from the Province of Alberta as follows: PJMCPP $1 million, PSMC $54 million, and SFPP $5 million.

The Ministry accounts for the liabilities for pension obligations as a participating employer for former and current employees in Local Authorities Pension Plan, Management Employees Pension Plan, Supplementary Retirement Plan for Public Service Managers, Provincial Judges and Masters in Chambers Pension Plan and Public Service Pension Plan for the Province of Alberta consolidated reporting entity except for government business enterprises that report under IFRS and are required to account directly for participation in the public service pension plans under IFRS.

The Ministry also accounts for the specific commitments made by the Province for pre-1992 pension obligations to the Teachers' Pension Plan, Public Service Management (Closed Membership) Pension Plan, Universities Academic Pension Plan and the Special Forces Pension Plan. In 1992 there was pension plan reform resulting in pre and post 92 arrangements for several pension plans.

The Ministry also accounts for the obligation to the Members of the Legislative Assembly Pension Plan.

This schedule contains summary information on these specific pension plans. Complete financial reporting is available through each pension plan.

The liability for the pension obligations is as follows:

	($ millions)		
	2014 Pension Obligation	2014 Pension Provision (Recovery)	2013 Pension Obligation
Liability for pension obligations for the Province as a participating employer (Table A)			
Local Authorities Pension Plan [a]	$ 511	$ 17	$ 494
Management Employees Pension Plan [b]	63	(76)	139
Public Service Pension Plan [c]	280	30	250
Supplementary Retirement Plan for Public Service Managers [d]	12	(40)	52
Provincial Judges and Masters in Chambers Pension Plan [e]	16	10	6
	882	(59)	941
Liability for pension obligations for Province's commitment towards pre-1992			
Teachers' Pension Plan [f]	8,727	713	8,014
Public Service Management (Closed Membership) Pension Plan [g]	617	33	584
Universities Academic Pension Plan [h]	311	(17)	328
Special Forces Pension Plan [h]	95	(28)	123
	9,750	701	9,049
Obligations to the Members of the Legislative Assembly [i]	46	1	45
	$ 10,678	$ 643	$ 10,035

Table A - Liability for pension obligations for the Province as a participating employer

	($ in millions)				
	Total	Local Authorities Pension Plan	Management Employees Pension Plan	Public Service Pension Plan	Other
Net assets available for benefits [1]	$ 38,927	$ 26,550	$ 3,464	$ 8,559	$ 354
Pension obligation	45,021	31,412	3,413	9,813	383
Pension plan deficit/(surplus) [2]	$ 6,094	$ 4,862	$ (51)	$ 1,254	$ 29
Employee and non-Provincial employer	(3,903)				
Unamortized losses [3]	(1,253)				
Timing differences [4]	(56)				
Pension obligation at March 31, 2014	$ 882				

(1) These are the net assets reported on the 2013 financial statements of the pension plan.

(2) This is the pension obligation reported on the 2013 financial statements of the pension plans.

(3) Under Public Sector Accounting Standards, losses are amortized over the employee average remaining service life of each plan, which range from eight to eleven years.

(4) Accounting timing differences from January 1, 2014 to March 31, 2014 for payments and interest expense.

LIABILITY FOR PENSION OBLIGATIONS

SCHEDULE 14, CONTINUED

The following provides a description of each pension obligation.

a) The Local Authorities Pension Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, Alberta Health Services, school divisions, school districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totaling 7.40% of pensionable earnings shared equally between employers and employees until December 31, 2026. Current services costs are funded by employers and employees.

b) The Management Employees Pension Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totaling 12.3% of pensionable earnings shared between employees and employers until December 31, 2014, 10.2% until December 31, 2016, 5.4% until December 31, 2017, 5.0% until December 31, 2024, and 2.9% until December 31, 2027. Current services costs are funded by employers and employees.

c) The Public Service Pension Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by an actuarial funding valuation are expected to be funded by special payments currently totaling 9.34% of pensionable earnings shared equally between employees and employers until December 31, 2026. Current services costs are funded by employers and employees.

d) The Supplementary Retirement Plan is a contributory defined benefit pension plan for certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the maximum pensionable salary limit under the *Income Tax Act*. The Plan is supplementary to the MEPP. The contribution rates in effect at December 31, 2013 were at 11.16% (2012: 11.16%) of pensionable salary in excess of the maximum pensionable salary limit for eligible employees and designated employers.

e) The Provincial Judges and Masters in Chambers Pension Plan is a contributory defined benefit pension plan for Judges and Masters in Chambers of the Province of Alberta. Current service costs are funded by the Province of Alberta and plan members at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at March 31, 2014 are 7.00% of capped salary for plan members and 13.12% of capped salary for the Province. Benefits are payable by the Province of Alberta if assets are insufficient to pay for all benefits under the Plan.

f) The Department of Treasury Board and Finance assumed responsibility for the entire unfunded pre-1992 pension obligation of the Teachers' Pension Plan. In 2009-10 there was a repayment of $1,187 million towards the liability. As of September 1, 2009, the costs of all benefits under the Plan are paid by the Department.

g) The Public Service Management (Closed Membership) Pension Plan provides benefits to former members of the Public Service Management Pension Plan who were retired, were entitled to receive a deferred pension or had attained 35 years of service before August 1, 1992. The costs of all benefits under the Plan are paid by the Department.

h) Under the *Public Sector Pension Plans Act*, the Department has a liability for payment of additional contributions under defined benefit pension plans for certain employees of municipalities and post-secondary educational institutions. The plans are the Universities Academic and the Special Forces plans.

For Universities Academic, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions of 1.25% of pensionable salaries by the Department, and contributions by employers and employees to fund the remaining amount, as determined by the plan valuation, over the period ending on or before December 31, 2043. Employers and employees fund current service costs.

For Special Forces, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions in the ratio of 45.45% by the Department and 27.27% each by employers and employees, over the period ending on or before December 31, 2036. Current service costs are funded by employers and employees. The *Act* provides that payment of all benefits arising from pensionable service prior to 1994, excluding post-1991 cost of living adjustment benefits, is guaranteed by the Province.

i) The Department has a liability for payment of pension benefits under a defined benefit pension plan for Members of the Legislative Assembly. Active participation in this plan was terminated as of June 1993, and no benefits can be earned for service after this date. The costs of all benefits under the plan are paid by the Department.

Actuarial valuations of the plans are completed at least triennially using the projected benefit method prorated on services. The following, by pension plan is the actuary and date of the latest actuarial valuation.

Plan	Actuary	Latest Valuation Date
Local Authorities Pension Plan	Mercer (Canada) Limited	Dec. 31, 2012
Management Employees Pension Plan	Aon Consulting Inc.	Dec. 31, 2012
Supplementary Retirement Plan	Aon Consulting Inc.	Dec. 31, 2012
Provincial Judges and Masters in Chambers Pension Plan	Aon Consulting Inc.	Dec. 31, 2011
Public Service Pension Plan	Aon Consulting Inc.	Dec. 31, 2012
Teachers' Pre-1992 Pension Plan	Aon Consulting Inc.	Aug. 31, 2013
Public Service Management (Closed Membership) Pension Plan	Aon Consulting Inc.	Dec. 31, 2011
Universities Academic Pension Plan	Aon Consulting Inc.	Dec. 31, 2012
Special Forces Pension Plan	Mercer (Canada) Limited	Dec. 31, 2011
Members of the Legislative Assembly Pension Plan	Aon Consulting Inc.	Mar. 31, 2012

The liabilities for pension obligations are based upon actuarial extrapolations performed at December 31, 2013 or March 31, 2014 for accounting purposes that reflect management's best estimate as at the extrapolation date of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the salary escalation rate, inflation rate and discount rate.

LIABILITY FOR PENSION OBLIGATIONS — SCHEDULE 14, CONTINUED

The date of actuarial extrapolation and primary economic assumptions used for accounting purposes were:

Plan	Latest Extrapolation Date	Salary Escalation Rate %	Inflation Rate %	Discount Rate %
Local Authorities Pension Plan	Dec. 31, 2013	3.50	2.25	5.90
Management Employees Pension Plan	Dec. 31, 2013	3.50	2.25	6.90
Provincial Judges and Masters in Chambers Pension Plan	Mar. 31, 2013	3.50	2.25	5.80
Public Service Management (Closed Membership) Pension Plan	Dec. 31, 2013	N/A	2.25	4.00
Public Service Pension Plan	Dec. 31, 2013	3.50	2.25	6.50
Special Forces Pension Plan	Dec. 31, 2013	3.50	2.25	6.70
Supplementary Retirement Plan for Public Service Managers	Dec. 31, 2013	3.50	2.25	6.30
Universities Academic Pension Plan	Mar. 31, 2014	3.50	2.25	6.60
Teachers' Pre-1992 Pension Plan	Mar. 31, 2014	3.50	2.25	4.00
Members of the Legislative Assembly Pension Plan	Mar. 31, 2014	N/A	2.25	4.00

The assumptions used in the extrapolations were adopted after consultation between the pension plan boards, the Department and the actuaries, depending on the plan, and represent best estimates of future events. Each plan's future experience will vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses are amortized over the expected average remaining service lives of the employee group.

A separate pension plan fund is maintained for each pension plan except for the Teachers' Pre-1992 Pension Plan and the Members of the Legislative Assembly Pension Plan. Each pension plan fund reports annually through financial statements.

The government business enterprises following IFRS have pension obligations of $122 million (2013: $185 million) comprised of $122 million (2013: $148 million) for employees in PSPP, MEPP and MSRP and $nil (2013: $37 million) in other pension plans.

OTHER ACCRUED LIABILITIES — SCHEDULE 15

	2014	2013
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 46	$ 66
AIMCo employee benefits liability	64	59
Vacation entitlements	7	7
	$ 117	$ 132

RELATED PARTY TRANSACTIONS

SCHEDULE 16

Related parties are those entities consolidated in the Province of Alberta's financial statements. Related parties also include management of the Ministry.

The Ministry is responsible for managing cash transactions of all departments and their funds. As a result, the Ministry engages in transactions with all other ministries in the normal course of operations.

The Ministry and its employees paid or collected certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The government business enterprises of the Ministry have no related party transactions.

The Ministry had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties.

	($ millions)	
	2014	**2013**
Revenues		
Interest from loans and advances to government entities	$ 76	$ 77
Interest from loans and advances to SUCH sector	57	59
Charges for services	18	18
	$ 151	$ 154
Expenses		
Debt servicing costs - school boards debt	$ 6	$ 9
Transfers	243	223
Cost of services	4	3
	$ 253	$ 235
Assets		
Accounts receivable	$ -	$ 57
Accrued interest receivable from government entities	14	15
Accrued interest receivable from SUCH sector	14	13
Loans and advances to government entities	2,009	1,899
Loans and advances to SUCH sector	1,248	1,112
	$ 3,285	$ 3,096
Liabilities		
Other accrued liabilities		
Accounts and accrued interest payable	$ 7	$ -
Future funding of school boards debt	46	66
	$ 53	$ 66

The SUCH sector includes schools, universities, colleges and hospitals.

RELATED PARTY TRANSACTIONS

SCHEDULE 16, CONTINUED

The Ministry also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements and are mainly allocated to the fiscal planning and financial management and the investment, treasury and risk management programs administered by the Department.

($ millions)

	Revenue		Expense	
	2014	**2013**	**2014**	**2013**
Accommodations	$ -	$ -	$ 7	$ 7
Corporate services	-	-	4	4
Legal services	-	-	4	3
Air travel	5	5	-	-
Internal audit services	1	1	-	-
	$ 6	$ 6	$ 15	$ 14

Department of Treasury Board and Finance

Financial Statements

Year Ended March 31, 2014

Table of Contents

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Department of Treasury Board and Finance, which comprise the statement of financial position as at March 31, 2014, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Department of Treasury Board and Finance as at March 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 4, 2014

Edmonton, Alberta

Statement of Operations

Year ended March 31, 2014

	($ millions)		
	2014		2013
	Constructed Budget	Actual	Actual
	(Schedule 3)		(Restated Note 4)
Revenues (Schedule 1)			
Internal government transfers	$ 3,164	$ 4,152	$ 3,373
Income taxes	14,944	16,023	14,376
Other taxes	2,238	2,295	2,227
Transfers from Government of Canada	1,378	1,415	1,319
Investment income	435	377	534
Premiums, fees and licences	111	133	109
Other revenue	5	7	5
	22,275	24,402	21,943
Expenses - Directly Incurred (Note 2, Schedule 15, 16)			
Program (Schedules 2 and 4)			
Ministry Support Services	14	13	13
Budget Development and Reporting	6	5	4
Fiscal Planning and Economic Analysis	6	6	6
Investment, Treasury and Risk Management	62	62	62
Office of the Controller	4	4	4
Corporate Internal Audit Services	4	4	4
Tax and Revenue Management	46	44	47
Financial Sector Regulation and Policy	85	82	84
Air Services	7	8	7
Gaming	35	29	31
Alberta Family Employment Tax Credit / Scientific Research and Experimental Development Tax Credit	215	210	179
Teachers' pre-1992 pension liability funding	456	446	436
Pension provision	200	643	208
Corporate income tax provision for doubtful accounts	120	172	125
	1,260	1,728	1,210
Debt servicing			
School construction debentures	6	6	9
General government	533	451	316
	539	457	325
	1,799	2,185	1,535
Net operating results	$ 20,476	$ 22,217	$ 20,408

The accompanying notes and schedules are part of these financial statements.

Statement of Financial Position

As at March 31, 2014

	($ millions) 2014	2013 (Restated Note 4)
Assets		
Cash and cash equivalents (Schedule 6)	$ 1,814	$ 1,988
Accounts and accrued interest receivable (Schedule 7)	3,064	2,688
Inventory	2	2
Portfolio investments (Schedule 8)	4,562	3,314
Loans and advances to government entities (Schedule 9)	14,339	10,877
Tangible capital assets (Schedule 10)	30	30
	$ 23,811	$ 18,899
Liabilities		
Accounts and accrued interest payable (Schedule 11)	$ 1,232	$ 1,239
Unmatured debt (Schedule 12)	21,709	14,435
Pension obligations (Schedule 13)	10,678	10,035
Other accrued liabilities (Schedule 14)	52	72
	33,671	25,781
Net Assets		
Net assets at beginning of year	(6,882)	(2,319)
Net operating results	22,217	20,408
Net financing provided for general revenues (Notes 2b)	(25,195)	(24,971)
Net assets at end of year	(9,860)	(6,882)
	$ 23,811	$ 18,899

Contractual obligations and contingent liabilities (Notes 6 and 7).

The accompanying notes and schedules are part of these financial statements.

Statement of Cash Flows

Year ended March 31, 2014

	($ millions)	
	2014	**2013**
Operating transactions		
Net operating results	$ 22,217	$ 20,408
Non-cash items included in net operating results		
Amortization, gains and losses on investments and debt, net	(20)	(117)
Amortization of tangible capital assets (Schedule 2)	3	2
Pension provision	643	208
Corporate income tax allowance provision	172	125
	23,015	20,626
Increase in accounts and accrued interest receivable	(548)	(239)
(Decrease)/increase in accounts and accrued interest payable	(7)	48
Cash provided by operating transactions	22,460	20,435
Capital transactions		
Acquisition of tangible capital assets (Schedule 10)	(3)	(4)
Cash applied to capital transactions	(3)	(4)
Investing transactions		
Disposals of portfolio investments	2,527	5,310
Portfolio investments purchased	(3,747)	(808)
Repayments of loans and advances		
Government entities	7,687	9,591
Other	3	-
Loans and advances to government entities	(11,133)	(13,320)
Cash provided by (applied to) investing transactions	(4,663)	773
Financing transactions		
Debt issues	19,749	19,535
Debt retirement	(12,502)	(15,097)
Grants for school construction debenture principal repayment (Schedule 4)	(20)	(26)
Net financing provided for general revenues	(25,195)	(24,971)
Cash applied to financing transactions	(17,968)	(20,559)
Increase in cash and cash equivalents	(174)	645
Cash and cash equivalents at beginning of year	1,988	1,343
Cash and cash equivalents at end of year	$ 1,814	$ 1,988

The accompanying notes and schedules are part of these financial statements.

Notes to the Financial Statements

March 31, 2014

(All dollar amounts in millions, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

The Department of Treasury Board and Finance (the Department) operates under the authority of the *Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000.

The Department's mission is to provide expert economic, financial and fiscal policy advice to government and effective tax and regulatory administration to enhance Alberta's present and future prosperity, to ensure integrity, accountability and social responsibility in Alberta's gaming and liquor industries, and to ensure an efficient, effective and accountable government, with a vibrant and innovative public service. Its core businesses are:

- budget development and reporting;
- economics and fiscal policy;
- treasury management;
- risk management and insurance;
- government accounting standards and financial management policies;
- tax and revenue administration;
- financial sector regulation and policy;
- responsible liquor and gaming regulation; and
- government air transportation services.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards.

a) REPORTING ENTITY

The reporting entity is the Department of Treasury Board and Finance, which is part of the Ministry of Treasury Board and Finance and for which the President of Treasury Board and Minister of Finance is accountable. Other entities reporting to the President of Treasury Board and Minister of Finance are as follows:

1. Alberta Cancer Prevention Legacy Fund,
2. Alberta Capital Finance Authority,
3. Alberta Heritage Savings Trust Fund,
4. Alberta Heritage Foundation for Medical Research Endowment Fund,
5. Alberta Heritage Scholarship Fund,
6. Alberta Heritage Science and Engineering Research Endowment Fund,
7. Alberta Insurance Council,
8. Alberta Investment Management Corporation,
9. Alberta Local Authorities Pension Plan Corp.,
10. Alberta Lottery Fund,
11. Alberta Pensions Services Corporation,
12. Alberta Risk Management Fund,
13. Alberta Securities Commission,

14. Gainers Inc.,
15. N.A. Properties (1994) Ltd. ,
16. Provincial Judges and Masters in Chambers Reserve Fund,
17. Supplementary Retirement Plan Reserve Fund,
18. Alberta Gaming and Liquor Commission,
19. ATB Financial and its subsidiaries, and
20. Credit Union Deposit Guarantee Corporation.

The activities of these organizations are not included in these financial statements. The ministry annual report provides a more comprehensive accounting of the financial position and results of the ministry's operations for which the minister is accountable.

b) NET FINANCING PROVIDED FOR GENERAL REVENUES

All departments of the Government of Alberta (the Province) operate within the General Revenue Fund. The General Revenue Fund is administered by the President of Treasury Board and Minister of Finance. All cash receipts of departments are deposited into the General Revenue Fund and all cash disbursements made by departments are paid from the General Revenue Fund.

Net financing provided for general revenues is the difference between all cash deposits by other departments and all cash disbursements made on their behalf by the Ministry.

c) FUTURE CHANGES IN ACCOUNTING POLICY

PS 3450 Financial Instruments

In June 2011 the Public Sector Accounting Board issued this accounting standard and subsequently extended the effective date to April 1, 2016 from April 1, 2015.

The Department has not yet adopted this standard and has the option of adopting it in fiscal year 2016-17 or earlier. Adoption of this standard requires corresponding adoption of: PS 2601, Foreign Currency Translation; PS 1201, Financial Statement Presentation; and PS 3041, Portfolio Investments in the same fiscal period. These standards provide guidance on: recognition, measurement, and disclosure of financial instruments; standards on how to account for and report transactions that are denominated in a foreign currency; general reporting principles and standards for the disclosure of information in financial statements; and how to account for and report portfolio investments. Management is currently assessing the impact of these standards on the financial statements.

d) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported using the accrual method of accounting.

Income Taxes

Corporate income tax revenue is recognized when installments are received from taxpayer corporations. Corporate income tax refunds payable are accrued based on the prior year's corporate income tax refunds paid on assessments. Corporate income tax receipts from corporations in anticipation of an upward reassessment of Alberta income tax payable are described as corporate income tax receipts in abeyance and recorded as accounts payable. An estimated corporate income tax allowance based on the flow of the accounts

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

receivable to the Department and ultimate collectibility, is net of the corporate income tax receivable (Schedule 7). The change in the allowance provision is an expense.

Personal income tax is recognized on an accrual basis based on an economic estimate of the various components of personal income tax for the fiscal year. Gross personal income tax for the taxation year is a key component of the estimate for the fiscal year.

The Provincial tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not report all of their income. The Department has implemented systems and controls in order to detect and correct situations where taxpayers are not complying with the various acts it administers. These systems and controls include performing audits of taxpayer records when determined necessary by Tax and Revenue Administration. However, such procedures cannot identify all sources of unreported income or other cases of non-compliance with tax laws. The Department does not estimate the amount of unreported tax.

Internal Government Transfers

Internal government transfers are transfers between entities within the government reporting entity where the entity making the transfer does not receive any goods or services directly in return.

Internal Government Transfers - Alberta Lottery Fund

Internal Government transfers include transfers from the Alberta Lottery Fund. The Lottery Fund transferred all revenue to the General Revenue Fund through the Department. The program expenses associated with this revenue are budgeted and expensed by the Ministries responsible for the programs.

Internal Government Transfers - Alberta Heritage Savings Trust Fund

Pursuant to Section 8(2) of the Alberta *Heritage Savings Trust Fund Act*, the net income of the Alberta Heritage Savings Trust Fund, less the amount to be retained for the purpose of inflation-proofing the Alberta Heritage Savings Trust Fund, is transferred to the General Revenue Fund annually.

Internal Government Transfers - Alberta Gaming and Liquor Commission

Pursuant to Section 26(3) of the *Gaming and Liquor Act*, revenue arising from the sale of liquor is transferred to the General Revenue Fund.

Transfers from Government of Canada

Transfers from Government of Canada are recognized as revenue when authorized by federal legislation or federal/provincial agreements, eligibility criteria if any are met and a reasonable estimate of the amounts can be made. Overpayments related to Canada Social Transfer entitlements and transfers received before revenue recognition criteria have been met are included in accounts payable and accrued liabilities.

Expenses

Directly Incurred

Directly incurred expenses are those costs for which the Department has primary responsibility and accountability, as reflected in the government's budget documents.

In addition to program operating expenses such as salaries, supplies, etc., directly incurred expenses also include:

- Amortization of tangible capital assets.
- Pension costs, which comprise the cost of employer contributions for current service of employees during the year and additional government contributions for service relating to prior years.
- A pension provision for the change in pension obligation (Schedule 13).
- A corporate income tax allowance provision for the change in the corporate income tax allowance (Schedule 7).
- Grants are recognized when authorized and eligibility criteria are met.

Incurred by Others

Services contributed by other entities in support of the Department's operations are not recognized and are disclosed in Schedule 14 and allocated to programs in Schedule 15.

Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of business. Financial assets of the Department are limited to financial claims, such as advances to and receivables from other organizations, tax payers, employees and other individuals.

Cash and Cash Equivalents

Cash includes deposits in banks and cash in transit. Cash equivalents includes directly held interest bearing securities with terms to maturity of primarily less than three months.

Inventory

Inventory is valued at the lower of cost and net replacement costs.

Portfolio Investments

Portfolio investments are carried at cost. Cost includes amortization of discount or premium using the straight-line method over the life of the investment. Realized gains and losses on disposals of these investments are included in the determination of net operating results for the year. Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost. Investments are recorded in the Department's accounts on a trade date basis.

Loans

Loans are recorded at cost less any allowance for credit loss on a trade basis. Where there is no reasonable assurance of timely collection of the full amount of principal and interest of a loan, a provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Tangible Capital Assets

Tangible capital assets acquired by right are not included. Tangible capital assets of the Department are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

development is $250 thousand and the threshold for all other tangible capital assets is $5 thousand. Amortization is charged only if the tangible capital asset is in use.

Liabilities

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

The value of pension obligations and changes therein during the year are based on an actuarial extrapolation, of the most recent actuarial valuation, which uses the projected benefit method pro-rated on service, and management's best estimate as at the extrapolation date of various economic and non-economic assumptions. Where the Province is a participating employer in the plan, experience gains and losses to the extent of the Province's employer share are amortized over the estimated average remaining service life of employees.

Debentures included in unmatured debt are recorded at the face amount of the issue less unamortized discount, which includes issue expenses and hedging costs. Debt is recorded in the Department's accounts on a trade date basis.

Income or expense on interest rate swaps used to manage interest rate exposure is recorded as an adjustment to debt servicing costs.

Foreign Currency

Foreign currency transactions are translated into Canadian dollars using the average rate of exchange for the day. Assets and liabilities denominated in foreign currency are translated at the year-end rate of exchange. Exchange differences on transactions are included in the determination of net operating results.

Derivatives

Income and expense from derivative contracts are included in investment income or debt servicing costs.

Certain derivative contracts which are primarily interest rate swaps are reported as interest rate derivatives for which there is an underlying matching asset and liability, are recorded at cost plus accrued interest. Gains and losses from these derivatives are recognized in the same period as the gains and losses of the specific assets and liabilities.

Derivative contracts without an underlying matching asset and liability, which are primarily bond index swaps reported as interest rate derivatives, equity index swaps and equity index futures are reported as equity replication derivatives, and forward foreign exchange contracts are reported as foreign currency derivatives are recorded at fair value.

The estimated amounts receivable and payable from derivative contracts are included in accrued interest receivable and payable respectively.

Net Assets

Net assets represents the difference between the carrying value of assets held by the Department and its liabilities.

Canadian public sector accounting standards require a "net debt" presentation for the statement of financial position in the summary financial statements of governments. Net

debt presentation reports the difference between financial assets and liabilities as “net debt” or “net financial assets” as an indicator of the future revenues required to pay for past transactions and events. The department operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

Measurement Uncertainty

Estimates are used in accruing revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared.

Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty that is material to these financial statements exists in the accrual of personal and corporate income taxes and provisions for pensions. The nature of the uncertainty in these items arises from several factors such as the effect on accrued income taxes of the verification of taxable income, and the effect on accrued pension obligations of actual experience compared to assumptions.

Personal income tax revenue, totaling $10,537 million (2013: $9,621 million), see Schedule 1, is subject to measurement uncertainty due primarily to the use of economic estimates of personal income growth. Personal income growth is inherently difficult to estimate due to subsequent revisions to personal income data. The estimate of primary household income growth used in determining personal income tax for the current fiscal year is 6.7% (2013: 6.8%). Based on historical data, there is an uncertainty of plus or minus $536 million (2013: $503 million) in the personal income tax revenue estimate.

Corporate income tax revenue, totaling $5,358 million (2013: $4,713 million), see Schedule 1, is subject to measurement uncertainty due primarily to the timing differences between tax collected and future tax assessments, along with the estimate for allowance for doubtful accounts.

The pension obligations of $10,678 million (2013: $10,035 million), see Schedule 13, are subject to measurement uncertainty because a Plan’s actual experience may differ significantly from assumptions used in the calculation of the pension obligations.

While best estimates have been used for reporting items subject to measurement uncertainty, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

NOTE 3 VALUATIONS OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Because of the short-term nature of these instruments, the fair values of cash and cash equivalents, accounts and accrued interest receivable, accounts and accrued interest payable, and other accrued liabilities are estimated to approximate their net realizable values.

The fair value of public fixed-income securities included in portfolio investments are valued at the year-end closing sale price,or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Fair values of loans and advances are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair values with sufficient reliability.

The fair value of unmatured debt is an approximation of its fair value to the holder.

The fair value of derivative contracts relating to portfolio investments is included in the fair value of portfolio investments. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Forward foreign exchange contracts and interest rate futures contracts are valued based on quoted market prices. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure change in the underlying swap.

At the year-end, the fair values of assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate.

NOTE 4 TRANSFER OF STRATEGIC CAPITAL PLANNING PROGRAM

The Strategic Capital Planning Program, as of April 1, 2013, was transferred to the Department of Infrastructure. The 2013 comparatives for the Department have been restated as follows: expenses decreased by $1 million from $1,536 to $1,535; net operating results increased by $1 million from $20,407 to $20,408 and net financing provided for general revenues decreased by $1 million from $(24,970) to $(24,971).

NOTE 5 RISK MANAGEMENT

a) LIABILITY MANAGEMENT

The objective of the Department's liability management program is to achieve the lowest cost on debt within an acceptable degree of variability of debt servicing costs. In order to achieve this objective, the Department manages three risks – interest rate risk, credit risk, and refinancing risk. The Department manages these three risks within approved policy guidelines. The management of these risks and the policy guidelines apply to the Department's unmatured debt, excluding debt raised to fund requirements of provincial corporations and regulated funds. Debt of provincial corporations and regulated funds is managed separately in relation to their assets.

For the Department, the risk management strategy is to allow existing debt instruments to mature in accordance with their terms.

b) ASSET MANAGEMENT

Portfolio investments are used to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, and disasters.

NOTE 6 CONTRACTUAL OBLIGATIONS

Contractual obligations are obligations of the Department to others that will become liabilities in the future when the terms of those contracts or agreements are met.

	($ thousands)	
	2014	**2013**
Obligations under Operating Leases, Contracts and Programs	$ 86,388	$106,892

Estimated payment requirements for each of the next five years and thereafter are as follows:

Obligations under Operating Leases, Contracts and Programs

	($ thousands)
	Total
2014-15	49,217
2015-16	34,898
2016-17	2,106
2017-18	98
2018-19	69
Thereafter	-
	$ 86,388

NOTE 7 CONTINGENT LIABILITIES

a) GUARANTEES AND INDEMNITIES

The Province ensures the debt of Alberta Capital Finance Authority of $4,834 million (2013: $5,601 million) and Alberta Social Housing Corporation of $65 million (2013: $67 million) that is held external to the Government of Alberta would be repaid.

The Credit Union Deposit Guarantee Corporation, operating under the authority of the *Credit Union Act* guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The *Credit Union Act* provides that the Department will ensure this obligation of the Corporation is carried out. At March 31, 2014 credit unions in Alberta held deposits totaling $20,053 million (2013: $18,700 million). Substantial assets are available from credit unions to safeguard the Department from risk of loss from its potential obligation under the Act.

The Province ensures the repayment of all deposits without limit, including accrued interest, for ATB Financial. The Department assesses an annual deposit guarantee fee payable of $38 million (2013: $29 million) by ATB Financial. Payments under the guarantee are under authority of a supply vote. At March 31, 2014, ATB Financial had deposits totalling $30,011 million (2013: $26,327 million).

NOTE 7 CONTINGENT LIABILITIES CONTINUED

b) LEGAL ACTIONS

At March 31, 2014, the Department was involved in various legal actions. Accruals have been made in specific instances where it is probable that losses will be incurred which can be reasonably estimated. The resulting loss, if any, from claims in excess of the amounts accrued, cannot be reasonably estimated. Any losses arising from the settlement will be treated as a current year expense.

Of the various legal actions, at March 31, 2014, the Department is jointly or separately named as a defendant in seventeen (2013: sixteen) legal claims of which the outcome is not determinable. Of the seventeen claims, thirteen (2013: twelve) have specified amounts totaling approximately $102 million (2013: $111 million) and four claims have no specified amount. Six (2013: four) claims totaling less than $1 million (2013: less than $1 million) are covered by the Alberta Risk Management Fund.

In addition, at March 31, 2014, some taxes assessed were being appealed. The resulting loss, if any, cannot be reasonably estimated.

NOTE 8 TRUST AND OTHER FUNDS UNDER ADMINISTRATION

The Department administers trust and other funds that are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the Department has no equity in the funds and administers them for the purpose of various trusts, they are not included in the Department's financial statements.

As at March 31, 2014, the fair value of trust and other funds under administration were as follows:

	($ millions)	
	2014	**2013**
Local Authorities Pension Plan Fund	$ 27,960	$ 23,950
Public Service Pension Plan Fund	8,989	7,692
Management Employees Pension Plan Fund	3,632	3,141
Special Forces Pension Plan Fund	2,125	1,832
Other	529	543
	$ 43,235	$ 37,158

NOTE 9 DEFINED BENEFIT PLANS

The Department jointly sponsors and participates in three multi-employer pension plan: Management Employees Pension Plan, the Public Service Pension Plan and the Supplementary Retirement Plan for Public Service Managers. The expense for these plans is equivalent to the annual contributions of $8 million for the year ended March 31, 2014 (2013: $7 million). The Department is not responsible for future funding of the plans' deficits other than through contribution increases.

At December 31, 2013, the Management Employees Pension Plan reported a surplus of $50 million (2013: deficiency of $303 million), Public Service Pension Plan reported a deficiency of $1,254 million (2013: $1,645 million) and Supplementary Retirement Plan for Public Service Managers reported a deficiency of $12 million (2013: $52 million).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2014, the Bargaining Unit Plan reported a surplus of

$75 million (2013: surplus $51 million) and the Management, Opted Out and Excluded Plan reported a surplus of $24 million (2013: surplus $18 million). The expense for these two plans is limited to the employer's annual contributions for the year.

NOTE 10 COMPARATIVE FIGURES

Certain 2013 figures have been reclassified to conform to the 2014 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the senior financial officer and the deputy minister of Treasury Board and Finance.

Schedules to the Financial Statements

(All dollar amounts in millions, unless otherwise stated)

REVENUES — SCHEDULE 1

	($ millions)		
	2014		2013
	Constructed Budget	Actual	Actual
Internal government transfers			
Transfer from Alberta Heritage Savings Trust Fund	$ 960	$ 1,916	$ 1,155
Transfer from Alberta Gaming and Liquor Commission	718	747	729
Transfer from Alberta Lottery Fund	1,486	1,489	1,489
	3,164	4,152	3,373
Income taxes			
Personal income tax	10,001	10,537	9,621
Corporate income tax	4,943	5,358	4,713
Interest and penalties on corporate income tax	-	128	42
	14,944	16,023	14,376
Other taxes			
Tobacco tax	920	922	912
Fuel tax	900	925	897
Insurance tax	326	352	325
Alberta tourism levy	85	87	82
Special broker tax	7	7	10
Interest and penalties on other tax	-	2	1
	2,238	2,295	2,227
Transfers from Government of Canada			
Canada Social Transfer	1,374	1,410	1,315
Unconditional Grant	4	5	4
	1,378	1,415	1,319
Investment income	435	377	534
Premiums, fees and licences			
ATB Financial payment in lieu of taxes	75	84	73
ATB Financial deposit guarantee fees	29	38	29
Other	7	11	7
	111	133	109
Other revenue	5	7	5
	$ 22,275	$ 24,402	$ 21,943

EXPENSES – DIRECTLY INCURRED DETAILED BY OBJECT

SCHEDULE 2

($ millions)

	2014		2013
	Constructed Budget	Actual	Actual (Restated Note 4)
Salaries, wages and employee benefits	$ 68	$ 64	$ 62
Supplies and services	28	29	31
Supplies and services from Support Service Arrangements with Related Parties [1]	3	2	-
Grants	308	298	276
Financial transactions and other	1	1	1
Amortization of tangible capital assets	4	3	2
Pension liability funding	78	76	78
Corporate income tax allowance provision	120	172	125
Teachers' Pre-1992 pension liability funding	456	446	436
Debt servicing costs	533	451	316
Pension provision	200	643	208
	$ 1,799	$ 2,185	$ 1,535

[1] The Department receives financial and administrative services from the Department of Service Alberta.

BUDGET

SCHEDULE 3

	($ millions)		
	2013-14 Estimates (a)	Adjustment to conform to accounting policy (b)(c)	2013-14 Constructed Budget (d)
Revenues			
Internal government transfers	$ 3,164	$ -	$ 3,164
Income taxes	14,824	120	14,944
Other taxes	2,238	-	2,238
Transfers from Government of Canada	1,378	-	1,378
Investment income	435	-	435
Premiums, fees and licences	111	-	111
Other revenue	5	-	5
	22,155	120	22,275
Expenses - Directly Incurred			
Ministry Support Services	14	-	14
Budget Development and Reporting	6	-	6
Fiscal Planning and Economic Analysis	6	-	6
Investment, Treasury and Risk Management	62	-	62
Office of the Controller	4	-	4
Corporate Internal Audit Services	4	-	4
Tax and Revenue Management	46	-	46
Financial Sector Regulation and Policy	85	-	85
Air Services	7	-	7
Gaming	35	-	35
Corporate income tax allowance provision	-	120	120
Alberta Family Employment Tax Credit / Scientific Research and Experimental Development Tax Credit	215	-	215
Teachers' pre-1992 pension - liability funding	456	-	456
Debt servicing costs - school construction	6	-	6
Debt servicing costs - general government	389	144	533
Pension Provision	-	200	200
	1,335	464	1,799
Net operating results	$ 20,820	$ (344)	$ 20,476
Equipment/inventory purchases	$ 3	$ -	$ 3
Financial Transactions	$ 1	$ -	$ 1

(a) Estimates were approved on March 21, 2013.

(b) Adjustment in accordance with PS1200.125 to conform fiscal plan numbers to accounting policy.

(c) Subject to the *Fiscal Responsibility Act* , expense estimates excludes annual changes in unfunded pension obligations, which are a non-cash expense reported by the Department at year end. The amount estimated for pension provisions for 2014 was $200 million.

(d) There were no adjustments or supplementary estimates to the Department 2013-14 estimates.

LAPSE / ENCUMBRANCE

SCHEDULE 4

($ thousands)

	Voted Estimates (1)	Supplementary Estimate (2)	Adjustments (3)	Adjusted Voted Estimate	Voted Actuals (4)	Unexpended (Over Expended)
Operational Expenses						
1. Ministry Support Services						
1.1 Minister's Office	$ 684	$ -	$ -	$ 684	$ 544	$ 140
1.2 Associate Minister's Office	267	-	-	267	76	191
1.3 Deputy Minister's Office	743	-	-	743	837	(94)
1.4 Strategic and Business Services	10,842	-	-	10,842	10,833	9
1.5 Communications	763	-	-	763	796	(33)
	13,299	-	-	13,299	13,086	213
2. Budget Development and Reporting	5,660	-	-	5,660	4,650	1,010
3. Fiscal Planning and Economic Analysis	5,822	-	-	5,822	5,783	39
4. Investment, Treasury and Risk Management						
4.1 Treasury Management	8,732	-	-	8,732	8,930	(198)
4.2 Risk Management and Insurance	1,659	-	-	1,659	1,621	38
	10,391	-	-	10,391	10,551	(160)
5. Office of the Controller	3,781	-	-	3,781	3,594	187
6. Corporate Internal Audit Services	4,160	-	-	4,160	3,787	373
7. Tax and Revenue Management	34,681	-	-	34,681	32,275	2,406
8. Financial Sector Regulation and Pensions						
8.1 Financial Sector Regulation and Policy	6,411	-	-	6,411	5,441	970
8.2 Automobile Insurance Rate Board	1,525	-	-	1,525	1,185	340
	7,936	-	-	7,936	6,626	1,310
9. Air Services	4,654	-	-	4,654	5,633	(979)
10. Gaming						
10.1 Gaming Research	1,600	-	-	1,600	1,511	89
10.2 Horse Racing and Breeding Renewal Program	26,000	-	-	26,000	21,046	4,954
10.3 Bingo Associations	7,100	-	-	7,100	6,099	1,001
	34,700	-	-	34,700	28,656	6,044
Debt Servicing						
11 School Construction Debentures						
11.1 School Construction Debenture Interest Payment	6,221	-	-	6,221	6,221	-
Total	131,305	-	-	131,305	120,862	10,443
Lapse/(Encumbrance)						10,443

LAPSE / ENCUMBRANCE

($ thousands)

		Voted Estimates (1)	Supplementary Estimate (2)	Adjustments (3)	Adjusted Voted Estimate	Actuals (4)	Unexpended (Over Expended)
Program - Capital							
1.4	Strategic and Business Services	$ 280	$ -	$ -	$ 280	$ 524	$ (244)
7	Tax and Revenue Management	2,082	-	-	2,082	1,950	132
8.1	Financial Sector and Pensions	250	-	-	250	-	250
9	Air Services	241	-	945	1,186	978	208
	Total	2,853	-	945	3,798	3,452	346
	Lapse/(Encumbrance)						346
Financial Transactions							
9	Acquisition of Inventory - Air Services	150	-	-	150	143	7
11.2	Grants for school construction debenture principal repayment	19,975	-	-	19,975	19,975	-
	Total	$ 20,125	$ -	$ -	$ 20,125	$ 20,118	$ 7
	Lapse/(Encumbrance)						$ 7

(1) As per "Voted expense by Program" and "Voted Capital Investment by Program" page 234-235 of 2013-14 Government Estimates.

(2) Per the Supplementary Supply Estimates.

(3) Adjustments include encumbrances, capital carry forward amounts and credit or recovery increases approved by Treasury Board and credit or recovery shortfalls. An encumbrance is incurred when, on a vote by vote basis, the total of actual disbursements in the prior year exceed the total adjusted estimate. All calculated encumbrances from the prior year are reflected as an adjustment to reduce the corresponding Voted Estimate in the current year.

(4) Actuals exclude non-voted amounts such as amortization and valuation adjustments.

SALARY AND BENEFITS DISCLOSURE

SCHEDULE 5

($ thousands)

	2014				2013
	Base Salary (a)	Other Cash Benefits (b)	Other Non-Cash Benefits (c)	Total	Total
Senior Officials					
Deputy Minister of Finance (d)(e)	$ 274	$ 44	$ 85	$ 403	$ 358
Controller (d)	208	9	62	279	132
Chief Internal Auditor	186	2	55	243	233
Executives					
Assistant Deputy Minister, Budget Development and Reporting	192	2	55	249	247
Assistant Deputy Minister, Financial Sector Regulation and Policy	167	4	49	220	206
Assistant Deputy Minister, Fiscal Planning & Economic Analysis	192	2	54	248	241
Assistant Deputy Minister, Strategic & Business Services	192	2	9	203	214
Assistant Deputy Minister, Tax and Revenue Administration	186	2	54	242	233
Assistant Deputy Minister, Treasury and Risk Management	231	4	70	305	293
Executive Director, Human Resources	138	3	36	177	168

(a) Base salary includes pensionable base pay.

(b) Other cash benefits include vacation payouts and lump sum payments. There were no bonuses paid in 2014.

(c) Other non-cash benefits include the government's share of all employee benefits and contributions or payments made on behalf of employees including pension, supplementary retirement plans, health care, dental coverage, group life insurance, short and long term disability plans, professional memberships and tuition fees.

(d) Automobile provided, no dollar amount included in other non-cash benefits.

(e) The position was occupied by two individuals at different times during the year.

CASH AND CASH EQUIVALENTS

SCHEDULE 6

($ millions)

	2014	2013
Cash	$ (470)	$ (82)
Cash equivalents	2,284	2,070
	$ 1,814	$ 1,988

At March 31, 2014, deposits in banks had a time-weighted return of 1.2% (2013: 1.3%) per annum and securities have an average effective yield of 1.2% (2013: 2.2%) per annum.

ACCOUNTS AND ACCRUED INTEREST RECEIVABLE — SCHEDULE 7

	($ millions) 2014	2013
Corporate income tax[a]	$ 629	$ 527
Personal income tax	841	763
Interest and penalties receivable on taxes	256	214
Proceeds from debt issuance	595	-
Alberta Gaming and Liquor Commission	277	270
Alberta Lottery Fund	32	169
Receivable from the Alberta Heritage Savings Trust Fund	147	385
Accrued interest receivable	93	70
ATB Financial	350	258
Insurance corporations tax	93	86
Fuel tax	76	76
Tobacco tax	9	13
Alberta tourism levy	8	8
Other	36	98
	3,442	2,937
Less corporate income tax allowance	(377)	(248)
Less allowance for other doubtful accounts	(1)	(1)
	$ 3,064	$ 2,688

[a] Corporate income tax receivable aging is as follows:

	2014	2013
Less than one year	$ 279	$ 214
1-2 years	112	92
2-3 years	45	45
3-4 years	37	27
4-5 years	12	124
Over 5 years	144	25
Total	$ 629	$ 527

In 2014, 851 ($401 million) corporate income tax files were under objection/dispute. Comparatively in 2013, 656 ($295 million) corporate income tax files were under objection/dispute. The outcome of the disputes are uncertain; therefore, the outcome of collection may change.

PORTFOLIO INVESTMENTS — SCHEDULE 8

	($ millions) 2014 Book Value	2014 Fair Value	2013 Book Value	2013 Fair Value
Fixed-income securities				
Corporate	$ 1,996	$ 1,988	$ 1,888	$ 1,883
Provincial, direct and guaranteed	764	760	561	563
Government of Canada, direct and guaranteed	1,668	1,642	812	807
Municipal	134	132	53	52
	$ 4,562	$ 4,522	$ 3,314	$ 3,305

The Department's fixed-income securities are held to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, and disasters. The Department may use derivatives to manage financial risk. At March 31, 2014, there were no derivative contracts outstanding.

LOANS AND ADVANCES TO GOVERNMENT ENTITIES

SCHEDULE 9

	($ millions)	
Amounts borrowed and loaned to government entities [(a)]	**2014**	**2013**
(see Schedule 14)		
Alberta Capital Finance Authority	$ 9,565	$ 6,724
ATB Financial	2,694	2,196
Agriculture Financial Services Corporation	1,931	1,793
Alberta Social Housing Corporation	78	106
	14,268	10,819
Other loans		
Alberta Investment Management Corporation	68	56
Other	3	2
	$ 14,339	$ 10,877

a) The Department borrows money and loans it to various government entities with the exact same repayment terms and interest rates.

TANGIBLE CAPITAL ASSETS

SCHEDULE 10

	($ millions)		
	2014		
	Computer Hardware & Software	**Equipment**	**Total**
Estimated useful life	5 years	10 years	
Historical Cost			
Beginning of year	$ 36	$ 28	$ 64
Additions	2	1	3
	38	29	67
Accumulated Amortization			
Beginning of year	23	11	34
Amortization expense	1	2	3
	24	13	37
Net book value at March 31, 2014	$ 14	$ 16	$ 30
Net book value at March 31, 2013	$ 13	$ 17	$ 30

ACCOUNTS AND ACCRUED INTEREST PAYABLE — SCHEDULE 11

	($ millions) 2014	2013
Corporate income tax receipts in abeyance	$ 605	$ 570
Corporate income tax refunds payable	472	438
Accrued interest on unmatured debt	132	87
Other	23	144
	$ 1,232	$ 1,239

UNMATURED DEBT — SCHEDULE 12

	($ millions) 2014				2013	
	Effective Rate (a)	Modified Duration (b)	Book Value (a)	Fair Value (a)	Book Value (a)	Fair Value (a)
	%	years				
Canadian dollar debt and foreign currency debt [c]						
Floating rate and short-term fixed rate debt	1.02	0.24	$ 6,624	$ 6,699	$ 3,807	$ 3,819
Fixed rate long-term debt	2.73	8.11	15,085	15,448	10,628	11,137
	2.17	5.73	$ 21,709	$ 22,147	$ 14,435	$ 14,956

Total unmatured debt is comprised of:				
Amounts borrowed on behalf of Government entities: [d]				
Alberta Capital Finance Authority	$ 9,565	$ 9,698	$ 6,724	$ 6,777
ATB Financial	2,694	2,710	2,196	2,213
Agriculture Financial Services Corporation	1,931	2,012	1,793	1,931
Alberta Social Housing Corporation	78	83	106	115
	14,268	14,503	10,819	11,036
Amounts borrowed for other purposes:				
Teachers' Pension Plan liability	1,187	1,303	1,187	1,384
Capital borrowing	6,254	6,341	2,429	2,536
	$ 21,709	$ 22,147	$ 14,435	$ 14,956

a) Book value represents the amount the Department owes. Fair value is an approximation of market value to the holder. The book value, fair value and weighted average effective rate include the effect of interest rate and currency rate swaps. For non-marketable issues, the effective rate and fair value are determined by reference to yield curves for comparable quoted issues.

b) Modified duration is the weighted average term to maturity of the security's cash flows (i.e. interest and principal) and is a measure of price volatility; the greater the modified duration of a bond, the greater its percentage price volatility.

c) Floating rate debt includes short-term Canadian and US dollar debt, term debt with less than one year remaining to maturity, and term debt with interest rate reset within a year.

d) The Department borrows money and loans it to various government entities (see Schedule 9) with the exact same repayment terms and interest rates.

Debt principal repayment requirements at par in each of the next five years, including short-term debt, maturing in 2014-15, and thereafter are as follows:

	($ millions)
2014-15	$ 1,540
2015-16	963
2016-17	2,002
2017-18	2,936
2018-19	2,686
Thereafter	11,787
	21,914
Unamortized discount	(205)
	$ 21,709

None of the debt has call provisions (2013: none).

Derivative Financial Instruments

The Department uses interest rate swaps contracts to manage the interest rate risk associated with unmatured debt. Associated with these instruments are credit risks that could expose the Department to potential losses. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. The Department minimizes its credit risk associated with these contracts by dealing with only credit worthy counterparties. At March 31, 2014, the net fair value of these contracts totaled $(5) million (2013: $(2) million).

PENSION OBLIGATIONS

SCHEDULE 13

The President of Treasury Board and Minister of Finance is trustee for the following pension plans under the *Public Sector Pension Plans Act*: Local Authorities Pension Plan (LAPP), Management Employees Pension Plan (MEPP), Public Service Pension Plan (PSPP), Special Forces Pension Plan (SFPP), and the Public Service Management (Closed Membership) Pension Plan (PSMC). As well the President of Treasury Board and Minister of Finance is trustee for the Provincial Judges and Masters in Chambers (Registered) Pension Plan (PJMCPP) under the *Provincial Court Act* and the Supplementary Retirement Plan for Public Service Managers (MSRP) under the Supplementary Retirement Plan – Retirement Compensation Arrangement Directive (Treasury Board Directive 01/99). All of these pension plans are open with the exception of PSMC. Financial statements for all of these pension plans as of their December 31, 2013 year end or March 31, 2014 year end are reported as supplementary information in the Ministry of Treasury Board and Finance Annual Report. All of the plans, except PJMCPP, are multi-employer plans.

PENSION OBLIGATIONS

SCHEDULE 13, CONTINUED

The following is a summary of the plans for the year ended March 31, 2014:

Pension Plan	Approximate Number of Active Employees	Average Age of Active Employees	Number of Retireees Receiving Benefits	Employee Contributions	Employer Contributions	Benefit Payments	Deferred Members
				($ millions)			
LAPP	150,213	45	52,904	$ 1,030	$ 1,107	$ 1,115	28,746
PSPP	41,391	44	23,132	327	311	456	15,750
MEPP	5,311	48	4,231	68	113	175	1,063
MSRP	1,091	52	784	3	3	4	129
PJMCPP [(a)]	130	60	146	1	2	7	2
PSMC [(a)]	-	-	1,923	-	-	55	110
SFPP [(a)]	4,231	39	2,360	38	40	97	182

(a) These three plans also received during the year contributions, primarily related to pre-1992 commitments, from the Province of Alberta as follows: PJMCPP $1 million, PSMC $54 million, and SFPP $5 million.

The Department accounts for the liabilities for pension obligations as a participating employer for former and current employees in Local Authorities Pension Plan, Management Employees Pension Plan, Supplementary Retirement Plan for Public Service Managers, Provincial Judges and Masters in Chambers Pension Plan and Public Service Pension Plan for the Province of Alberta consolidated reporting entity except for government business enterprises that report under International Financial Reporting Standards (IFRS) and are required to account directly for participation in the public service pension plans under IFRS.

The Department also accounts for the specific commitments made by the Province for pre-1992 pension obligations to the Teachers' Pension Plan, Public Service Management (Closed Membership) Pension Plan, Universities Academic Pension Plan and the Special Forces Pension Plan. In 1992 there was pension plan reform resulting in pre and post 92 arrangements for several pension plans.

The Department also accounts for the obligation to the Members of the Legislative Assembly Pension Plan.

This schedule contains summary information on these specific pension plans. Complete financial reporting is available through each pension plan.

The liability for the pension obligations are as follows:

	($ millions)		
	2014 Pension Obligation	2014 Pension Provision (Recovery)	2013 Pension Obligation
Liability for pension obligations for the Province as a participating employer (Table A)			
Local Authorities Pension Plan [(a)]	$ 511	$ 17	$ 494
Management Employees Pension Plan [(b)]	63	(76)	139
Public Service Pension Plan [(c)]	280	30	250
Supplementary Retirement Plan for Public Service Managers [(d)]	12	(40)	52
Provincial Judges and Masters in Chambers Pension Plan [(e)]	16	10	6
	882	(59)	941
Liability for the Province's commitment towards pre-1992 pension obligations			
Teachers' Pension Plan [(f)]	8,727	713	8,014
Public Service Management (Closed Membership) Pension Plan [(g)]	617	33	584
Universities Academic Pension Plan [(h)]	311	(17)	328
Special Forces Pension Plan [(h)]	95	(28)	123
	9,750	701	9,049
Obligations to the Members of the Legislative Assembly [(i)]	46	1	45
	$ 10,678	$ 643	$ 10,035

Table A - Liability for pension obligations for the Province as a participating employer

	($ in millions)				
	Total	Local Authorities Pension Plan	Management Employees Pension Plan	Public Service Pension Plan	Other
Net assets available for benefits [(1)]	$ 38,927	$ 26,550	$ 3,464	$ 8,559	$ 354
Pension obligation	45,021	31,412	3,413	9,813	383
Pension plan deficit/(surplus) [(2)]	$ 6,094	$ 4,862	$ (51)	$ 1,254	$ 29
Employee and non-Provincial employer	(3,903)				
Unamortized losses [(3)]	(1,253)				
Timing differences [(4)]	(56)				
Pension obligation at March 31, 2014	$ 882				

(1) These are the net assets reported on the 2013 financial statements of the pension plan.
(2) This is the pension obligation reported on the 2013 financial statements of the pension plans.
(3) Under Public Sector Accounting Standards, losses are amortized over the employee average remaining service life of each plan, which range from eight to eleven years.
(4) Accounting timing differences from January 1, 2014 to March 31, 2014 for payments and interest expense.

PENSION OBLIGATIONS

SCHEDULE 13, CONTINUED

The following provides a description of each pension obligation.

a) The Local Authorities Pension Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, Alberta Health Services, school divisions, school districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totaling 7.40% of pensionable earnings shared equally between employers and employees until December 31, 2026. Current services costs are funded by employers and employees.

b) The Management Employees Pension Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totaling 12.3% of pensionable earnings shared between employees and employers until December 31, 2014, 10.2% until December 31, 2016, 5.4% until December 31, 2017, 5.0% until December 31, 2024, and 2.9% until December 31, 2027. Current services costs are funded by employers and employees.

c) The Public Service Pension Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by an actuarial funding valuation are expected to be funded by special payments currently totaling 9.34% of pensionable earnings shared equally between employees and employers until December 31, 2026. Current services costs are funded by employers and employees.

d) The Supplementary Retirement Plan is a contributory defined benefit pension plan for certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the maximum pensionable salary limit under the *Income Tax Act*. The Plan is supplementary to the MEPP. The contribution rates in effect at December 31, 2013 were at 11.16% (2012: 11.16%) of pensionable salary in excess of the maximum pensionable salary limit for eligible employees and designated employers.

e) The Provincial Judges and Masters in Chambers Pension Plan is a contributory defined benefit pension plan for Judges and Masters in Chambers of the Province of Alberta. Current service costs are funded by the Province of Alberta and plan members at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at March 31, 2014 are 7.00% of capped salary for plan members and 13.12% of capped salary for the Province. Benefits are payable by the Province of Alberta if assets are insufficient to pay for all benefits under the Plan.

f) The Department of Treasury Board and Finance assumed responsibility for the entire unfunded pre-1992 pension obligation of the Teachers' Pension Plan. In 2009-10 there was a repayment of $1,187 million towards the liability. As of September 1, 2009, the costs of all benefits under the Plan are paid by the Department.

g) The Public Service Management (Closed Membership) Pension Plan provides benefits to former members of the Public Service Management Pension Plan who were retired, were entitled to receive a deferred pension or had attained 35 years of service before August 1, 1992. The costs of all benefits under the Plan are paid by the Department.

h) Under the *Public Sector Pension Plans Act*, the Department has a liability for payment of additional contributions under defined benefit pension plans for certain employees of municipalities and post-secondary educational institutions. The plans are the Universities Academic and the Special Forces plans.

For Universities Academic, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions of 1.25% of pensionable salaries by the Department, and contributions by employers and employees to fund the remaining amount, as determined by the plan valuation, over the period ending on or before December 31, 2043. Employers and employees fund current service costs.

For Special Forces, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions in the ratio of 45.45% by the Department and 27.27% each by employers and employees, over the period ending on or before December 31, 2036. Current service costs are funded by employers and employees. The *Act* provides that payment of all benefits arising from pensionable service prior to 1994, excluding post-1991 cost of living adjustment benefits, is guaranteed by the Province.

i) The Department has a liability for payment of pension benefits under a defined benefit pension plan for Members of the Legislative Assembly. Active participation in this plan was terminated as of June 1993, and no benefits can be earned for service after this date. The costs of all benefits under the plan are paid by the Department.

Actuarial valuations of the plans are completed at least triennially using the projected benefit method prorated on services. The following, by pension plan, is the actuary and date of the latest actuarial valuation.

Plan	Actuary	Latest Valuation Date
Local Authorities Pension Plan	Mercer (Canada) Limited	Dec. 31, 2012
Management Employees Pension Plan	Aon Consulting Inc.	Dec. 31, 2012
Supplementary Retirement Plan	Aon Consulting Inc.	Dec. 31, 2012
Provincial Judges and Masters in Chambers Pension Plan	Aon Consulting Inc.	Dec. 31, 2011
Public Service Pension Plan	Aon Consulting Inc.	Dec. 31, 2012
Teachers' Pre-1992 Pension Plan	Aon Consulting Inc.	Aug. 31, 2013
Public Service Management (Closed Membership) Pension Plan	Aon Consulting Inc.	Dec. 31, 2011
Universities Academic Pension Plan	Aon Consulting Inc.	Dec. 31, 2012
Special Forces Pension Plan	Mercer (Canada) Limited	Dec. 31, 2011
Members of the Legislative Assembly Pension Plan	Aon Consulting Inc.	Mar. 31, 2012

The liabilities for pension obligations are based upon actuarial extrapolations, of the most recent actuarial valuation performed at December 31, 2013 or March 31, 2014, for accounting purposes that reflect management's best estimate as at the extrapolation date of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate.

PENSION OBLIGATIONS — SCHEDULE 13, CONTINUED

The date of actuarial extrapolation and primary economic assumptions used for accounting purposes were:

Plan	Last Extrapolation Date	Salary Escalation Rate %	Inflation Rate %	Discount Rate %
Local Authorities Pension Plan	Dec. 31, 2013	3.50	2.25	5.90
Management Employees Pension Plan	Dec. 31, 2013	3.50	2.25	6.90
Provincial Judges and Masters in Chambers Pension Plan	Mar. 31, 2013	3.50	2.25	5.80
Public Service Management (Closed Membership) Pension Plan	Dec. 31, 2013	N/A	2.25	4.00
Public Service Pension Plan	Dec. 31, 2013	3.50	2.25	6.50
Special Forces Pension Plan	Dec. 31, 2013	3.50	2.25	6.70
Supplementary Retirement Plan for Public Service Managers	Dec. 31, 2013	3.50	2.25	6.30
Universities Academic Pension Plan	Mar. 31, 2014	3.50	2.25	6.60
Teachers' Pre-1992 Pension Plan	Mar. 31, 2014	3.50	2.25	4.00
Members of the Legislative Assembly Pension Plan	Mar. 31, 2014	N/A	2.25	4.00

The assumptions used in the extrapolations were adopted after consultation between the pension plan boards, the Department and the actuaries, depending on the plan, and represent best estimates of future events. Each plan's future experience will vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses are amortized over the expected average remaining service lives of the employee group.

A separate pension plan fund is maintained for each pension plan except for the Teachers' Pre-1992 Pension Plan and the Members of the Legislative Assembly Pension Plan. Each pension plan fund reports annually through financial statements.

OTHER ACCRUED LIABILITIES — SCHEDULE 14

	($ millions)	
	2014	**2013**
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 46	$ 65
Vacation entitlements	6	7
	$ 52	$ 72

RELATED PARTY TRANSACTIONS — SCHEDULE 15

Related parties are those entities consolidated or accounted for on the modified equity basis in the Province of Alberta's financial statements. Related parties also include management in the Department.

As explained in Note 2b, the Department is responsible for managing all departments' cash transactions. As a result, the Department engages in transactions with its own funds and agencies and with all other departments and their funds and agencies in the normal course of operations.

The investment in Alberta Capital Finance Authority is recorded at cost because the Corporation has the authority to pay its accumulated surplus to municipal and other shareholders, which have borrowed money from the Corporation. At December 31, 2013, there is an accumulated operating surplus of $237 million (2013: $185 million). During the 2014 fiscal year, the Department paid $26 million (2013: $36 million) to the Corporation by way of grants to school boards to satisfy their interest and principal repayment obligations

in respect of school board debentures. The investment in Alberta Pensions Services Corporation is not significant, either on a cost or on an equity basis.

The Department and its employees paid or collected certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this schedule.

The Department had transactions with related parties recorded on the statement of operations and the statement of financial position at the amount of consideration agreed upon between the related parties.

	($ millions)			
	Entities in the Ministry		**Other Entities**	
	2014	**2013**	**2014**	**2013**
Revenues				
Transfers	$ 4,152	$ 3,373	$ -	$ -
Interest - government entities	197	122	76	77
Charges for services	122	102	-	-
	$ 4,471	$ 3,597	$ 76	$ 77
Expenses				
Cost of services	$ 4	$ 5	$ 60	$ 63
Assets				
Accounts receivable	$ 806	$ 1,081	$ -	$ 57
Accrued interest receivable - government entities	50	31	14	15
Loans and advances to government entities	12,330	8,979	2,009	1,899
	$ 13,186	$ 10,091	$ 2,023	$ 1,971
Liabilities				
Accounts and accrued interest payable	$ -	$ 1	$ -	$ -
School construction debentures	-	-	46	66
	$ -	$ 1	$ 46	$ 66

The Department also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements but are disclosed on Schedule 15.

	($ millions)			
	Revenue		**Expense**	
	2014	**2013**	**2014**	**2013**
Accommodations	$ -	$ -	$ 7	$ 7
Air travel	5	4	-	-
Corporate services	-	-	4	4
Internal audit services	1	1	-	-
Legal services	-	-	4	2
	$ 6	$ 5	$ 15	$ 13

The above transactions do not include support service arrangement transactions disclosed in schedule 2.

ALLOCATED COSTS BY PROGRAM

SCHEDULE 16

The Department also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statement but are disclosed in schedule 15.

Total allocated costs of $2,200 million are comprised of total expenses per statement of operations amounting to $2,185 million and expenses incurred by others amounting to $15 million.

	($ millions)				
	Expenses [1]	Expenses Incurred by Others [2]	Pension provision [3]	**Total**	
Program				**2014**	**2013**
Ministry Support Services	$ 13	$ 1	$ -	$ 14	$ 14
Budget Development and Reporting	5	-	-	5	4
Fiscal Planning and Economic Analysis	6	-	-	6	6
Investment, Treasury and Risk Management	62	4	-	66	64
Office of the Controller	4	-	-	4	4
Corporate Internal Audit Services	4	-	-	4	4
Tax and Revenue Management	44	3	-	47	50
Financial Sector Regulation and Pensions	82	5	-	87	87
Air Services	8	-	-	8	7
Gaming	29	2	-	31	32
Alberta Family Employment Tax Credit / Scientific Research and Experimental Development Tax	210	-	-	210	179
Teachers' pre-1992 pension liability funding	446	-	-	446	436
Debt servicing & Pension Provision	457	-	643	1,100	533
Corporate income tax allowance provision	172	-	-	172	125
	$ 1,542	$ 15	$ 643	$ 2,200	$ 1,545

(1) Expenses – directly incurred as per the statement of operations.

(2) Includes accommodations of $7 million, corporate services of $4 million, and legal services of $4 million.

(3) Includes pension provision of $643 million.

ALBERTA CANCER PREVENTION LEGACY FUND

Financial Statements

March 31, 2014

Table of Contents

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Cancer Prevention Legacy Fund, which comprise the statement of financial position as at March 31, 2014, and the statements of operations and accumulated surplus, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Cancer Prevention Legacy Fund as at March 31, 2014, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 4, 2014

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2014

	($ thousands)	
	2014	**2013**
Financial assets		
Investments (Note 3)	$ 485,946	$ 499,801
Net financial assets (Note 5)		
Accumulated surplus from operations	498,336	504,639
Accumulated remeasurement losses	(12,390)	(4,838)
	485,946	499,801
	$ 485,946	$ 499,801

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2014

	($ thousands)		
	2014		2013
	Budget	Actual	Actual
Investment income (Note 6)	$ 13,000	$ 19,167	$ 25,598
Investment expenses (Note 7)	-	(470)	(379)
Net income from operations	13,000	18,697	25,219
Transfers on behalf of the Ministry of Health (Note 5b)	(25,000)	(25,000)	(12,500)
Net operating surplus (deficiency)	(12,000)	(6,303)	12,719
Accumulated operating surplus at beginning of year		504,639	491,920
Accumulated operating surplus at end of year		$ 498,336	$ 504,639

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2014

	($ thousands)	
	2014	2013
Accumulated remeasurement gains, beginning of year	$ (4,838)	$ -
Accumulated remeasurement gains upon adoption of PS3450, April 1, 2012	-	3,544
Unrealized loss on investments	(8,207)	(8,475)
Less: Amounts reclassified to the Statement of Operations - realized loss on investments	655	93
Accumulated remeasurement losses, end of year	$ (12,390)	$ (4,838)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2014

	($ thousands)	
	2014	**2013**
Operating transactions		
Net income from operations	$ 18,697	$ 25,219
Non-cash items included in net income	655	93
	19,352	25,312
Decrease in accounts payable	-	(33)
Cash provided by operating transactions	19,352	25,279
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	25,000	12,000
Purchase of investments	(19,379)	(25,332)
Cash provided by (used in) investing transactions	5,621	(13,332)
Transfers		
Transfers on behalf of the Ministry of Health	(25,000)	(12,500)
Cash applied to transfers	(25,000)	(12,500)
Decrease in cash	(27)	(553)
Cash at beginning of year	272	825
Cash at end of year	$ 245	$ 272
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 245	$ 272

* The CCITF is a highly-liquid, short-term money market pooled fund consisting primarily (90%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2014

(all dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Cancer Prevention Legacy Fund (the Fund) operates under the authority of the *Alberta Cancer Prevention Legacy Act*, Chapter A14.2, Statutes of Alberta 2006 (the Act). The purpose of the Act is to support and encourage cancer prevention initiatives such as research, education, public policy development and social marketing initiatives. The Fund commenced operations on July 7, 2006.

The Fund invests the transfers made to the Fund. The portfolio is comprised of high-quality interest-bearing investments. The Act states that the Minister of Treasury Board and Finance shall not make any direct investment of the Fund or any portion of the Fund in securities of companies in the tobacco industry. The Minister of Treasury Board and Finance shall pay money from the Fund that is required by the Minister of Health for the purposes of the Act.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards.

The accounting policies of significance to the Fund are as follows:

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 9/89, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Fund reports its share of the financial risks in Note 4.

The fair value of units held by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo. Investments in units are recorded in the Fund's accounts. The underlying financial instruments are in the accounts

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

of the pools. The pools have a market-based unit value that is used to allocate income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units of the pools are managed and evaluated on a fair value basis. As such, all investments are designated and recorded in the financial statements at fair value.

Investments in units are recorded in the Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

b) INVESTMENT INCOME

i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the statement of operations and accumulated surplus (see Note 6). Income distributions are based on the Fund's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis.

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts, including transaction costs, incurred by the Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis.

ii) Other expenses related to the direct administration of the Fund are charged to the Fund on an accrual basis.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess of the fair value of the pool units at year-end over the cost of the pool units. Changes in accumulated remeasurement gains and losses are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains and losses during the year include unrealized increases and decreases in fair value of the pooled units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in net income on the statement of operations and accumulated surplus.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

e) MEASUREMENT UNCERTAINTY

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, infrastructure, private debt and loans, private real estate, hedge funds, timberland investments, and other investments where no readily available market exists. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the value that would have been used had a ready market existed for these investments.

NOTE 3 INVESTMENTS (in thousands)

The carrying amounts of the Fund's investments are recorded on a fair value basis. The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with investment policies approved by the President of Treasury Board and Minister of Finance. The fair value of the pool units is based on the Fund's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of the pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

	Fair Value Hierarchy [a]				
Asset class	Level 1	Level 2	Level 3	**2014**	**2013**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 245	$ -	$ 245	$ 272
Bonds and mortgages	-	485,701	-	485,701	499,529
Total Fair Value of Investments	$ -	$485,946	$ -	$ 485,946	$ 499,801

a) Fair Value Hierarchy: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $485,946 (2013: $499,801). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data.

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands)

The Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, interest rate risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Interest rate risk is the risk that the value investments will decrease as market interest rates rise. Liquidity risk is the risk the Fund will not be able to meet its cash flow obligations as they fall due.

The Ministry of Treasury Board and Finance ensures the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Treasury Board and Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, and quality constraints on fixed income instruments.

a) Credit risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes debt securities by counterparty credit rating at March 31, 2014:

Credit rating	2014	2013
Investment Grade (AAA to BBB-)	100.0%	98.2%
Unrated	-	1.8%
	100.0%	100.0%

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

ii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2014, the Fund's share of securities loaned under this program is $56 million and collateral held totals $58 million. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 2.7% of total investments (2013: 2.5%).

c) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting cash flow obligations. Liquidity requirements of the Fund are met through income generated from investments and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. The Fund's future liabilities include cash requests from the Minister of Health for the purposes of the Act and payables related to purchase of units.

NOTE 5 NET FINANCIAL ASSETS (in thousands)

Net financial assets represent the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows the accumulated investment income and transfers to and from the Fund since its inception on July 7, 2006:

	Cumulative since 2006	
	2014	**2013**
Accumulated net income from operations	$ 168,198	$ 149,501
Transfers from the General Revenue Fund [(a)]	500,000	500,000
Accumulated transfers to Ministry [(b)]	(169,862)	(144,862)
Accumulated surplus from operations	498,336	504,639
Accumulated net remeasurement gains	(12,390)	(4,838)
Carrying value of net financial assets	$ 485,946	$ 499,801

[(a)] In accordance with section 5 of the *Alberta Cancer Prevention Legacy Act* (the Act), the Fund received $500 million from the General Revenue Fund.

[(b)] In accordance with section 6(1) of the Act, funds shall be paid out as required on the behalf of the Minister of Health.

NOTE 6 NET INVESTMENT INCOME (in thousands)

The following is a summary of the Fund's investment income by asset class:

	2014	2013
Interest-bearing securities	$ 19,167	$ 25,598

The investment income includes realized gains and losses from disposal of pool units and income distributions from the pools.

Income distributions from the pools are based on income earned by the pools determined on an accrual basis, which included interest, realized gains and losses on sale of securities held by the pools, realized foreign exchange gains and losses and income and expense earned on derivative contracts. The cost of securities disposed of in the pools is determined on an average cost basis.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2014	2013
Amounts charged by:		
AIMCo [(a)]	$ 440	$ 349
Alberta Treasury Board and Finance [(b)]	30	30
Total investment expenses	$ 470	$ 379
Increase (decrease) in expenses	24.0%	-13.1%
Decrease in average investments under management	-0.6%	-0.1%
Investment expense as a percent of:		
Dollar earned	2.45%	1.48%
Dollar invested	0.10%	0.09%

[(a)] For investment management services. Please refer to AIMCo's financial statements for a detailed breakdown of expenses.

[(b)] For investment accounting and Fund reporting services.

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

			Average Annualized	
Time-weighted rates of return, at fair value [(a)]	2014	2013	4 years	6 years
Estimated return [(b)]	2.3%	3.4%	3.4%	3.8%
Estimated policy benchmark return [(b)]	1.6%	2.2%	2.8%	3.3%
Value added by investment manager	0.7%	1.2%	0.6%	0.5%

[(a)] The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified period and is a measure of the total proceeds received from an investment dollar initially

NOTE 8 INVESTMENT PERFORMANCE CONTINUED

invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) Investment returns are provided by AIMCo. The overall return and benchmark is based on investment returns and benchmarks for each asset class. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period.

NOTE 9 FINANCIAL STATEMENTS

These statements were prepared by the Department of Treasury Board and Finance in accordance with section 3(5) of the Act.

ALBERTA HERITAGE FOUNDATION

FOR MEDICAL RESEARCH ENDOWMENT FUND

Financial Statements

March 31, 2014

Table of Contents

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Foundation for Medical Research Endowment Fund, which comprise the statement of financial position as at March 31, 2014, and the statements of operations and accumulated surplus, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Foundation for Medical Research Endowment Fund as at March 31, 2014, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 4, 2014

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2014

	($ thousands)	
	2014	**2013**
Financial assets		
Investments (Note 3)	$ 1,569,306	$ 1,436,338
Liabilities		
Payable from purchase of investments	-	154
	-	154
Net financial assets (Note 5)		
Accumulated surplus from operations	1,364,186	1,282,905
Accumulated remeasurement gains	205,120	153,279
	1,569,306	1,436,184
	$ 1,569,306	$ 1,436,338

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2014

	($ thousands)		
	2014		2013
	Budget	Actual	Actual
Investment income (Note 6)	$ 111,318	$ 181,237	$ 119,397
Investment expenses (Note 7)	(9,118)	(13,567)	(12,481)
Net income from operations	102,200	167,670	106,916
Transfers for health research and innovation (Note 5b)	(86,389)	(86,389)	(79,050)
Net operating surplus	$ 15,811	81,281	27,866
Accumulated operating surplus at beginning of year		1,282,905	1,255,039
Accumulated operating surplus at end of year		$ 1,364,186	$ 1,282,905

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2014

	($ thousands)	
	2014	2013
Accumulated remeasurement gains, beginning of year	$ 153,279	$ -
Accumulated remeasurement gains upon adoption of PS3450, April 1, 2012	-	109,042
Unrealized gain on investments	74,901	64,539
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(23,060)	(20,302)
Accumulated remeasurement gains, end of year	$ 205,120	$ 153,279

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2014

	($ thousands)	
	2014	**2013**
Operating transactions		
Net income from operations	$ 167,670	$ 106,916
Non-cash items included in net income	(23,060)	(20,302)
	144,610	86,614
Decrease in accounts receivable	-	3,000
Decrease in accounts payable	(154)	(898)
Cash provided by operating transactions	144,456	88,716
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	262,828	401,048
Purchase of investments	(321,928)	(414,309)
Cash applied to investing transactions	(59,100)	(13,261)
Transfers		
Transfers for health research and innovation	(86,389)	(79,050)
Cash applied to transfers	(86,389)	(79,050)
Decrease in cash	(1,033)	(3,595)
Cash at beginning of year	8,355	11,950
Cash at end of year	$ 7,322	$ 8,355
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 7,322	$ 8,355

* The CCITF is a highly-liquid, short term money market pooled fund consisting primarily (90%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2014
(all dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Foundation for Medical Research Endowment Fund (the Fund) operates under the authority of the *Alberta Research and Innovation Act*, Chapter A-31.7, Statutes of Alberta 2009 (the Act).

The purpose of the Fund is to support a balanced long-term program of research and innovation related to health and directed to the discovery of new knowledge and the application of that knowledge to improve health and the quality of health services in Alberta. The Fund is managed with the objectives of providing an annual level of income for transfer to the Ministry of Health. The portfolio is comprised of interest-bearing securities, equities, inflation sensitive and alternative investments.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards.

The accounting policies of significance to the Fund are as follows:

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 9/89, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Fund reports its share of the financial risks in the notes to the financial statements.

The fair value of units held by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo. Investments in units are recorded in the Fund's accounts. The underlying financial instruments are in the accounts of the pools. The pools have a market-based unit value that is used to allocate income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units of the pools are managed and evaluated on a fair value basis. As such, all investments are designated and recorded in the financial statements at fair value.

Investments in units are recorded in the Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

b) INVESTMENT INCOME

i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the statement of operations and accumulated surplus (see Note 6). Income distributions are based on the Fund's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis.

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts, including transaction costs, incurred by the Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis.

ii) Other expenses related to the direct administration of the Fund are charged to the Fund on an accrual basis.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess of the fair value of the pool units at year-end over the cost of the pool units. Changes in accumulated remeasurement gains are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains during the year include unrealized increases and decreases in fair value of the pooled units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in net income on the statement of operations and accumulated surplus.

e) MEASUREMENT UNCERTAINTY

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, infrastructure, private debt and loans, private real estate, hedge funds,

timberland investments, and other investments where no readily available market exists. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the value that would have been used had a ready market existed for these investments.

NOTE 3 INVESTMENTS (in thousands)

The carrying amounts of the Fund's investments are recorded on a fair value basis. The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the President of Treasury Board and Minister of Finance. The fair value of pool units is based on the Fund's share of the net asset value of the pooled fund. Pooled investment funds have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated the authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

	Fair Value Hierarchy [a]				
Asset class	Level 1	Level 2	Level 3	**2014**	**2013**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 7,322	$ -	$ 7,322	$ 8,355
Bonds, mortgages and private debt	-	197,961	99,875	297,836	276,117
	-	205,283	99,875	305,158	284,472
Equities					
Canadian	79,960	48,101	-	128,061	112,718
Global developed	313,015	84,272	161,846	559,133	504,213
Emerging markets	55,291	7,441	9,798	72,530	77,836
Private	-	-	89,501	89,501	56,623
	448,266	139,814	261,145	849,225	751,390
Inflation sensitive					
Real estate	-	-	257,826	257,826	230,194
Infrastructure	-	-	128,436	128,436	121,739
Timberland	-	-	28,661	28,661	21,794
Private debt and loan	-	-	-	-	26,749
	-	-	414,923	414,923	400,476
Total Fair Value of Investments	$448,266	$345,097	$775,943	$ 1,569,306	$ 1,436,338

a) **Fair Value Hierarchy**: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $448,266 (2013: $424,809).

NOTE 3 INVESTMENTS (in thousands) CONTINUED

- ***Level 2*** - fair value is estimated using valuation methods that use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $345,097 (2013: $337,780). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $775,943 (2013: $673,749).

Reconciliation of Level 3 Investments

	2014	2013
Balance, beginning of period	$ 673,749	$ 591,192
Unrealized gains	54,310	30,882
Purchases of Level 3 pooled fund units	133,074	248,632
Sale of Level 3 pooled fund units	(85,190)	(196,957)
Balance, end of period	$ 775,943	$ 673,749

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Private debt and loans is valued similar to private mortgages. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. The fair value of directly held loans is estimated by management based on the present value of discounted cash flows.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.

- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands)

The Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Fund are clearly outlined in SIP&G approved by the Ministry of Treasury Board and Finance. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Treasury Board and Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

In order to earn the best possible return at an acceptable level of risk, the Minister approved the following long-term asset mix policy ranges:

Asset Class	Target Asset Policy	Actual Asset Mix 2014		Actual Asset Mix 2013	
Interest-bearing securities	15 - 45%	$ 305,157	19.5%	$ 284,472	19.8%
Equities	35 - 70%	849,225	54.1%	751,390	52.3%
Inflation sensitive	15 - 40%	414,924	26.4%	400,476	27.9%
		$ 1,569,306	100.0%	$ 1,436,338	100.0%

a) Credit risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in pooled investment funds managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The following table summarizes debt securities by counterparty credit rating at March 31, 2014:

Credit rating	2014	2013
Investment Grade (AAA to BBB-)	75.3%	73.4%
Speculative Grade (BB+ or lower)	0.3%	1.7%
Unrated	24.4%	24.9%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. At March 31, 2014, the Fund's share of securities loaned under this program is $29,666 and collateral held totals $31,160. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in pooled investment funds that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 44% of the Fund's investments, or $686 million, are denominated in currencies other that the Canadian dollar, with the largest foreign currency exposure being to the US dollar (23%) and the euro (5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 4.4% of total investments (2013: 4.2%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2014:

	($ millions)			
	2014		**2013**	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 366	$ (37)	$ 321	$ (32)
Euro	76	(8)	56	(6)
Japanese yen	41	(4)	43	(4)
British pound sterling	53	(5)	43	(4)
Australian dollar	17	(2)	16	(2)
Swiss franc	21	(2)	18	(2)
Other foreign currency	112	(11)	112	(11)
Total foreign currency investments	$ 686	$ (69)	$ 609	$ (61)

c) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 0.8% of total investments (2013: 1.1%)

d) Price risk

Price risk relates to the possibility that units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 5.7% of total investments (2013: 6.3%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's future liabilities include annual transfer requirements to the Ministry of Health and payables related to purchase of units.

f) Use of derivative financial instruments in pooled investment funds

The Fund has indirect exposure to derivative financial instruments through its investment in units of pooled investment funds. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in pooled funds, manage asset exposure within the pooled funds, enhance pooled fund returns and manage interest rate risk, foreign currency risk and credit risk in the pooled funds.

		Fund's Indirect Share	
By counterparty	Number of counterparties	**2014**	**2013**
Contracts in favourable position (current credit exposure)	26	$ 8,789	$ 11,743
Contracts in unfavourable position	19	(7,291)	(6,729)
Net fair value of derivative contracts	45	$ 1,498	$ 5,014

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $8,789 (2013: $11,743) were to default at once.
ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.
iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not changed the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the Statement of Financial Position.

	Fund's Indirect Share	
Types of derivatives	**2014**	**2013**
Structured equity replication	$ 7,855	$ 8,595
Foreign currency derivatives	(6,581)	(4,218)
Interest rate derivatives	491	1,024
Credit risk derivatives	(267)	(387)
Net fair value of derivative contracts	$ 1,498	$ 5,014

i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.
ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.
iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.
iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount

in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

v) Deposits: At March 31, 2014 deposits in futures contracts margin accounts totalled $8,035 (2013: $2,295) and deposits as collateral for derivative contracts totalled $1,607 (2013: $1,878).

NOTE 5 NET FINANCIAL ASSETS (in thousands)

Net financial assets represent the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows the accumulated investment income and transfers to and from the Fund since its inception in 1980:

	Cumulative since 1980	
	2014	**2013**
Accumulated net income from operations	$ 2,080,575	$ 1,912,905
Transfers from the Alberta Heritage Savings Trust Fund [(a)]	300,000	300,000
Transfers from the General Revenue Fund	500,000	500,000
Accumulated transfers for medical research and innovation [(b)]	(1,516,389)	(1,430,000)
Accumulated surplus from operations	1,364,186	1,282,905
Accumulated remeasurement gains	205,120	153,279
Carrying value of net financial assets	$ 1,569,306	$ 1,436,184

(a) The endowment was received from the Alberta Heritage Savings Trust Fund on March 31, 1980.

(b) Section 12 of the Act limits the annual payments from the Fund to the Ministry of Health. Payments to the Ministry of Health may not exceed, in a fiscal year, 4.5% of the average of the market values determined on March 31 of the preceding three fiscal years, and any unused portion of the amount permitted to be paid in that fiscal year may be paid in any subsequent fiscal year. Payments in excess of this amount may be made from the Fund if required in the opinion of the Minister of Health.

NOTE 6 NET INVESTMENT INCOME (in thousands)

The following is a summary of the Fund's investment income by asset class:

	2014	**2013**
Interest-bearing securities	$ 12,875	$ 19,762
Equities		
Canadian	13,279	6,929
Global	130,427	59,799
Private	6,526	6,292
	150,232	73,020
Inflation sensitive		
Real estate	17,093	20,500
Infrastructure	(1,661)	3,643
Timberland	1,971	(483)
Private debt and loan	727	2,955
	18,130	26,615
	$ 181,237	$ 119,397

Investment income includes realized gains and losses from disposal of pool units and income distributions from the pools.

Income distributions from the pools is based on income earned by the pools determined on an accrual basis which includes interest, dividends, security lending income, realized gains and losses on sale of securities held by the pools, realized foreign exchange gains and losses, writedowns of securities held in the pools and income and expense earned on derivative contracts. Realized gains and losses are determined on an average cost basis. Impairment charges related to the writedown of securities held in the pools are indicative of a loss in value that is other than temporary.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2014	2013
Amount charged by:		
AIMCo[(a)]	$ 13,519	$ 12,433
Alberta Treasury Board & Finance[(b)]	48	48
Total investment expenses	$ 13,567	$ 12,481
Increase in expenses	8.7%	53.0%
Increase in average investments under management	7.4%	3.4%
Investment expenses as a percent of:		
Dollar earned	7.49%	10.45%
Dollar invested	0.90%	0.89%

(a) For investment management services. Please refer to AIMCo's financial statements for a detailed breakdown of expenses.

(b) For investment accounting and Fund reporting services.

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

			Average Annualized Return	
Time-weighted rates of return, at fair value [(a)]	2014	2013	5 years	10 years
Estimated return [(b)]	15.9%	11.6%	12.9%	7.2%
Estimated policy benchmark return [(b)]	16.1%	10.2%	11.8%	6.9%
Value added (lost) by investment manager [(c)]	-0.2%	1.4%	1.1%	0.3%

(a) The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) Investment returns are provided by AIMCo. The overall return and benchmark is based on investment returns and benchmarks for each asset class. Investment returns for assets classified as real estate, private equities, infrastructure, hedge funds and private debt are based on estimates of fair value. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable

market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period.

(c) In the SIP&G, the Ministry of Treasury Board and Finance expects that the investments held by the Fund will return approximately 100 basis points, or 1%, per annum above the policy benchmark.

NOTE 9 FINANCIAL STATEMENTS

These statements were prepared by the Department of Treasury Board and Finance in accordance with section 11(6) of the Act.

ALBERTA HERITAGE SAVINGS TRUST FUND

Financial Statements

March 31, 2014

Table of Contents

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Savings Trust Fund, which comprise the statement of financial position as at March 31, 2014, and the statements of operations and accumulated surplus, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Savings Trust Fund as at March 31, 2014, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 4, 2014

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2014
(in millions)

	2014	2013
Financial assets		
Investments (Note 3)	$ 17,656	$ 17,156
Accrued income	11	13
	$ 17,667	$ 17,169
Liabilities		
Due to the General Revenue Fund	$ 147	$ 385
Payable from purchase of investments	-	5
	147	390
Net financial assets (Note 5)		
Accumulated operating surplus	15,006	14,813
Accumulated remeasurement gains	2,514	1,966
	17,520	16,779
	$ 17,667	$ 17,169

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2014
(in millions)

	2014		2013
	Budget	**Actual**	**Actual**
Investment income (Note 6)	$ 1,368	$ 2,272	$ 1,464
Investment expenses (Note 7)	(111)	(163)	(148)
Net income from operations	1,257	2,109	1,316
Transfers to the General Revenue Fund (Note 5b)	(960)	(1,916)	(1,155)
Net surplus retained in the Fund for inflation-proofing (Note 5b)	$ 297	193	161
Accumulated operating surplus, beginning of year		14,813	14,652
Accumulated operating surplus, end of year		$ 15,006	$ 14,813

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2014
(in millions)

	2014	2013
Accumulated remeasurement gains, beginning of year	$ 1,966	$ -
Accumulated remeasurement gains upon adoption of PS3450, April 1, 2012	-	1,440
Unrealized gain on investments	903	791
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(355)	(265)
Accumulated remeasurement gains, end of year	$ 2,514	$ 1,966

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2014
(in millions)

	2014	2013
Operating transactions		
Net income from operations	$ 2,109	$ 1,316
Non-cash items included in net income	(355)	(265)
	1,754	1,051
Decrease in accounts receivable	2	-
Decrease in accounts payable	(5)	(27)
Cash provided by operating transactions	1,751	1,024
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	3,759	4,804
Purchase of investments	(3,357)	(4,769)
Cash provided by investing transactions	402	35
Transfers		
Transfers to the General Revenue Fund	(1,916)	(1,155)
(Decrease) increase in amounts due to the General Revenue Fund	(238)	41
Cash used in transfers	(2,154)	(1,114)
Decrease in cash	(1)	(55)
Cash at beginning of year	44	99
Cash at end of year	$ 43	$ 44
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 43	$ 44

* The CCITF is a highly-liquid, short-term money market pooled fund consisting primarily (90%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2014
(in millions)

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust Fund (the Fund) operates under the authority of the *Alberta Heritage Savings Trust Fund Act*, Chapter A-23, Revised Statutes of Alberta 2000 (the Act), as amended.

The preamble to the Act describes the mission of the Fund as follows:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The financial statements are prepared in accordance with Canadian public sector accounting standards.

The accounting policies of significance to the Fund are as follows:

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 9/89, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Fund reports its share of the financial risks in Note 4.

The fair value of units held by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units of the pools are managed and evaluated on a fair value basis. As such, all investments are designated and recorded in the financial statements at fair value.

Investments in units are recorded in the Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

b) INVESTMENT INCOME

i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the statement of operations and accumulated surplus (see Note 6). Income distributions are based on the Fund's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability.

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts, including transaction costs, incurred by the Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis.

ii) Other expenses related to the direct administration of the Fund are charged to the Fund on an accrual basis.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess of the fair value of the pool units at year-end over the cost of the pool units. Changes in accumulated remeasurement gains and losses are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains and losses during the year include unrealized increases and decreases in fair value of the pooled units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in net income on the statement of operations and accumulated surplus.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING.... CONTINUED

e) MEASUREMENT UNCERTAINTY

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, infrastructure, private debt and loans, private real estate, hedge funds, timberland investments, and other investments where no readily available market exists. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the value that would have been used had a ready market existed for these investments.

NOTE 3 INVESTMENTS (in millions)

The carrying amounts of the Fund's investments are recorded on a fair value basis. The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the of President of Treasury Board and Minister of Finance. The fair value of the pool units is based on the Fund's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of the pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

	Fair Value Hierarchy [a]				
Asset class	Level 1	Level 2	Level 3	**2014**	**2013**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 43	$ -	$ 43	$ 44
Bonds, mortgages and private debt	-	2,118	1,151	3,269	3,422
	-	2,161	1,151	3,312	3,466
Equities					
Canadian	896	539	-	1,435	1,356
Global developed	3,369	918	1,776	6,063	5,792
Emerging markets	632	85	116	833	890
Private	-	-	1,260	1,260	1,099
	4,897	1,542	3,152	9,591	9,137
Inflation sensitive					
Real estate	-	-	3,257	3,257	2,928
Infrastructure	-	-	1,109	1,109	1,026
Timberland	-	-	387	387	294
Private debt and loan	-	-	-	-	305
	-	-	4,753	4,753	4,553
Total Fair Value of Investments	$ 4,897	$ 3,703	$ 9,056	$ 17,656	$ 17,156

a) **Fair Value Hierarchy**: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $4,897 (2013: $4,964).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $3,703 (2013: $4,094). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $9,056 (2013: $8,098).

Reconciliation of Level 3 Investments

	2014	2013
Balance, beginning of year	$ 8,098	$ 7,144
Unrealized gains	637	375
Purchases of Level 3 pooled fund units	1,363	2,978
Sale of Level 3 pooled fund units	(1,042)	(2,399)
Balance, end of year	$ 9,056	$ 8,098

b) **Valuation of Financial Instruments recorded by AIMCo in the Pools**
The methods used by AIMCo to determine the fair value of investments recorded in the pools is explained in the following paragraphs**:**

- ***Interest-bearing securities***: Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages. The fair value of directly held loans is estimated by management based on the present value of discounted cash flows.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for private equities may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis***.***

NOTE 3 INVESTMENTS (in millions) CONTINUED

- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions)

The Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Fund are clearly outlined in the SIP&G approved by the Ministry of Treasury Board and Finance. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Treasury Board and Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

In order to earn the best possible return at an acceptable level of risk, the Minister has approved the following target policy asset mix:

Asset Class	Target Asset Policy	Actual Asset Mix 2014		Actual Asset Mix 2013	
Interest-bearing securities	15 - 45%	$ 3,312	18.8%	$ 3,466	20.2%
Equities	35 - 70%	9,591	54.3%	9,137	53.3%
Inflation sensitive	15 - 40%	4,753	26.9%	4,553	26.5%
		$ 17,656	100.0%	$ 17,156	100.0%

a) Credit Risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes debt securities by counterparty credit rating at March 31, 2014:

Credit rating	2014	2013
Investment Grade (AAA to BBB-)	70.3%	71.1%
Speculative Grade (BB+ or lower)	0.3%	1.7%
Unrated	29.4%	27.2%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions) CONTINUED

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2014, the Fund's share of securities loaned under this program is $320 million and collateral held totals $336 million. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 44% of the Fund's investments, or $7,790 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (24%) and the euro (5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 4.4% of total investments (2013: 4.3%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2014:

	2014		2013	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 4,171	$ (417)	$ 3,899	$ (390)
Euro	886	(89)	724	(72)
British pound sterling	600	(60)	541	(54)
Japanese yen	461	(46)	526	(53)
Swiss franc	234	(23)	221	(22)
Australian dollar	193	(19)	200	(20)
Other foreign currency	1,245	(125)	1,280	(128)
Total foreign currency investments	$ 7,790	$ (779)	$ 7,391	$ (739)

c) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 0.8% of total investments (2013: 1.1%).

d) Price risk

Price risk relates to the possibility that units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 5.8% of total investments (2013: 6.4%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's main liabilities include transfers payable to the General Revenue Fund and payables related to purchase of units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Fund's Indirect Share	
By counterparty	Number of counterparties	**2014**	**2013**
Contracts in favourable position (current credit exposure)	27	$ 98	$ 146
Contracts in unfavourable position	18	(72)	(68)
Net fair value of derivative contracts	45	$ 26	$ 78

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $98 (2013: $146) were to default at once.
ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.
iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the Statement of Financial Position.

	Fund's Indirect Share	
Types of derivatives used in pools	**2014**	**2013**
Structured equity replication derivatives	$ 91	$ 100
Foreign currency derivatives	(66)	(30)
Interest rate derivatives	4	13
Credit risk derivatives	(3)	(5)
Net fair value of derivative contracts	$ 26	$ 78

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions) CONTINUED

i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

v) Deposits: At March 31, 2014 deposits in futures contracts margin accounts totalled $91 (2013: $27) and deposits as collateral for derivative contracts totalled $17 (2013: $21).

NOTE 5 NET FINANCIAL ASSETS (in millions)

Net financial assets represent the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows accumulated net income and transfers to (from) the Fund since the Fund was created on May 19, 1976:

	Cumulative since 1976	
	2014	**2013**
Accumulated net income	$ 35,529	$ 33,420
Transfers to the Fund		
Resource Revenue (1976-1987)	12,049	12,049
Access to the Future [(a)]	1,000	1,000
Voted Payments	2,918	2,918
	15,967	15,967
Transfers (from) the Fund		
Section 8(2) transfers [(b)]		
Income	(35,734)	(33,625)
Amount Retained for Inflation-proofing	2,730	2,537
	(33,004)	(31,088)
Capital Expenditures (1976-1995) [(c)]	(3,486)	(3,486)
	(36,490)	(34,574)
Accumulated surplus from operations	15,006	14,813
Accumulated remeasurement gains	2,514	1,966
Carrying value of net financial assets	$ 17,520	$ 16,779

(a) Section 9.1 of the *Alberta Heritage Savings Trust Fund Act* (the Act) and Section 4(5) of the *Access to the Future Act* provides that up to $3 billion may be transferred from the GRF to the Fund.

(b) During the year, the Fund earned net income of $2,109 million of which, $193 million was retained in the Fund for inflation proofing and $1,916 million is payable to the General Revenue Fund. Section 8(2) of the Act states that the net income of the Heritage Fund less any amount retained in the Fund to maintain its value, in accordance with section 11(1), shall be transferred to the GRF annually in a manner determined by the Ministry of Treasury Board and Finance. If the income of the Fund is less than that required to be retained, then the income, if any, shall be retained in the Fund. The estimated amount retained from income of the Fund is determined by multiplying the total equity of the Fund before the amount retained for inflation-proofing by the estimated percentage increase in the Canadian gross domestic product implicit price index (GDP Deflator Index) for the year. In accordance with section 11(3), if the GDP Deflator Index is a negative number, that negative number shall be treated as if it were zero.

(c) Capital expenditures include transfers of $300 million to the Alberta Heritage Foundation for Medical Research in 1980 and $100 million to the Alberta Heritage Scholarship Fund in 1981.

NOTE 6 INVESTMENT INCOME (in millions)

The following is a summary of the Fund's investment income (loss) by asset class:

	2014	2013
Interest-bearing securities	$ 171	$ 254
Equities		
Canadian	170	89
Global	1,587	715
Private	88	104
	1,845	908
Inflation sensitive		
Real estate	232	259
Infrastructure	(19)	16
Timberland	27	(7)
Private debt and loan	16	34
	256	302
	$ 2,272	$ 1,464

The investment income includes realized gains and losses from disposal of pool units and income distributions from the pools.

Income distributions from the pools is based on income earned by the pools determined on an accrual basis which includes interest, dividends, security lending income, realized gains and losses on sale of securities held by the pools, realized foreign exchange gains and losses, writedowns of securities held in the pools and income and expense earned on derivative contracts. The cost of securities disposed of in the pools is determined on an average cost basis. Impairment charges related to the writedown of securities held in the pools are indicative of a loss in value that is other than temporary.

NOTE 7 INVESTMENT EXPENSES (in millions)

	2014	2013
Amount charged by:		
AIMCo [(a)]	$ 163	$ 148
Increase in expenses	10.1%	49.5%
Increase in average investments under management	3.6%	5.4%
Investment expense as a percent of:		
Dollar earned	7.17%	10.11%
Dollar invested	0.94%	0.88%

(a) For investment management services. Please refer to AIMCo's financial statements for a detailed breakdown of expenses.

Includes $138 thousand (2013: $137 thousand) charged to the Fund by Alberta Treasury Board and Finance for investment accounting and reporting services, and $51 thousand (2013: $50 thousand) paid to the International Forum of Sovereign Wealth Funds for membership.

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

			Average Annualized Return	
Time-weighted rates of return, at fair value [a]	2014	2013	5 years	10 years
Estimated return [b]	16.0%	11.6%	12.7%	7.5%
Estimated policy benchmark return [b]	16.0%	10.1%	11.5%	7.1%
Value added by investment manager [c]	0.0%	1.5%	1.2%	0.4%

[a] The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

[b] Investment returns are provided by AIMCo. The overall return and benchmark is based on investment returns and benchmarks for each asset class. Investment returns for assets classified as real estate, private equities, infrastructure, hedge funds and private debt are based on estimates of fair value. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period.

[c] In the SIP&G, the Ministry of Treasury Board and Finance expects that the investments held by the Fund will return approximately 100 basis points, or 1% per annum, above the policy benchmark.

NOTE 9 FINANCIAL STATEMENTS

These statements were prepared by the Department of Treasury Board and Finance in accordance with section 15(1) of the Act.

ALBERTA HERITAGE SCHOLARSHIP FUND

Financial Statements

March 31, 2014

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Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Scholarship Fund, which comprise the statement of financial position as at March 31, 2014, and the statements of operations and accumulated surplus, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Scholarship Fund as at March 31, 2014, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 4, 2014

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2014

	($ thousands)	
	2014	**2013**
Financial assets		
Investments (Note 3)	$ 907,059	$ 819,923
	$ 907,059	$ 819,923
Liabilities		
Payable from purchase of investments	$ -	$ 192
Net financial assets (Note 5)		
Accumulated surplus from operations	798,061	737,375
Accumulated remeasurement gains	108,998	82,356
	907,059	819,731
	$ 907,059	$ 819,923

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2014

	($ thousands)		
	2014		2013
	Budget	Actual	Actual
Investment income (Note 6)	$ 59,546	$ 104,797	$ 66,018
Investment expenses (Note 7)	(4,446)	(7,009)	(6,547)
Net income from operations	55,100	97,788	59,471
Transfers from Alberta Government departments	-	122	-
Other contributions	90	192	48
Transfers for Scholarships to the Ministries of:			
Innovation and Advanced Education	(36,243)	(37,361)	(37,568)
Culture and Community Spirit	(80)	(55)	(58)
	(36,323)	(37,416)	(37,626)
Net surplus	$ 18,867	60,686	21,893
Accumulated operating surplus, beginning of year		737,375	715,482
Accumulated operating surplus, end of year		$ 798,061	$ 737,375

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2014

	($ thousands)	
	2014	2013
Accumulated remeasurement gains, beginning of year	$ 82,356	$ -
Accumulated remeasurement gains upon adoption of PS3450, April 1, 2012	-	54,094
Unrealized gain on investments	38,828	39,242
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(12,186)	(10,980)
Accumulated remeasurement gains, end of year	$ 108,998	$ 82,356

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2014

	($ thousands)	
	2014	**2013**
Operating transactions		
Net income from operations	$ 97,788	$ 59,471
Non-cash items included in net income	(12,186)	(10,980)
	85,602	48,491
Decrease in accounts payable	(192)	(1,815)
Cash provided by operating transactions	85,410	46,676
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	125,934	227,744
Purchase of investments	(173,400)	(239,247)
Cash applied to investing transactions	(47,466)	(11,503)
Transfers		
Transfers from Alberta Government departments	122	-
Other contributions	192	48
Transfers for Scholarships	(37,416)	(37,626)
Cash applied to transfers	(37,102)	(37,578)
Increase (decrease) in cash	842	(2,405)
Cash at beginning of year	4,372	6,777
Cash at end of year	$ 5,214	$ 4,372
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 5,214	$ 4,372

* The CCITF is a highly-liquid, short-term money market pooled fund consisting primarily (90%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2014
(all dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Scholarship Fund ("the Fund") operates under the authority of the *Alberta Heritage Scholarship Act,* Chapter A24, Revised Statutes of Alberta 2000 (the Act).

The purpose of the Fund is to invest the endowment made to the Fund. The Fund is managed with the objectives of providing an annual level of income for scholarships while preserving the capital of the endowment over the long term. The portfolio is comprised of high quality interest-bearing securities, equities, inflation sensitive and alternative investments.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The financial statements are prepared in accordance with Canadian public sector accounting standards.

The accounting policies of significance to the Fund are as follows:

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 9/89, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Fund reports its share of the financial risks in Note 4.

The fair value of units held by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to pool participants and to value purchases and sales of pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units of the pools are managed and evaluated on a fair value basis. As such, all investments are designated and recorded in the financial statements at fair value.

Investments in units are recorded in the Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

b) INVESTMENT INCOME

i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the statement of operations and accumulated surplus (see Note 6). Income distributions are based on the Fund's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis.

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts, including transaction costs, incurred by the Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis.

ii) Other expenses related to the direct administration of the Fund are charged to the Fund on an accrual basis.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess of the fair value of the pool units at year-end over the cost of the pool units. Changes in accumulated remeasurement gains are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains during the year include unrealized increases and decreases in fair value of the pooled units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in net income on the statement of operations and accumulated surplus.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

e) MEASUREMENT UNCERTAINTY

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, infrastructure, private debt and loans, private real estate, hedge funds, timberland investments, and other investments where no readily available market exists. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the value that would have been used had a ready market existed for these investments.

NOTE 3 INVESTMENTS (in thousands)

The carrying amounts of the Fund's investments are recorded on a fair value basis. The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the President of Treasury Board and Minister of Finance. The fair value of the pool units is based on the Fund's share of the net asset value of the pool. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of the pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

	Fair Value Hierarchy [a]				
Asset class	Level 1	Level 2	Level 3	**2014**	**2013**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 5,214	$ -	$ 5,214	$ 4,372
Bonds, mortgages and private debt	-	137,648	45,878	183,526	172,153
	-	142,862	45,878	188,740	176,525
Equities					
Canadian	46,066	27,712	-	73,778	63,293
Global developed	191,642	51,291	86,177	329,110	299,095
Emerging markets	31,746	4,272	5,566	41,584	46,367
Private	-	-	59,319	59,319	34,654
	269,454	83,275	151,062	503,791	443,409
Inflation sensitive					
Real estate	-	-	140,357	140,357	125,353
Infrastructure	-	-	70,155	70,155	66,572
Timberland	-	-	4,016	4,016	3,054
Private debt and loan	-	-	-	-	5,010
	-	-	214,528	214,528	199,989
Total Fair Value of Investments	$ 269,454	$ 226,137	$ 411,468	$ 907,059	$ 819,923

a) **Fair Value Hierarchy**: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $269,454 (2013: $257,935).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $226,137 (2013: $211,005). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $411,468 (2013: $350,983).

Reconciliation of Level 3 Fair Value Measurements

	2014	2013
Balance, beginning of year	$ 350,983	$ 305,784
Unrealized gains	27,227	18,466
Purchases of Level 3 pooled fund units	73,524	135,465
Sale of Level 3 pooled fund units	(40,266)	(108,732)
Balance, end of year	$ 411,468	$ 350,983

b) **Valuation of Financial Instruments recorded by AIMCo in the Pools**
The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Private debt and loans is valued similar to private mortgages. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. The fair value of directly held loans is estimated by management based on the present value of discounted cash flows.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

NOTE 3 INVESTMENTS (in thousands) CONTINUED

- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands)

The Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Fund are clearly outlined in the SIP&G approved by the Ministry of Treasury Board and Finance. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Treasury Board and Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

In order to earn the best possible return at an acceptable level of risk, the Minister has approved the following target policy asset mix:

Asset Class	Target Asset Policy	Actual Asset Mix 2014		Actual Asset Mix 2013	
Interest-bearing securities	15 - 45%	$ 188,740	20.8%	$ 176,525	21.5%
Equities	35 - 70%	503,791	55.5%	443,409	54.1%
Inflation sensitive	15 - 40%	214,528	23.7%	199,989	24.4%
		$ 907,059	100.0%	$ 819,923	100.0%

a) Credit Risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes debt securities by counterparty credit rating at March 31, 2014:

Credit rating	2014	2013
Investment Grade (AAA to BBB-)	81.5%	78.4%
Speculative Grade (BB+ or lower)	0.3%	1.9%
Unrated	18.2%	19.7%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2014, the Fund's share of securities loaned under this program is $18 million and collateral held totals $19 million. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 45% of the Fund's investments, or $410 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (24%) and the euro (5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 4.5% of total investments (2013: 4.4%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2014:

	($ millions)			
	2014		**2013**	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 220	$ (22)	$ 190	$ (19)
Euro	46	(5)	33	(3)
British pound sterling	31	(3)	26	(3)
Japanese yen	24	(2)	25	(2)
Swiss franc	13	(1)	11	(1)
Australian dollar	10	(1)	10	(1)
Other foreign currency	66	(7)	68	(7)
Total foreign currency investments	$ 410	$ (41)	$ 363	$ (36)

c) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.0% of total investments (2013: 1.2%).

d) Price risk

Price risk relates to the possibility that units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 5.8% of total investments (2013: 6.1%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's main liabilities include annual scholarships and payables related to purchase of units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Fund's Indirect Share	
By counterparty	Number of counterparties	**2014**	**2013**
Contracts in favourable position (current credit exposure)	27	$ 5,244	$ 7,223
Contracts in unfavourable position	18	(3,615)	(4,127)
Net fair value of derivative contracts	45	$ 1,629	$ 3,096

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $5,244 (2013: $7,223) were to default at once.
ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.
iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the Statement of Financial Position.

	Fund's Indirect Share	
Types of derivatives	**2014**	**2013**
Structured equity replication derivatives	$ 4,367	$ 5,245
Foreign currency derivatives	(2,949)	(2,587)
Interest rate derivatives	380	689
Credit risk derivatives	(169)	(251)
Net fair value of derivative contracts	$ 1,629	$ 3,096

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

v) Deposits: At March 31, 2014 deposits in futures contracts margin accounts totalled $4,839 (2013: $1,338) and deposits as collateral for derivative contracts totalled $949 (2013: $1,147).

NOTE 5 NET FINANCIAL ASSETS (in thousands)

Net financial assets represents the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows the accumulated investment income and transfers to (from) the Fund since its inception in 1981:

	Cumulative since 1981	
	2014	**2013**
Accumulated net income from operations	$ 779,682	$ 681,894
Transfers from the Alberta Heritage Savings Trust Fund [(a)]	100,000	100,000
Transfers from the General Revenue Fund [(b)]	497,000	497,000
Other contributions	20,794	20,480
Accumulated scholarship payments [(a)]	(599,415)	(561,999)
Accumulated surplus from operations	798,061	737,375
Accumulated net remeasurement gains	108,998	82,356
Carrying value of net financial assets	$ 907,059	$ 819,731

(a) The endowment was received from the Alberta Heritage Savings Trust Fund on June 18, 1981. *The Alberta Heritage Scholarship Act* (the Act) provides that money required by the Students Finance Board for providing scholarships, or for paying for the costs of administering scholarship, shall be paid from the Fund, but no portion of the original endowment may be paid out of the Fund.

(b) In accordance with section 2.1 of the Act, transfers from the GRF include $270 million on account of the *Access to the Future Act*. Section 7 of the *Access to the Future Act* states that the Alberta Heritage Scholarship Fund shall be increased by $1 billion, in amounts considered appropriate by the Minister of Finance.

NOTE 6 INVESTMENT INCOME (in thousands)

The following is a summary of the Fund's investment income by asset class:

	2014	2013
Interest-bearing securities	$ 8,164	$ 11,929
Equities		
Canadian	7,499	4,467
Global	78,596	34,113
Private	892	1,990
	86,987	40,570
Inflation sensitive		
Real estate	9,055	11,289
Infrastructure	53	1,744
Timberland	276	(68)
Private debt and loan	262	554
	9,646	13,519
	$ 104,797	$ 66,018

Investment income includes realized gains and losses from disposal of pool units and income distributions from the pools.

Income distributions from the pools is based on income earned by the pools determined on an accrual basis which includes interest, dividends, security lending income, realized gains and losses on sale of securities held by the pools, realized foreign exchange gains and losses, writedowns of securities held in the pools and income and expense earned on derivative contracts. Realized gains and losses are determined on an average cost basis. Impairment charges related to the writedown of securities held in the pools are indicative of a loss in value that is other than temporary.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2014	2013
Amount charged by:		
AIMCo [(a)]	$ 6,960	$ 6,498
Alberta Treasury Board and Finance [(b)]	49	49
Total investment expenses	$ 7,009	$ 6,547
Increase in expenses	7.1%	55.3%
Increase in average investments under management	8.5%	4.2%
Investment expense as a percent of:		
Dollar earned	6.7%	9.92%
Dollar invested	0.81%	0.82%

(a) For investment management services. Please refer to AIMCo's financial statements for a detailed breakdown of expenses.

(b) For investment accounting and Fund reporting services.

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

			Average Annualized Return	
Time-weighted rates of return, at fair value [a]	2014	2013	5 years	10 years
Estimated return [b]	15.5%	11.7%	13.3%	7.6%
Estimated policy benchmark return [b]	16.1%	10.0%	12.2%	7.3%
Value (lost) added by investment manager[c]	-0.6%	1.7%	1.1%	0.3%

(a) The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified year and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) Investment returns are provided by AIMCo. The overall return and benchmark is based on investment returns and benchmarks for each asset class. Investment returns for assets classified as real estate, private equities, infrastructure, hedge funds and private debt are based on estimates of fair value. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period.

(c) In the SIP&G, the Ministry of Treasury Board and Finance expects that the investments held by the Fund will return approximately 100 basis points, or 1% per annum, above the policy benchmark.

NOTE 9 FINANCIAL STATEMENTS

These statements were prepared by the Department of Treasury Board and Finance in accordance with section 2(5) of the Act.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Financial Statements

March 31, 2014

Table of Contents

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Science and Engineering Research Endowment Fund, which comprise the statement of financial position as at March 31, 2014, and the statements of operations and accumulated surplus, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Science and Engineering Research Endowment Fund as at March 31, 2014, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 4, 2014

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2014

	($ thousands)	
	2014	**2013**
Financial assets		
Investments (Note 3)	$ 912,173	$ 826,382
Liabilities		
Payable from purchase of investments	$ -	$ 72
Net financial assets (Note 5)		
Accumulated surplus from operations	795,981	739,740
Accumulated remeasurement gains	116,192	86,570
	912,173	826,310
	$ 912,173	$ 826,382

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2014

	($ thousands)		
	2014		2013
	Budget	Actual	Actual
Investment income (Note 6)	$ 63,051	$ 106,519	$ 68,175
Investment expense (Note 7)	(5,151)	(7,778)	(7,112)
Net income from operations	57,900	98,741	61,063
Transfers to the Ministry of Innovation and Advanced Education (Note 5b)	(42,500)	(42,500)	(42,500)
Net operating surplus	$ 15,400	56,241	18,563
Accumulated operating surplus at beginning of year		739,740	721,177
Accumulated operating surplus at end of year		$ 795,981	$ 739,740

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2014

	($ thousands)	
	2014	2013
Accumulated remeasurement gains, beginning of year	$ 86,570	$ -
Accumulated remeasurement gains upon adoption of PS3450, April 1, 2012		60,668
Unrealized gain on investments	42,713	37,225
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(13,091)	(11,323)
Accumulated remeasurement gains, end of year	$ 116,192	$ 86,570

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2014

	($ thousands)	
	2014	**2013**
Operating transactions		
Net income from operations	$ 98,741	$ 61,063
Non-cash items included in net income	(13,091)	(11,323)
	85,650	49,740
Decrease in accounts receivable	-	2,000
Decrease in accounts payable	(72)	(524)
Cash provided by operating transactions	85,578	51,216
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	140,414	225,602
Purchase of investments	(183,839)	(235,854)
Cash applied to investing transactions	(43,425)	(10,252)
Transfers		
Transfers to the Ministry of Innovation and Advanced Education	(42,500)	(42,500)
Cash applied to transfers	(42,500)	(42,500)
Decrease in cash	(347)	(1,536)
Cash at beginning of year	5,014	6,550
Cash at end of year	$ 4,667	$ 5,014
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 4,667	$ 5,014

* The CCITF is a highly-liquid, short term money market pooled fund consisting primarily (90%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2014

(all dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Science and Engineering Research Endowment Fund (the Fund) operates under the authority of the *Alberta Research and Innovation Act*, Chapter A-31.7, Statutes of Alberta 2009 (the Act).

The purpose of the Fund is to support a balanced long-term program of research and innovation directed to the discovery of new knowledge and the application of that knowledge to the commercialization of technology. The Fund has been managed with the objectives of providing an annual level of income for transfer to the Ministry of Innovation and Advanced Education. The portfolio is comprised of interest-bearing securities, equities, inflation sensitive and alternative investments.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards.

The accounting policies of significance to the Fund are as follows:

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 9/89, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Fund reports its share of the financial risks in Note 4.

The fair value of units held by the Fund is based on the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to pool participants and to value purchases and sales of pool units. The

pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units of the pools are managed and evaluated on a fair value basis. As such, all investments are designated and recorded in the financial statements at fair value.

Investments in units are recorded in the Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

b) INVESTMENT INCOME

i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the statement of operations and accumulated surplus (see Note 6). Income distributions are based on the Fund's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis.

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts, including transaction costs, incurred by the Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis.

ii) Other expenses related to the direct administration of the Fund are charged to the Fund on an accrual basis.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess of the fair value of the pool units at year-end over the cost of the pool units. Changes in accumulated remeasurement gains are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains during the year include unrealized increases and decreases in fair value of the pooled units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in net income on the statement of operations and accumulated surplus.

e) MEASUREMENT UNCERTAINTY

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, infrastructure, private debt and loans, private real estate, hedge funds, timberland investments, and other investments where no readily available market exists. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the value that would have been used had a ready market existed for these investments.

NOTE 3 INVESTMENTS (in thousands)

The carrying amounts of the Fund's investments are recorded on a fair value basis. The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the President of Treasury Board and Minister of Finance. The fair value of the pool units is based on the Fund's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of the pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

	Fair Value Hierarchy [a]				
Asset class	Level 1	Level 2	Level 3	**2014**	**2013**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 4,667	$ -	$ 4,667	$ 5,014
Bonds. mortgages and private debt	-	119,201	56,476	175,677	160,849
	-	123,868	56,476	180,344	165,863
Equities					
Canadian	46,381	27,901	-	74,282	64,676
Global developed	189,075	50,644	91,693	331,412	295,592
Emerging markets	31,981	4,304	5,616	41,901	44,736
Private	-	-	50,540	50,540	30,024
	267,437	82,849	147,849	498,135	435,028
Inflation sensitive					
Real estate	-	-	145,798	145,798	130,342
Infrastructure	-	-	70,670	70,670	66,985
Timberland	-	-	17,226	17,226	13,099
Private debt and loan	-	-	-	-	15,065
	-	-	233,694	233,694	225,491
Total Fair Value of Investments	$267,437	$206,717	$438,019	$ 912,173	$ 826,382

NOTE 3 INVESTMENTS (in thousands) CONTINUED

a) **Fair Value Hierarchy**: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $267,437 (2013: $249,824).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $206,717 (2013: $198,650). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $438,019 (2013: $377,908).

Reconciliation of Level 3 Investments

	2014	2013
Balance, beginning of year	$ 377,908	$ 330,745
Unrealized gains	30,867	17,281
Purchases of Level 3 pooled fund units	77,110	142,143
Sale of Level 3 pooled fund units	(47,866)	(112,261)
Balance, end of year	**$ 438,019**	**$ 377,908**

b) **Valuation of Financial Instruments recorded by AIMCo in the Pools**
The methods used by AIMCo to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Private debt and loans is valued similar to private mortgages. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. The fair value of directly held loans is estimated by management based on the present value of discounted cash flows.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands)

The Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Fund are clearly outlined in the SIP&G approved by the Ministry of Treasury Board and Finance. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Treasury Board and Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

In order to earn the best possible return at an acceptable level of risk, the Minister has approved the following target policy asset mix:

Asset Class	Target Asset Policy	Actual Asset Mix 2014		Actual Asset Mix 2013	
Interest-bearing securities	15 - 45%	$ 180,344	19.8%	$ 165,863	20.1%
Equities	35 - 70%	498,135	54.6%	435,028	52.6%
Inflation sensitive	15 - 40%	233,694	25.6%	225,491	27.3%
		$ 912,173	100.0%	$ 826,382	100.0%

a) Credit Risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes debt securities by counterparty credit rating at March 31, 2014:

Credit rating	2014	2013
Investment Grade (AAA to BBB-)	76.4%	74.2%
Speculative Grade (BB+ or lower)	0.3%	1.8%
Unrated	23.3%	24.0%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2014, the Fund's share of securities loaned under this program is $17,689 and collateral held totals $18,580. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 44% of the Fund's investments, or $405 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (24%) and the euro (5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 4.4% of total investments (2013: 4.3%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2014:

	($ millions)			
	2014		**2013**	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 217	$ (22)	$ 186	$ (19)
Euro	45	(5)	33	(3)
Japanese yen	24	(2)	25	(2)
British pound sterling	31	(3)	25	(3)
Australian dollar	11	(1)	10	(1)
Swiss franc	12	(1)	11	(1)
Other foreign currency	65	(6)	64	(6)
Total foreign currency investments	$ 405	$ (40)	$ 354	$ (35)

c) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 0.9% of total investments (2013: 1.1%).

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

d) Price risk

Price risk relates to the possibility that units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 5.8% of total investments (2013: 6.3%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's future liabilities include transfers to the Ministry of Innovation and Advanced Education and payables for related to purchase of units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pooled fund returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Fund's Indirect Share	
By counterparty	Number of counterparties	**2014**	**2013**
Contracts in favourable position (current credit exposure)	26	$ 5,144	$ 6,916
Contracts in unfavourable position	19	(4,213)	(3,843)
Net fair value of derivative contracts	45	$ 931	$ 3,073

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $5,144 (2013: $6,916) were to default at once.
ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.
iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not changed the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the Statement of Financial Position.

Types of derivatives	Fund's Indirect Share 2014	Fund's Indirect Share 2013
Structured equity replication derivatives	$ 4,483	$ 5,048
Foreign currency derivatives	(3,694)	(2,349)
Interest rate derivatives	299	602
Credit risk derivatives	(157)	(228)
Net fair value of derivative contracts	$ 931	$ 3,073

i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.
ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.
iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.
iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.
v) Deposits: At March 31, 2014 deposits in futures contracts margin accounts totalled $4,775 (2013: $1,299) and deposits as collateral for derivative contracts totalled $911 (2013: $1,095).

NOTE 5 NET FINANCIAL ASSETS (in thousands)

Net financial assets represents the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows the accumulated investment income and transfers to and from the Fund since its inception in 2000:

	Cumulative since 2000 2014	Cumulative since 2000 2013
Accumulated net income from operations	$ 402,537	$ 303,796
Transfers from the General Revenue Fund [(a)]	721,430	721,430
Accumulated transfers for research and innovation [(b)]	(327,986)	(285,486)
Accumulated surplus from operations	795,981	739,740
Accumulated net remeasurement gains	116,192	86,570
Carrying value of net financial assets	$ 912,173	$ 826,310

(a) The total accumulated contributions from the GRF include an initial amount of $500 million deposited during the 2000-2001 fiscal year and $21.43 million during the 2003-2004 fiscal year. Additionally, pursuant to Section 8 of the *Access to the Future Act*, $100 million was transferred from the GRF during the 2005-2006 fiscal year and $100 million was transferred from the GRF during the 2006-2007 fiscal year. Under the *Access to the Future Act*, the Fund shall be increased by $500 million in amounts considered appropriate by the Minister of Finance.

(b) In accordance with section 12 of the *Alberta Research and Innovation Act* (the Act), the Minister of Finance must, at the request of the Minister of Innovation and Advanced Education (IAE), pay from the Endowment Fund to IAE, money that, in the opinion of the Alberta Research and Innovation Authority is required by IAE for the furtherance of its objectives. Section 12 of the Act limits annual payments from the Fund to IAE. Payments to IAE may not exceed, in a fiscal year, 4.5% of the average of the market values determined on March 31 of the preceding three fiscal years, and any unused portion of the amount permitted to be paid in that fiscal year may be paid in any subsequent fiscal year.

	2014
Accumulated unused spending limit at March 31, 2013	$ 8,169
4.5% of average market value on March 31, 2011-13	35,651
Spending limit for year ended March 31, 2014	43,820
Transfers to IAE during 2013-14	(42,500)
Accumulated unused spending limit at March 31, 2014	1,320
4.5% of average market value on March 31, 2012-14	37,805
Spending limit for year ended March 31, 2015	$ 39,125

NOTE 6 INVESTMENT INCOME (in thousands)

The following is a summary of the Fund's investment income by asset class:

	2014	2013
Interest-bearing securities	$ 7,254	$ 11,392
Equities		
Canadian	7,638	3,959
Global	77,192	34,549
Private	3,704	3,315
	88,534	41,823
Inflation sensitive		
Real estate	9,679	11,601
Infrastructure	(920)	1,985
Timberland	1,185	(290)
Private debt and loan	787	1,664
	10,731	14,960
	$ 106,519	$ 68,175

The investment income includes realized gains and losses from disposal of pool units and income distributions from the pools.

Income distributions from the pools is based on income earned by the pools determined on an accrual basis which includes interest, dividends, security lending income, realized gains and losses on sale of securities held by the pools, realized foreign exchange gains and losses, writedowns of securities held in the pools and income and expense earned on derivative contracts. Realized gains and losses are determined on an average cost basis. Impairment charges related to the writedown of securities held in the pools are indicative of a loss in value that is other than temporary.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2014	2013
Amount charged by:		
AIMCo[a]	$ 7,729	$ 7,063
Alberta Treasury Board & Finance[b]	49	49
Total investment expenses	$ 7,778	$ 7,112
Increase in expenses	9.4%	52.7%
Increase in average investments under management	8.2%	3.7%
Investment expenses as a percent of:		
Dollar earned	7.3%	10.4%
Dollar invested	0.89%	0.89%

(a) For investment management services. Please refer to AIMCo's financial statements for a detailed breakdown of expenses.

(b) For investment accounting and Fund reporting services.

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

Time-weighted rates of return, at fair value [a]			**Average Annualized Return**	
	2014	**2013**	**5 years**	**10 years**
Estimated return [b]	16.0%	11.6%	12.8%	7.0%
Estimated policy benchmark return [b]	16.1%	10.1%	11.7%	6.7%
Value added (lost) by investment manager	-0.1%	1.5%	1.1%	0.3%

(a) The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) Investment returns are provided by AIMCo. The overall return and benchmark is based on investment returns and benchmarks for each asset class. Investment returns for assets classified as real estate, private equities, infrastructure, hedge funds and private debt are based on estimates of fair value. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period.

(c) In the SIP&G , the Ministry of Treasury Board and Finance expects that the investments held by the Fund will return approximately 100 basis points or 1% per annum above the policy benchmark.

NOTE 9 FINANCIAL STATEMENTS

These statements were prepared by the Department of Treasury Board and Finance in accordance with section 11(6) of the Act.

ALBERTA LOTTERY FUND

Financial Statements

Year Ended March 31, 2014

Independent Auditor's Report

To the Members of the Alberta Gaming and Liquor Commission

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Lottery Fund which comprise the balance sheet as at March 31, 2014, and the statements of revenue, expenditure and fund equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Lottery Fund as at March 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

May 28, 2014

Edmonton, Alberta

Balance Sheet

At March 31

(thousands of dollars)	2014	2013
ASSETS		
Cash and cash equivalents (Note 3)	$ 3,093	$ 131,115
Due from Alberta Gaming and Liquor Commission (Note 5)	84,547	93,585
	$ 87,640	$ 224,700
LIABILITIES AND FUND EQUITY		
Accounts payable (Note 6)	$ 34,865	$ 171,925
Fund equity	52,775	52,775
	$ 87,640	$ 224,700

The accompanying notes are part of these financial statements.

Approved by:

BOARD

[original signed by]

Thorna Lawrence, CA
Board Member
Alberta Gaming and Liquor Commission

MANAGEMENT

[original signed by]

D. W. (Bill) Robinson
President and Chief Executive Officer
Alberta Gaming and Liquor Commission

Statement of Revenue, Expenditure and Fund Equity

For the year ended March 31

(thousands of dollars)	Budget 2014 (Note 8)	Actual 2014	Actual 2013
REVENUE			
Proceeds from lottery operations (Note 7)	$ 1,483,671	$ 1,484,457	$ 1,485,205
Interest	2,000	4,442	4,164
	1,485,671	1,488,899	1,489,369
EXPENDITURE			
Lottery Fund expenditures (Note 1)	1,485,671	1,488,899	1,489,369
Excess of revenue over expenditure for the year	-	-	-
Fund equity, beginning of year	52,775	52,775	52,775
Fund equity, end of year	$ 52,775	$ 52,775	$ 52,775

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2014

NOTE 1 AUTHORITY AND PURPOSE

The Lottery Fund is administered by the Alberta Gaming and Liquor Commission under the *Gaming and Liquor Act*, Chapter G-1, Revised Statutes of Alberta 2000. The Lottery Fund receives the proceeds from lottery operations (see Note 7) and makes transfers therefrom in the public interest in order to support thousands of volunteer, public and community-based initiatives.

The *Appropriation Act, 2013* authorized transfers from the Lottery Fund as presented in the 2013-2014 Estimates, and provided for flexibility in the amount allocated from the Lottery Fund to the General Revenue Fund so that the net balance of the Lottery Fund would be zero at the year ended March 31, 2014.

The transfer of funds to certain programs is based on electronic gaming proceeds generated at related gaming facilities, in accordance with government policy direction. For these programs, the amount transferred may differ from the budgeted amount.

The accountability and utilization of Lottery Fund amounts transferred to entities within the Government of Alberta may be determined and confirmed by referencing the respective entity's financial statements.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards.

Cash Flows

A statement of cash flows is not provided as disclosure in these financial statements is considered to be adequate.

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable and accounts payable are estimated to approximate their carrying values because of the short term nature of these instruments.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high quality, short-term and mid-term fixed income securities with a maximum term-to-maturity of three years. For the year ended March 31, 2014, securities held by the Fund had a time-weighted return of 1.17% per annum (March 31, 2013: 1.25% per annum). Due to the short-term nature of CCITF investments, the carrying value approximates fair value.

NOTE 4 RELATED PARTY TRANSACTIONS

Related parties are those consolidated or accounted for on the modified equity basis in the Province of Alberta's financial statements.

All the transactions, except for interest revenue, of the Lottery Fund are considered related party transactions.

NOTE 5 DUE FROM THE ALBERTA GAMING AND LIQUOR COMMISSION

This amount represents the portion of net operating results from provincial lotteries which has not been transferred by the Alberta Gaming and Liquor Commission (AGLC) to the Alberta Lottery Fund at year end.

(thousands of dollars)	2014	2013
Due from AGLC, beginning of year	$ 93,585	$ 100,451
Proceeds from provincial lotteries	1,484,457	1,485,205
Transfers from AGLC	(1,493,495)	(1,492,071)
Due from AGLC, end of year	$ 84,547	$ 93,585

NOTE 6 ACCOUNTS PAYABLE

Accounts payable consists primarily of outstanding payments to the Department of Treasury Board and Finance.

NOTE 7 PROCEEDS FROM PROVINCIAL LOTTERIES

Proceeds from provincial lotteries received by the Alberta Gaming and Liquor Commission are recorded as revenue of the Lottery Fund after the deduction of related operating expenses.

(thousands of dollars)	2014	2013
Income from casino gaming terminals	$ 857,510	$ 873,835
Income from video lottery terminals	514,610	484,451
Income from ticket lottery	338,310	324,614
Income from electronic bingo	7,752	8,390
Less operating expenses	(233,725)	(206,085)
Proceeds from provincial lotteries	$ 1,484,457	$ 1,485,205

NOTE 8 BUDGET

The 2014 budgeted expenditures were authorized in total by the *Appropriation Act, 2013* on April 29, 2013.

ALBERTA RISK MANAGEMENT FUND

Financial Statements

Year Ended March 31, 2014

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Risk Management Fund, which comprise the statement of financial position as at March 31, 2014, and the statements of operations, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Risk Management Fund as at March 31, 2014, and the results of its operations, remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 4, 2014

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2014

	($ thousands)	
	2014	**2013**
		(Restated Note 3)
Assets		
Cash (Note 4)	$ 6,171	$ 8,867
Investments (Note 4)	46,494	45,458
Receivable from Province of Alberta	13	196
Accrued recoveries (Note 6)	356	488
Computer software	50	101
	53,084	55,110
Liabilities		
Accounts payable (Note 7)	1,461	1,254
Liability for accrued claims (Note 8)	40,044	37,027
	41,505	38,281
Net assets		
Accumulated surplus from operations	12,321	16,825
Accumulated remeasurement gains	(742)	4
	11,579	16,829
	$ 53,084	$ 55,110

Statement of Operations

Year Ended March 31, 2014

	($ thousands)		
	2014		2013
	Budget	Actual	Actual
Revenues			(Restated
Insurance services			Note 3)
Province of Alberta departments, funds and agencies	$ 16,170	$ 16,603	$ 17,900
Other entities	1,280	645	590
Subrogation and salvage	300	195	674
Recoveries	-	3,093	4,732
Investment income	1,380	1,983	938
	19,130	22,519	24,834
Expenses			
Insurance claims (Note 9)	14,956	20,782	13,755
Insurance premiums to insurers	3,600	3,707	3,464
Administration	1,659	1,584	1,565
Investment expenses	-	40	9
Other services	825	860	801
Amortization of computer software	40	50	50
	21,080	27,023	19,644
Net revenue (expense)	$ (1,950)	(4,504)	5,190
Accumulated surplus at beginning of year		16,825	11,635
Accumulated surplus at end of year		$ 12,321	$ 16,825

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2014

	($ thousands)	
	2014	2013
Accumulated remeasurement gains, beginning of year	$ 4	$ -
Unrealized gains (losses) on investments	(746)	4
Accumulated remeasurement gains (losses), end of year	$ (742)	$ 4

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2014

	($ thousands)	
	2014	**2013**
Operating transactions		
Net revenue	$ (4,504)	$ 5,190
Amortization of tangible capital assets	51	50
Decrease in accrued recoveries	132	63
Decrease (increase) in receivables	183	(42)
Increase in payables	207	277
Increase in liabilities for accrued claims	3,017	6,483
Cash provided by operating transactions	(914)	12,021
Investing transactions		
Purchase of investments	(1,782)	(45,454)
Cash applied to investing transactions	(1,782)	(45,454)
(Decrease) increase in cash	(2,696)	(33,433)
Cash and cash equivalents, beginning of year	8,867	42,300
Cash and cash equivalents, end of year	$ 6,171	$ 8,867
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 4)	$ 6,171	$ 8,867

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2014

(All dollar amounts in thousands, unless otherwise stated)

NOTE 1 AUTHORITY, PURPOSE AND FINANCIAL STRUCTURE

The Alberta Risk Management Fund (the Fund) operates under the authority of the *Financial Administration Act,* Chapter F-12, Revised Statutes of Alberta 2000.

The Fund provides risk management and insurance services to government departments, funds and agencies, members of the Legislative Assembly and others by assuming general and automobile liability and the risk of losses due to automobile physical damage, property damage and crime in exchange for premiums related to the level of risk assumed.

In the ordinary course of business, the Fund insures certain risks for the purpose of limiting its exposure to large or unusual risks. As such, the Fund enters into excess of loss contracts with only the most credit-worthy insurance companies and is required to pay for all losses up to certain predetermined amounts. The insurance companies compensate the Fund for any losses above the agreed predetermined amounts.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards.

The accounting policies of significance to the Fund are as follows:

a) Claims provisions, including provisions for claims incurred but not reported, are based on estimates made by management. The provisions are adjusted in the period when more experience is acquired and as additional information is obtained.

b) In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

   Measurement uncertainty that is material in these financial statements exists in the estimation of the Fund's liability for accrued claims. Uncertainty arises because the Fund's actual loss experience may differ, perhaps significantly, from assumptions used in the estimation of the Fund's liability for accrued claims. (see Note 7b).

   Liability for accrued claims, recorded as $40.0 million (2013: $37.0 million) in these financial statements, is subject to measurement uncertainty. This is because the ultimate disposition of claims incurred prior to the financial statement date is subject to the outcome of events that have not yet occurred, and any estimate of future costs has inherent limitations due to management's limited ability to predict precisely the aggregate course of future events. Based on an actuarial sensitivity analysis, an estimate of claim liabilities at the high end of a reasonable range is $52.6 million as at March 31, 2014 or $12.3 million higher than the recognized amount. It is possible that

actual claims could be even higher than this other probable amount (see Note 7b). While best estimates have been used in reporting the Fund's liability for accrued claims, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements. Differences between actual results and expectations are adjusted in the period when the actual loss values are known.

c) The fair values of cash, accounts receivable from Province of Alberta, accrued recoveries, accounts payable and liability for accrued claims are estimated to approximate their book values.

d) Computer software is recorded at cost. The threshold for capitalizing software is $100 where there is a useful life in excess of one year. Amortization is calculated on a straight line of 4 years.

e) All revenues are reported using the accrual method of accounting.

f) The Fund's investment portfolio is recorded at fair value (see Note 4). Investments are recognized on a trade date basis.

g) Investment expenses include all amounts including transaction costs charged to the Fund's investment manager, AIMCo. Investment expenses are recognized on an accrual basis.

h) Accumulated remeasurement gains are unrealized and represent the difference between the fair value and the cost of investments. Changes in accumulated remeasurement gains are recognized in the statement of remeasurement gains. When investments are disposed of (derecognized), any accumulated unrealized loss associated with the investment becomes realized and is included in the net income on the statement of operations.

NOTE 3 RESTATEMENT OF PRIOR YEAR

The prior year has been restated for $2,000 as a subrogated claim, that will have no net impact to the Fund, was reported as an accrued recovery in error. An insurer of the Fund is pursuing the subrogation; however, the Fund has settled the claim and does not have any further net recovery. As a result of the restatement, the prior year accrued recoveries has been reduced from $2,488 to $488, accumulated surplus at beginning of year from $13,635 to $11,635 and accumulated surplus at end of year from $18,825 to $16,825.

NOTE 4 CASH AND INVESTMENTS

	($ thousands)	
	2014	**2013**
Cash		
Deposits in the Consolidation Cash Investment Trust Fund [(a)]	$ 6,171	$ 8,867
Investments		
Deposits in the Consolidation Cash Investment Trust Fund [(a)]	$ 4	$ 4
General Revenue Short-Term Bond Fund	46,490	45,454
Total investments [(b) (c)]	$ 46,494	$ 45,458

a) Consolidated Cash Investment Trust Fund (CCITF): The CCITF is managed by AIMCo with the objective of providing competitive interest income to depositors while

NOTE 4 CASH AND INVESTMENTS CONTINUED

maintaining maximum security and liquidity of depositor's capital. The CCITF is a pool that is comprised of short-term and mid-term fixed income securities with a maximum term-to-maturity of three years. As at March 31, 2014, securities held by the CCITF have a time-weighted return of 1.2% (2013: 1.3%).

b) Statement of Investment Policies and Goals (SIP&G): The SIP&G establishes the framework set by the President of Treasury Board and Minister of Finance for the investments of the Fund, including the responsibilities of the Fund's investment manager, Alberta Investment Management Corporation (AIMCo). According to the SIP&G, amounts invested in the Fund that are not expected to be shortly reallocated from the Fund are to be invested in the actively managed short-term bonds. The fair value of units held in the General Revenue Short-Term Bond Pool (the GRST pool) is based on the Fund's interest in the asset value of the pool. The GRST pool has a market-based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the GRST pool.

c) Fair Value Hierarchy: Investments are classified as Level 2 for purposes of the fair value hierarchy. The fair value hierarchy classifies the quality and reliability of information used to estimate the fair value of investments into three levels with level 1 being the highest quality and reliability. For the level 2 classification, the fair value is estimated using valuation techniques that use market-observable inputs other than quoted market prices. For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

NOTE 5 INVESTMENT RISK MANAGEMENT

The Fund is exposed to financial risks associated with the underlying investments held in the GRST pool. These financial risks include credit risk, interest rate risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Interest rate risk is the risk that the value of investments will decrease as market interest rates rise. Liquidity risk is the risk that the Fund will encounter difficulty in meeting its insurance claim obligations as they fall due. The Fund minimizes its liquidity risk by monitoring the level of cash available to meets its obligations and by maintaining a portfolio of investments that is highly liquid.

The investment policies and procedures of the Fund are clearly outlined in the SIP&G. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk.

a) CREDIT RISK

The Fund is exposed to credit risk associated with the underlying debt securities held in the GRST pool. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the Fund. The credit quality of financial assets is generally assessed by reference to external credit ratings. The fair value of all investments reported in Note 4 is directly or indirectly impacted by credit risk to some degree.

The table below summarizes debt securities by counterparty credit rating at March 31, 2014:

Credit rating	2014	2013
Investment Grade (AAA to BBB-)	100.0%	98.2%
Speculative Grade (BB+ or lower)	0.0%	0.0%
Unrated	0.0%	1.8%
	100.0%	100.0%

b) SECURITY LENDING RISK

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2014, the Fund's share of securities loaned under this program is $5.3 million and collateral held totals $5.6 million. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of the investments loaned.

c) INTEREST RATE RISK

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the GRST pool. Interest rate risk relates to the possibility that the fair value of bonds will change in fair value due to future fluctuations in market interest rates. In general, investment returns from bonds are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and if, all other variables were held constant, the potential loss in fair value to the Fund would be approximately 2.7% of total investments (2013: 2.5%).

NOTE 6 ACCRUED RECOVERIES

Accrued recoveries represent management's best estimates of amounts that will be recovered for subrogation or salvage. All amounts are considered to be good and recoverable when due.

NOTE 7 ACCOUNTS PAYABLE

	($ thousands)	
	2014	**2013**
Payable to Department of Treasury Board and Finance	$ 80	$ 381
Other	1,381	873
	$ 1,461	$ 1,254

NOTE 8 LIABILITY FOR ACCRUED CLAIMS

The total liability for accrued claims of $40,044(2013: $37,027) is comprised of outstanding claims case reserves and incurred but not reported (IBNR) losses.

NOTE 8 LIABILITY FOR ACCRUED CLAIMS CONTINUED

a) OUTSTANDING CLAIMS CASE RESERVES

Liability for outstanding claims case reserves represents management's best estimates of outstanding losses and related claims expenses which have been reported but not yet closed, net of participant deductibles and recoveries, if any. The amount reflects management's best estimate of the ultimate cost of settlement after consultation with legal counsel if required.

b) INCURRED BUT NOT REPORTED (IBNR) LOSSES

Liability for IBNR losses is an estimate of liabilities for claims that have been incurred but not yet reported. In addition to a provision for claims that have occurred but are not yet reported, the amount includes a provision for development of outstanding case reserves, a provision for reopened claims, and a provision for claims that have been reported but amounts not assessed.

The actuarial estimate of total liability for accrued claims includes case reserves for reported claims as well as an estimate to provide for both development on case reserves and incurred but not reported losses. The actuarial estimate adjusts for the portion of individual large claims that are ceded to third party insurers.

An actuarial review of the Fund's total liability for accrued claims at March 31, 2014 was carried out by KPMG LLP taking into account the historical claims through March 31, 2014.

The actuarial review was determined using generally accepted actuarial practices in Canada, including the selection of appropriate assumptions and methods. The assumptions used were developed based on the actuary's best estimates of the Fund's expected loss experience. After consultation with the Fund's actuary, management approved these best estimates.

The major assumptions used were:

	2014	2013
Trend rate		
General liability	5.0%	7.0%
Automobile liability	2.0%	3.0%
Property	0.0%	0.0%
Auto physical damage	3.0%	6.0%
Crime	3.0%	3.0%
Loss development factor		
Based on the Fund's historical experience supplemented by insurance industry experience compiled by Insurance Bureau of Canada		
Selected loss rate		
General liability: *Loss per person (Alberta population)*	$ 1.15	$ 1.10
Automobile liability: *Loss per vehicle*	$ 105	$ 90
Property: *Loss per $million property values*	$ 400	$ 370
Auto physical damage: *Loss per vehicle*	$ 200	$ 200
Crime: *Loss per class A and B employee*	$ 30	$ 30

The following is a summary of the impact of various sensitivity tests on the Fund's net liability at March 31, 2014:

Sensitivity Tests	Increase in Net Liabilities ($ million)
Increase the confidence level of the liability for accrued claims estimate to 90% from 50%.	$ 8.1
Increase the loss development factor assumption by changing the tail factor (time period to final claim settlement) to between 1.01 and 1.10 depending on coverage type, and increasing the trend factor assumption to between 8% and 20%, depending on coverage type.	$ 12.3
Statistical analysis of general liability loss development factors instead of judgmentally selecting loss development factors.	$ 10.7

NOTE 9 INSURANCE CLAIMS

	($ thousands)	
	2014	**2013**
Total claims payments during the year	$ 17,765	$ 7,272
Change in claims reserves	3,017	6,483
	$ 20,782	$ 13,755

NOTE 10 CONTRACTUAL OBLIGATIONS

The aggregate amounts payable for the unexpired terms of contractual obligations in respect of contracts entered into before March 31, 2014 are as follows:

	($ thousands)
2014-15	337
2015-16	337
2016-17	182
2017-18	69
2018-19	69
	$ 994

NOTE 11 RELATED PARTY TRANSACTIONS

As disclosed in the financial statements, the Fund has revenues from the Province of Alberta departments, funds, and agencies of $16,603 (2013: $17,900) and an accounts payable to the Department of Treasury Board and Finance of $80 (2013: $381).

NOTE 12 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the senior financial officer and the deputy minister of Treasury Board and Finance.

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PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

Financial Statements

Year Ended March 31, 2014

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Provincial Judges and Masters in Chambers Reserve Fund, which comprise the statement of financial position as at March 31, 2014, and the statement of changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Provincial Judges and Masters in Chambers Reserve Fund as at March 31, 2014, and the changes in its net assets for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 4, 2014

Edmonton, Alberta

Statement of Financial Position

As at March 31

	($ thousands)	
	2014	**2013**
Assets		
Investments (Note 3)	$ 133,699	$ 111,237
Receivable from the Province of Alberta	-	1,090
	133,699	112,327
Liabilities		
Amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Note 8)	133,699	112,327
Net Assets	$ -	$ -

Statement of Changes in Net Assets

Year Ended March 31

	($ thousands)	
	2014	**2013**
Increase in assets		
Employer contributions	$ 7,568	$ 6,470
Investment income (Note 5)	16,879	10,037
	24,447	16,507
Decrease in assets		-
Investment expenses (Note 7)	475	274
Transfers to Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	2,600	-
	3,075	274
Increase in amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	(21,372)	(16,233)
Change in net assets for the year	-	-
Net assets, beginning of year	-	-
Net assets, end of year	**$ -**	**$ -**

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2014
(all dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

The Provincial Judges and Masters in Chambers Reserve Fund (Reserve Fund) operates under the authority of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and the Provincial Judges and Masters in Chambers Reserve Fund Directive *(Treasury Board Directive 03-01)*

The Reserve Fund is established to collect contributions from the Province of Alberta and to invest the funds, which are reserved to meet future benefit payments of the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Unregistered Plan). The Unregistered Plan is established to provide additional pension benefits to Provincial Judges and Masters in Chambers whose pensionable earnings are in excess of the *maximum benefit accrual limit* as set out in the federal *Income Tax Act*.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF ASSETS AND LIABILITIES

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 9/89, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Fund reports its share of the financial risks in Note 4.

The fair value of units held by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units are recorded in the Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

Investment income includes the following:

i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the statement of changes in net assets (see Note 5). Income distributions are based on the Fund's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of units and unrealized gains and losses on units are recorded in the Fund's accounts and included in investment income on the statement of changes in net assets. Realized gains and losses on disposal of units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts, including transaction costs, incurred by the Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis.

e) LIABILITIES

Accrued liabilities of the Reserve Fund are funded by investment income and contributions from the Province of Alberta.

As at March 31, 2014, current service contributions rates are 31.10% of the pensionable earnings of Provincial Judges and Masters in Chambers that were in excess of the *maximum pensionable salary limit.* The rate was determined by the Unregistered Plan's actuary and approved by the President of Treasury Board and Minister of Finance.

The current service costs funded by the Province to the Reserve Fund are contributed at a rate of 31.10% of excess pensionable salary. In addition, annual payments by the Province to the Reserve Fund of $1,784 (in 2013 annual payment was retroactively adjusted to $1,784) were made towards the unfunded liability of the Unregistered Plan.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

These amounts represent assets held by the Reserve Fund, which are available to meet future benefit payments of the Unregistered Plan over the long term.

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Fund's private investments, hedge funds and private real estate investments. Uncertainty arises because the estimated fair values of the Fund's private investments, hedge funds and private real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Fund's private investments, hedge funds and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

NOTE 3 INVESTMENTS

The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) for the Reserve Fund and the Unregistered Plan approved by the Judges' Pension Plans Investment Committee. The fair value of the pool units is based on the Fund's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

($ thousands)

Asset class	Fair Value Hierarchy [a] Level 1	Level 2	Level 3	2014	2013
Interest-bearing securities					
Deposits and short-term securities	$ -	$ 16,799	$ -	$ 16,799	$ 14,267
Bonds and mortgages	-	39,748	2,279	42,027	35,128
	-	56,547	2,279	58,826	49,395
Public equity					
Canadian	13,705	8,245	-	21,950	18,097
Global developed	30,977	7,410	8,853	47,240	38,627
	44,682	15,655	8,853	69,190	56,724
Alternatives					
Real estate	-	-	3,863	3,863	3,174
Real return bonds	-	-	-	-	283
Infrastructure	-	-	1,820	1,820	1,661
	-	-	5,683	5,683	5,118
Total investments	$ 44,682	$ 72,202	$ 16,815	$ 133,699	$ 111,237

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $44,682 (2013: $39,591).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $72,202 (2013: $61,107). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and certain alternative investments totalling $16,815 (2013: $10,539).

*** Reconciliation of Level 3 Fair Value Measurement**

($ thousands)

	2014	2013
Balance, beginning of year	$ 10,539	$ 9,827
Investment income	1,443	1,247
Purchases of Level 3 pooled fund units	6,458	3,455
Sale of Level 3 pooled fund units	(1,625)	(3,990)
Balance, end of year	$ 16,815	$ 10,539

NOTE 3 INVESTMENTS CONTINUED

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Public equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers.
- ***Alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. Real return bonds are valued similar to public interest bearing securities. Infrastructure investments are valued similar to private equity investments. Private debt and loans is valued similar to private mortgages.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised

of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Fund are clearly outlined in the SIP&G approved by the Judges' Pension Plans Investment Committee. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Investment Committee manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Fund are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Ministry has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2014 ($ thousands)	2014 %	2013 ($ thousands)	2013 %
Interest-bearing securities	43 - 53%	$ 58,826	44.0	$ 49,395	44.4
Public equities	40 - 55%	69,190	51.7	56,724	51.0
Alternatives	0 - 10%	5,683	4.3	5,118	4.6
		$ 133,699	100.0	$ 111,237	100.0

a) Credit Risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The following table summarizes the Fund's investment in debt securities by counterparty credit rating at March 31, 2014:

Credit rating	2014	2013
Investment Grade (AAA to BBB-)	95.1%	95.4%
Speculative Grade (BB+ or lower)	0.4%	2.0%
Unrated	4.5%	2.6%
	100.0%	100.0%

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2014, The Fund's share of securities loaned under this program is $3.8 million and collateral held totals $4.0 million. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 34% of the Fund's investments, or $45 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (19%) and the Euro (5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Fund would be approximately 3.4% (2013: 3.2%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2014:

	($ millions)			
	2014		2013	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 26	$ (2.6)	$ 20	$ (2.0)
Euro	6	(0.6)	4	(0.4)
Japanese yen	3	(0.3)	3	(0.3)
British pound	4	(0.4)	3	(0.3)
Australian dollar	2	(0.2)	1	(0.1)
Swiss franc	1	(0.1)	1	(0.1)
Other foreign currencies	3	(0.3)	3	(0.3)
Total foreign currency investments	$ 45	$ (4.5)	$ 35	$ (3.5)

c) Interest Rate Risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the Fund would be approximately 1.9% (2013: 2.0%) of total investments.

d) Price Risk

Price risk relates to the possibility that units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Fund would be approximately 5.1% (2013: 4.9%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, employee and employer contributions, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's main liabilities include transfers payable to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan and payables related to the purchase of units.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	**2014**	**2013**
Contracts in favourable position (current credit exposure)	28	$ 747	$ 1,200
Contracts in unfavourable position	15	(390)	(429)
Net fair value of derivative contracts	43	$ 357	$ 771

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $747 (2013: $1,200) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 4. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	**2014**	**2013**
Structured equity replication derivatives	$ 289	$ 617
Foreign currency derivatives	(37)	(30)
Interest rate derivatives	130	249
Credit risk derivatives	(25)	(65)
Net fair value of derivative contracts	$ 357	$ 771

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At March 31, 2014 deposits in futures contracts margin accounts totalled $659 (2013: $402) and deposits as collateral for derivative contracts totalled $1 (2013: $120).

NOTE 5 INVESTMENT INCOME

The following is a summary of the Fund's investment income (loss) by asset class:

	($ thousands)	
	2014	**2013**
Interest-bearing securities	$ 1,333	$ 2,650
Public equities		
Canadian	3,553	1,542
Foreign	11,509	5,287
	15,062	6,829
Alternatives		
Real estate	435	420
Real return bonds	(28)	10
Infrastructure	77	128
	484	558
	$ 16,879	$ 10,037

Investment income includes realized gains and losses from disposal of pool units, unrealized gains and losses on units and income distributions from the pools.

Income distributions from the pools is based on income earned by the pools determined on an accrual basis which includes interest, dividends, security lending income, realized gains and losses on sale of securities held by the pools, realized foreign exchange gains and losses, writedowns of securities held in the pools and income and expense earned on derivative contracts. Realized gains and losses are determined on an average cost basis. Impairment charges related to the writedown of securities held in the pools are indicative of a loss in value that is other than temporary.

NOTE 6 INVESTMENT RETURNS

Estimated investment returns are provided as supplementary information. The determination of estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

Time-weighted rates of return, at fair value [a]	**2014**	**2013**	**2012**	**2011**	**2010**
	in per cent				
Estimated policy benchmark return [b]	12.7	8.1	4.2	8.8	15.8
Value added return by investment manager	1.3	1.5	0.6	-	3.1
Estimated return [b]	**14.0**	**9.6**	**4.8**	**8.8**	**18.9**

[a] The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

NOTE 6 INVESTMENT RETURNS CONTINUED

(b) Investment returns are provided by AIMCo. The overall return and benchmark is based on investment returns and benchmarks for each asset class. Investment returns for assets classified as real estate, infrastructure, hedge funds and private debt are based on estimates of fair value. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period. The annualized total return and policy benchmark return (PBR) on investments over five years is 11.1% (PBR: 9.8%) and eight years is 5.3% (PBR: 5.3%).

NOTE 7 INVESTMENT EXPENSES

	($ thousands)	
	2014	**2013**
Total investment expenses [(a)]	$ 475	$ 274
Increase in expenses	73.4%	24.5%
Increase in average investments under management	21.3%	16.5%
Investment expense as a percent of:		
Dollar earned	2.81%	2.73%
Dollar invested	0.39%	0.27%
Investment expenses per member	$ 1,841	$ 1,026

(a) For investment management services, charged by AIMCo. Please refer to AIMCo's financial statements for a detailed breakdown of expenses. In 2014, investment expenses include external performance fees of $140. In 2013 and prior years, external performance fees were netted against investment income. External performance fees for 2013 were estimated at $136.

NOTE 8 PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (UNREGISTERED) PENSION PLAN

An actuarial valuation of the Unregistered Plan was carried out as at December 31, 2011 by Aon Hewitt and was then extrapolated to March 31, 2014.

As at March 31, 2014 the Unregistered Plan reported an actuarial deficit of $13 million (2013: deficit of $14 million), taking into account the amounts owing from the Reserve Fund.

NOTE 9 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2014 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

Financial Statements

Year Ended March 31, 2014

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Supplementary Retirement Plan Reserve Fund, which comprise the statement of financial position as at March 31, 2014, and the statement of changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Supplementary Retirement Plan Reserve Fund as at March 31, 2014, and the changes in its net assets for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 4, 2014

Edmonton, Alberta

Statement of Financial Position

As at March 31

	($ thousands)	
	2014	**2013**
Assets		
Investments (Note 3)	$ 82,959	$ 63,977
Receivable from participating employers	37	20
	82,996	63,997
Liabilities		
Liability for investment purchases	-	(15)
Amounts owing to the Supplementary Retirement Plan for Public Service Managers	(82,996)	(63,982)
Net Assets	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets

Year Ended March 31

	($ thousands)	
	2014	**2013**
Increase in assets		
Employer contributions	$ 6,814	$ 6,625
Investment income (Note 5)	12,641	6,621
	19,455	13,246
Decrease in assets		
Investment expenses (Note 7)	441	249
	441	249
Increase in amounts owing to the Supplementary Retirement Plan for Public Service Managers	(19,014)	(12,997)
Change in net assets for the year	-	-
Net assets, beginning of year	-	-
Net assets, end of year	**$ -**	**$ -**

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2014

(all dollar values in thousands, unless otherwise stated)

NOTE 1 SUMMARY DESCRIPTION OF THE RESERVE FUND

The Supplementary Retirement Plan Reserve Fund (Reserve Fund) operates under the authority of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and Treasury Board Directive 05/99.

The Reserve Fund is established to collect contributions from participating employers and to invest the funds, which are reserved to meet future benefit payments of the Supplementary Retirement Plan for Public Service Managers (SRP). The SRP is established effective July 1, 1999 to provide additional pension benefits to eligible public service managers whose pensionable earnings are in excess of the *maximum pensionable salary limit* under the federal *Income Tax Act*.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF ASSETS AND LIABILITIES

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 9/89, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Fund reports its share of the financial risks in Note 4.

The fair value of units held by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Fund's accounts. The underlying financial instruments are

recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units are recorded in the Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

Investment income includes the following:

i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the statement of changes in net assets (see Note 5). Income distributions are based on the Fund's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of units and unrealized gains and losses on units are recorded in the Fund's accounts and included in investment income on the statement of changes in net assets. Realized gains and losses on disposal of units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts, including transaction costs, incurred by the Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis.

e) LIABILITIES

Accrued liabilities of the Reserve Fund are funded by investment income and contributions from the participating employers. Contribution rates are set by the Minister of Finance, taking into account recommendations of the SRP's actuary.

The rate in effect at March 31, 2014 was 22.6% (2013: 22.6%) of the pensionable salaries of eligible public service managers that were in excess of the *maximum pensionable salary limit* under the *Income Tax Act*.

The contribution rates were reviewed by the Minister of Finance in 2012 and are reviewed at least once every three years based on recommendations of the Fund's actuary. As a result of this review, the contribuions rate at April 1, 2014 is 2.4%.

These amounts represent assets held by the Reserve Fund, which are available to meet future benefit payments of the SRP over the long term.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Fund's private investments, hedge funds, timberland and private real estate investments. Uncertainty arises because the estimated fair values of the Fund's private investments, hedge funds, timberland and private real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Fund's private investments, hedge funds and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

NOTE 3 INVESTMENTS

The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) for the Reserve Fund and SRP approved by the Supplementary Retirement Pension Plan Committee. The fair value of the pool units is based on the Fund's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

	($ thousands)				
	Fair Value Hierarchy [a]			2014	2013
Asset class	Level 1	Level 2	Level 3 *	**Fair Value**	**Fair Value**
Interest bearing securities					
Deposits in CCITF	$ -	$ 803	$ -	$ 803	$ 542
Bonds, mortgages and private debt	-	13,280	3,353	16,633	10,054
	-	14,083	3,353	17,436	10,596
Equities					
Canadian	8,911	5,361	-	14,272	11,418
Global	26,083	6,494	6,901	39,478	33,365
Private	-	-	2,729	2,729	1,986
	34,994	11,855	9,630	56,479	46,769
Alternatives					
Real estate	-	-	5,578	5,578	3,278
Infrastructure	-	-	2,579	2,579	2,659
Timberland	-	-	887	887	675
	-	-	9,044	9,044	6,612
Total investments	$ 34,994	$ 25,938	$ 22,027	$ 82,959	$ 63,977

At March 31, 2014, investments were allocated to various asset classes, with interest bearing securities comprising 21.0% (2013: 16.5%) of total investments, equities comprise 68.1% (2013: 73.2%) and alternatives comprise 10.9% (2013: 10.3%).

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $34,994 (2013: $31,503).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $25,938 (2013: $17,817). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and alternative investments totalling $22,027 (2013: $14,657).

*** Reconciliation of Level 3 Fair Value Measurement**

	($ thousands)	
	2014	**2013**
Balance, beginning of year	$ 14,657	$ 12,070
Investment income	1,737	1,301
Purchases of Level 3 pooled fund units	7,557	4,677
Sale of Level 3 pooled fund units	(1,924)	(3,391)
Balance, end of year	**$ 22,027**	**$ 14,657**

NOTE 3 INVESTMENTS CONTINUED

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Private debt and loans is valued similar to private mortgages. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Equities:*** Equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. Infrastructure investments are valued similar to private equity investments. The fair value of timberland investments is appraised annually by independent third party evaluators.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Fund are clearly outlined in the SIP&G approved by the Supplementary Retirement Pension Plan Committee. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Plan Committee manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Fund are primarily affected by the long-term real rate of return expected to be earned on investments. Assets are managed for the SRP as a whole, including the Retirement Compensation Arrangement (RCA).In order to earn the best possible return at an acceptable level of risk, the Ministry has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix
Interest bearing securities	25 - 45%
Equities	35 - 60%
Alternatives	15 - 30%

a) Credit Risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

The following table summarizes the Fund's investment in debt securities by counterparty credit rating at March 31, 2014:

Credit rating	2014	2013
Investment Grade (AAA to BBB-)	86.8%	79.7%
Speculative Grade (BB+ or lower)	0.3%	1.5%
Unrated	12.9%	18.8%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2014, the Fund's share of securities loaned under this program is $2.4 million and collateral held totals $2.5 million. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 48% of the Fund's investments, or $39 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (25%) and the Euro (6%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Fund would be approximately 4.7% (2013: 5.2%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2014:

	($ millions)			
	2014		2013	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 21	$ (2.1)	$ 17	$ (1.7)
Euro	5	(0.5)	4	(0.4)
Japanese yen	2	(0.2)	2	(0.2)
British pound	3	(0.3)	2	(0.2)
Australian dollar	1	(0.1)	1	(0.1)
Swiss franc	1	(0.1)	1	(0.1)
Other foreign currencies	6	(0.6)	6	(0.6)
Total foreign currency investments	$ 39	$ (3.9)	$ 33	$ (3.3)

c) Interest Rate Risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the Fund would be approximately 1.2% (2013: 0.9%) of total investments.

d) Price Risk

Price risk relates to the possibility that units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Fund would be approximately 6.6% (2013: 7.0%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's main liabilities include transfers payable to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan and payables related to the purchase of units.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	**2014**	**2013**
Contracts in favourable position (current credit exposure)	31	$ 636	$ 851
Contracts in unfavourable position	13	(276)	(362)
Net fair value of derivative contracts	44	$ 360	$ 489

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $636 (2013: $851) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 4. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	**2014**	**2013**
Structured equity replication derivatives	$ 414	$ 573
Foreign currency derivatives	(62)	(77)
Interest rate derivatives	25	6
Credit risk derivatives	(17)	(13)
Net fair value of derivative contracts	$ 360	$ 489

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At March 31, 2014 deposits in futures contracts margin accounts totalled $599 (2013: $251) and deposits as collateral for derivative contracts totalled $77 (2013: $118).

NOTE 5 INVESTMENT INCOME

The following is a summary of the Fund's investment income (loss) by asset class:

	($ thousands)	
	2014	**2013**
Interest bearing securities	$ 482	$ 600
Equities		
Canadian	2,282	951
Global	8,783	4,288
Private	202	211
	11,267	5,450
Alternatives		
Real estate	584	370
Infrastructure	123	205
Timberland	185	(4)
	892	571
	$ 12,641	$ 6,621

Investment income includes realized gains and losses from disposal of pool units, unrealized gains and losses on units and income distributions from the pools.

Income distributions from the pools is based on income earned by the pools determined on an accrual basis which includes interest, dividends, security lending income, realized gains and losses on sale of securities held by the pools, realized foreign exchange gains and losses, writedowns of securities held in the pools and income and expense earned on derivative contracts. Realized gains and losses are determined on an average cost basis. Impairment charges related to the writedown of securities held in the pools are indicative of a loss in value that is other than temporary.

NOTE 6 INVESTMENT RETURNS

The following is a summary of investment returns (losses):

	2014	2013	2012	2011	2010
	in per cent				
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	13.6	8.6	6.5	9.8	16.9
Value added return (loss) by investment manager	0.5	1.6	-	(0.1)	3.1
Total return on investments [(a)]	**14.1**	**10.2**	**6.5**	**9.7**	**20.0**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 12.0% (PBR: 11.0%) and ten years is 6.6% (PBR: 6.7%).

NOTE 7 INVESTMENT EXPENSES

	($ thousands)	
	2014	**2013**
Total investment expenses [(a)]	$ 441	$ 249
Increase in expenses	77.1%	32.4%
Increase in average investments under management	27.7%	22.2%
Investment expense as a percent of:		
Dollar earned	3.49%	3.76%
Dollar invested	0.60%	0.43%
Investment expenses per member	$ 232	$ 139

(a) For investment management services. Please refer to AIMCo's financial statements for a detailed breakdown of expenses. In 2014, investment expenses include external performance fees of $115. In 2013 and prior years, external performance fees were netted against investment income. External performance fees for 2013 were estimated at $100.

NOTE 8 SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS (SRP)

An actuarial valuation of the SRP was carried out as at December 31, 2012 by Aon Consulting Inc. and was then extrapolated to December 31, 2013.

As at December 31, 2013 the SRP reported an actuarial deficit of $12.4 million (2012: deficit of $51.9 million), taking into account the amounts receivable from Reserve Fund.

NOTE 9 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2014 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance.

Provincial Agencies and Other Government Organizations

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ALBERTA CAPITAL FINANCE AUTHORITY

Financial Statements

Year Ended December 31, 2013

These Alberta Capital Finance Authority (ACFA) Financial Statements are a copy from the ACFA 2013 Annual Report. A complete copy of the ACFA Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the ACFA website at www.acfa.gov.ab.ca.

Independent Auditor's Report

To the Shareholders of the Alberta Capital Finance Authority

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Capital Finance Authority, which comprise the statement of financial position as at December 31, 2013, and the statements of operations and accumulated deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Capital Finance Authority as at December 31, 2013, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

March 19, 2014

Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

As at December 31, 2013
(in thousands of dollars)

	2013	2012
	(Note 3)	(Restated – Note 2)
Assets:		
Cash (Note 5)	$ 137,033	$ 12,757
Restricted cash (Note 5)	497	497
Accounts receivable	2	8
Accrued interest receivable on loans to local authorities	106,556	104,373
Accrued interest receivable on debt swaps	—	6,874
Loans to local authorities (Note 6)	13,499,753	12,388,235
Derivatives in favourable position (Note 2, 8)	613,656	—
Prepaid expenses	15	15
Tangible capital assets (net of accumulated amortization $1; 2012 – Nil)	19	—
	$ 14,357,531	$ 12,512,759
Liabilities:		
Accounts payable	$ 599	$ 651
Accrued interest payable on debt	29,331	29,418
Accrued interest payable on loan swaps	—	44,956
Debt, amortized cost (Note 7, Schedule 1)	13,482,879	12,233,965
Derivatives in unfavourable position (Note 2, 8)	711,804	—
Deferred foreign exchange gain	—	18,726
	14,224,613	12,327,716
Share Capital and Accumulated Surplus:		
Share capital, issued and fully paid (Note 9)	64	64
Accumulated surplus:		
Accumulated operating surplus (Note 10)	236,849	184,979
Accumulated remeasurement losses	(103,995)	—
Share capital and accumulated surplus	132,918	185,043
	$ 14,357,531	$ 12,512,759

Contractual obligations and commitments are found in Note 14.

The accompanying notes and schedule are an integral part of these financial statements.

These financial statements were approved by the Board of Directors.

Original signed by:

Trevor Thain
Chair of the Board

Original signed by:

Troy Holinski
President

STATEMENT OF OPERATIONS AND ACCUMULATED OPERATING SURPLUS

For the year ended December 31, 2013
(in thousands of dollars)

	Budget	2013	2012
	(Note 15)	(Note 3)	(Restated – Note 2)
Interest Income:			
Loans	$ 524,672	$ 533,927	$ 504,820
Loan swaps (pay fixed, receive floating)	(247,664)	(262,479)	(250,923)
Investments	2,276	1,709	1,019
	279,284	273,157	254,916
Interest Expense:			
Debt	333,935	310,919	282,098
Debt swaps (receive fixed, pay floating)	(98,882)	(106,234)	(89,351)
Amortization of net discounts on debt	13,695	12,146	13,930
Amortization of commission fees	3,740	3,756	2,715
Amortization of deferred foreign exchange (gain)	—	—	(1,734)
	252,488	220,587	207,658
Net interest income	26,796	52,570	47,258
Other Income:			
Loan prepayment fees	—	287	4,378
Net interest income and other income	26,796	52,857	51,636
Non-Interest Expense:			
Administration and office expenses (Note 11, 12)	1,075	987	950
Operating surplus	25,721	51,870	50,686
Accumulated operating surplus, beginning of year			
As previously reported	184,585	(628,008)	(705,115)
Change in accounting policy (Note 2)	—	812,987	839,408
As restated	184,585	184,979	134,293
Accumulated operating surplus, end of year	$ 210,306	$ 236,849	$ 184,979

The accompanying notes and schedule are an integral part of these financial statements.

STATEMENT OF REMEASUREMENT GAINS AND LOSSES

For the year ended December 31, 2013
(in thousands of dollars)

	2013		
	(Note 3)		
	Derivatives	**Foreign Exchange**	**Total**
Accumulated remeasurement gains (losses), beginning of year	$ —	$ —	$ —
Adjustments upon adoption of *PS 3450* – Financial Instruments and *PS 2601* – Foreign Currency Translation	(812,987)	18,726	(794,261)
	(812,987)	18,726	(794,261)
Unrealized gains (losses) attributable to:			
Change in fair value of derivatives	752,996	—	752,996
Foreign currency translation	—	(62,730)	(62,730)
Net measurement gains (losses) for the year	752,996	(62,730)	690,266
Accumulated remeasurement losses, end of year	$ (59,991)	$ (44,004)	$ (103,995)

The accompanying notes and schedule are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2013
(in thousands of dollars)

	2013	2012
Operating Activities:		
Interest received:		
Loans	$ 531,744	$ 505,371
Investments	1,708	1,017
Debt swaps (receive fixed, pay floating)	103,760	87,924
Loan prepayment fees	287	4,378
Interest paid:		
Debt	(311,006)	(282,098)
Discounts paid at debt maturity	(15,975)	(15,042)
Premiums received at debt issue	—	33,792
Commission fees	(6,886)	(11,108)
Loan swaps (pay fixed, receive floating)	(259,930)	(247,043)
Administration and office expenses	(1,031)	(1,049)
Cash flows from operating activities	42,671	76,142
Capital Activities:		
Acquisition of tangible capital assets	(20)	—
Cash flows used in capital activities	(20)	—
Investing Activities:		
Loan principal repayments	616,856	748,646
Loans issued	(1,728,374)	(2,295,229)
Cash flows used in investing activities	(1,111,518)	(1,546,583)
Financing Activities:		
Debt issued	9,817,168	10,194,626
Debt redemptions	(8,624,025)	(8,750,958)
Cash flows from financing activities	1,193,143	1,443,668
Net increase (decrease) in cash	124,276	(26,773)
Cash, beginning of year	12,757	39,530
Cash, end of year	$ 137,033	$ 12,757

The accompanying notes and schedule are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013
(in thousands of dollars, except share amounts)

Note 1 – Authority

The Alberta Capital Finance Authority ("ACFA") operates under the authority of the *Alberta Capital Finance Authority Act*, Chapter A-14.5, Revised Statutes of Alberta 2000, as amended. Under the Act, ACFA is restricted to making loans only to its shareholders.

Note 2 – Voluntary Change in Accounting Policy for Derivatives

As at and for the year ended December 31, 2012, ACFA measured derivative financial instruments at fair value and recorded changes in their fair value in the statement of operations as unrealized gains and losses. On January 1, 2013, ACFA retroactively changed its accounting policy for the measurement of derivative financial instruments to cost. This retroactive change in accounting policy was effected immediately prior to the adoption of new accounting standards on January 1, 2013, as described in Note 3.

Prior to January 1, 2013, there was no requirement in Canadian public sector accounting standards ("PSAS") to record derivatives at fair value; however, ACFA optionally decided to record derivative financial instruments at fair value. This was consistent with the presentation of derivatives under Canadian generally accepted accounting principles (Part V of CPA Handbook), which ACFA reported under prior to adopting PSAS in 2011. ACFA opted to voluntarily change its accounting policy to ensure its pre-adoption *PS 3450* presentation was consistent with other public sector organizations included in the Province of Alberta's consolidated financial statements. The change in ACFA's accounting policy was applied retroactively and the comparative financial statements have been restated to reflect this change.

The effect of the change on the statement of financial position as at December 31, 2012 and December 31, 2011 is as follows:

	2012	2011
Increase in accrued interest receivable on debt swaps	$ 6,874	$ 5,447
Decrease in derivatives in favourable position	(462,305)	(514,742)
Net decrease in assets	(455,431)	(509,295)
Increase in accrued interest payable on loan swaps	44,956	41,076
Decrease in derivatives in unfavourable position	(1,313,374)	(1,389,779)
Net decrease in liabilities	(1,268,418)	(1,348,703)
Increase in accumulated operating surplus	$ 812,987	$ 839,408

In addition, the unrealized change in fair value of derivatives and operating surplus presented in the statement of operations for the year ended December 31, 2012 decreased by $26,421.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013
(in thousands of dollars, except share amounts)

Note 3 – Adoption of New Accounting Standards

On January 1, 2013, ACFA adopted new accounting standards *PS 3450 – Financial Instruments* ("*PS 3450*"), *PS 2601 – Foreign Currency Translation* ("*PS 2601*") and *PS 1201 – Financial Statement Presentation* ("*PS 1201*"). The transitional provisions state these accounting standards are to be applied prospectively without restatement of prior years.

PS 3450 – Financial Instruments provides guidance on the recognition, measurement and disclosure of financial instruments. Financial instruments are assigned to one of two measurement categories: fair value; or cost or amortized cost. Items that must be included in the fair value category are: derivatives; portfolio investments in equity instruments that are quoted in an active market; and financial assets and financial liabilities that are managed and evaluated on a fair value basis in accordance with a defined risk management or investment strategy. Host contracts are evaluated for the existence of embedded derivatives and, if required by *PS 3450*, are accounted for separately as derivatives. PS 3450 further requires interest to be measured using the effective interest method. The changes in the fair values of financial instruments in the fair value category are recognized in the statement of remeasurement gains and losses until the financial instrument is derecognized, terminated or settled, at which point, a gain or loss is recognized in the statement of operations.

PS 2601 – Foreign Currency Translation provides guidance on how to account for and report transactions denominated in a foreign currency. At the transaction date, each asset, liability or amount reported in the statement of operations arising from a foreign currency transaction is translated by applying the exchange rate in effect at that date. Subsequently at each reporting date, monetary items denominated in a foreign currency, and non-monetary items denominated in a foreign currency included in the fair value category under *PS 3450*, are adjusted to reflect the exchange rate in effect at that date. Any exchange gain or loss arising is recognized in the statement of remeasurement gains and losses until settlement, at which point, the cumulative amount is reversed and recognized in the statement of operations. Transitional provisions in *PS 2601* allow any deferred unamortized foreign exchange gain or loss to be accounted for as an adjustment in the balance of accumulated remeasurement gains and losses at the transition date.

PS 1201 – Financial Statement Presentation provides guidance on the new statement of remeasurement gains and losses. The statement should report opening and closing accumulations and amounts arising during the period or reclassified to the statement of operations distinguishing between changes in fair value due to *PS 3450* and gains or losses in foreign currency due to *PS 2601*.

The cumulative impact on adoption of *PS 3450* and *PS 2601* in the statement of remeasurement gains and losses is as follows:

	Remeasurement Gain or (Loss)	
Adjustment upon adoption of *PS 3450 – Financial Instruments*	$	(812,987)
Adjustment upon adoption of *PS 2601 – Foreign Currency Translation*	$	18,726

In addition to the above, the notes to the financial statements have been amended to include the new disclosures required by *PS 3450*, *PS 2601* and *PS 1201*.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013
(in thousands of dollars, except share amounts)

Note 4 – Significant Accounting Policies and Reporting Practices

The financial statements have been prepared in accordance with PSAS as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. Significant accounting policies are as follows:

(a) Measurement Uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Measurement uncertainty exists in the collectability of the loans to local authorities and the estimate of fair value of derivative contracts.

While best estimates have been used for reporting items subject to measurement uncertainty, ACFA considers it possible, based on existing knowledge, that change in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

(b) Valuation of Financial Instruments

Financial instruments are any contracts that give rise to financial assets of one entity and financial liabilities or equity instruments of another entity. Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial liabilities are any liabilities that are contractual obligations: to deliver cash or another financial asset to another entity; or to exchange financial instruments with another entity under conditions that are potentially unfavourable.

ACFA's financial assets and financial liabilities are generally measured as follows and as further described in this note:

Financial Statement Component	Measurement
Cash and restricted cash	Cost
Accounts receivable (payable)	Cost
Accrued interest receivable on loans to local authorities	Cost
Loans to local authorities	Amortized cost
Accrued interest receivable (payable) on debt swaps and loan swaps	Cost
Derivatives in favourable (unfavourable) position	Fair value
Accrued interest payable on debt	Cost
Debt	Amortized cost
Embedded derivatives	Fair value

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013
(in thousands of dollars, except share amounts)

(c) Cash

Cash includes cash on hand, cash on demand deposit in the Province of Alberta's Consolidated Cash Investment Trust Fund ("CCITF") including any allocated interest not yet transferred to CCITF participants, and a US dollar bank account. ACFA's cash balances in CCITF are used for operations or are restricted for unredeemed coupons. CCITF holds investments in primarily short-term and mid-term interest bearing securities which have a maximum term to maturity of less than three years.

(d) Loans to Local Authorities

The carrying value of loans is recorded at amortized cost. Accrued interest receivable on loans is reported separately from the carrying value on the statement of financial position. Loan discounts are amortized to income over the term of the loan using the effective interest method, and are included in the carrying value of the loan.

Impairment losses are recognized in the statement of operations. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest on a loan, a specific provision for credit loss is made and the carrying value of the loan is reduced to its estimated net recoverable value.

Interest revenue on loans is recognized on an accrual basis and is measured using the effective interest method. Interest revenue ceases to be accrued on loans when the collectability of either principal or interest is not reasonably assured.

(e) Debt

The carrying value of debt, including transaction costs, is recorded at amortized cost. Accrued interest payable on debt is reported separately from the carrying value on the statement of financial position. Debt premiums and discounts and underwriting commissions arising from the issuance of debt are amortized over the term of the debt using the effective interest method, and are included in the carrying value of the debt.

Interest expense on debt is recognized on an accrual basis and is measured using the effective interest method.

(f) Derivative Financial Instruments

Derivative contracts for interest rate swaps and cross-currency interest rate swaps are recorded at fair value on the statement of financial position and changes in fair value are recorded as unrealized gains and losses in the statement of remeasurement gains and losses. When a financial instrument is derecognized, remeasurement gains or losses are reclassified to the statement of operations. Any transaction costs are expensed.

Fair value is the only relevant basis of measurement for derivative contracts because the historical cost is at most nominal. The fair value depicts the market's assessment of the present value of the net future cash flows directly or indirectly embodied in a derivative contract discounted to reflect both current interest rates and the market's assessment of the risk the cash flows will not occur. Fair values are determined using third party valuation software that generates a discount curve based on observable market rates and swap spreads.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013
(in thousands of dollars, except share amounts)

Fair values have been segregated between those contracts which are in favourable positions (positive fair value) and those contracts which are in unfavourable positions (negative fair value) and are recorded as derivative assets and derivative liabilities respectively on the statement of financial position.

Net interest paid or received on the pay fixed, receive floating interest rate swaps related to loans is presented separately as part of interest income, and the net interest paid or received on the receive fixed, pay floating interest rate swaps related to debt is presented separately as part of interest expense. Loan swap interest revenue and debt swap interest expense includes accrued interest.

Only contractual obligations entered into or modified on or after January 1, 2013 are evaluated for the existence of embedded derivatives. An embedded derivative is separated from the host contract and accounted for as a derivative when all of the following conditions are met:

i) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
ii) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
iii) The hybrid, combined instrument is not measured at fair value.

(g) Non-Financial Assets

Prepaid expenses and tangible capital assets are non-financial assets, and are accounted for by ACFA as they can be used to provide services in future periods. These assets do not normally provide resources to discharge the liabilities of ACFA unless they are sold. Tangible capital assets are recorded at historical cost and amortized on a straight line basis over the estimated useful lives of the assets. Tangible capital assets are written down when conditions indicate they no longer contribute to ACFA's ability to provide services, or when the value of future economic benefits associated with them are less than their net book values. Write downs are expensed in the statement of operations.

(h) Transaction Costs

Transaction costs include fees and commissions paid to agents, advisors and brokers. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. Transaction costs paid, discounts paid at debt redemption, premiums received at debt issuance and interest paid are presented in the statement of cash flows as operating activities.

(i) Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year end rate of exchange. Operating revenues and expenses related to foreign currency transactions are translated into Canadian dollars using the rate of exchange for the day. Unrealized foreign exchange gains and losses on long term monetary items are accumulated in the statement of remeasurement gains and losses.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013
(in thousands of dollars, except share amounts)

(j) Net Debt Model of Presentation

PSAS require the statement of financial position to report net debt. Net debt is measured as the difference between liabilities and financial assets, and provides an indicator of future revenues required to pay for past transactions and events, and is a test of sustainability. ACFA does not report a net debt indicator as its ability to provide loans to local authorities is not dependent on raising revenue, but rather the borrowing limit set by legislation.

Note 5 – Cash

	2013	2012
Cash in CCITF	$ 137,033	$ 12,757
Restricted cash in CCITF	$ 497	$ 497

For the year ended December 31, 2013, deposits in CCITF had a time-weighted return of 1.16% per annum (2012 – 1.29% per annum). Restricted cash in CCITF is set aside for outstanding debt obligations on unredeemed coupons and bonds.

Note 6 – Loans to Local Authorities

	2013	2012
Amortized cost	$ 13,499,753	$ 12,388,235

Credit risk is the risk of loss due to borrowers failing to meet their obligations to ACFA. Historically, ACFA has not needed to record any provisions or allowances regarding credit losses nor has it suffered any such losses. ACFA has established policies which provide for the approval and monitoring of all lending activity. These policies include establishing clear lines of authority for decision making and for accountability. Loan applications exceeding debt limits or debt servicing limits require the Board's approval. Additionally, the President may take any loan application he deems necessary to the Board for review and approval.

ACFA maintains a loan portfolio consisting of several different borrower categories, each with their own source of security to ensure repayment. The major categories of borrowers are as follows:

(a) Cities, towns, villages, specialized municipalities, counties, municipal districts, irrigation districts, regional services commissions and Metis settlements account for 71% (2012 – 72%) of all loan assets held by ACFA. This borrower category, excluding Metis settlements, is regulated by the *Municipal Government Act*, which stipulates specific debt limits and debt servicing limits. The aforementioned group of borrowers is required to agree to raise and levy taxes and or fees in an amount sufficient to pay their indebtedness to ACFA as per the signed master loan agreement.

(b) Regional airport authorities account for 20% (2012 – 19%) of all loan assets held by ACFA. This borrower category utilizes airport improvement fees to ensure repayment of existing loans. Security is also taken in the form of adequate land registration.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013
(in thousands of dollars, except share amounts)

(c) Educational and health authorities account for the remaining 9% (2012 – 9%) of loan assets, each with terms and conditions specific to their respective loan agreements.

As at and for the year ended December 31, 2013, all loans were performing in accordance with related terms and conditions and none were in arrears, nor were any loans considered impaired. ACFA's maximum exposure to credit risk is represented by the carrying amount of its loans at the reporting date. Additional detail on the contractual pricing and effective interest rates of outstanding loans is provided in Note 13 (d).

Note 7 – Debt

	2013	2012
Contractual principal	$ 13,550,326	$ 12,234,586
Unamortized net (discounts) and premiums	(48,407)	15,289
Unamortized commission fees	(19,040)	(15,910)
Total	$ 13,482,879	$ 12,233,965

The debt of ACFA is fully guaranteed by the Province of Alberta. Since April, 2011, all ACFA debt is borrowed by the Province. The Province then on-lends the money to ACFA for loan disbursement and cash management.

Debt with contractual principal of $15,000 (2012 – $15,000) is comprised of a step-up note whereby ACFA has the option of extending or calling the debt, at predetermined extension or call dates. In the event ACFA exercises its option to call and redeem the debt at the predetermined extension or call dates, the debt is redeemed at the contractual principal amount with no gain or loss to ACFA. In the event ACFA does not exercise its option to call and redeem the debt at the predetermined extension or call dates, the contractual principal amount is due at the final maturity date (Schedule 1).

For the next five years, contractual debt redemption requirements by debt type, with the assumption all debt is redeemed at the maturity date, are as follows:

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	Short-term	Floating	Fixed and Step-up/ Extendible	Total
2014	$ 1,150,000	$ 656,500	$ —	$ 1,806,500
2015	—	844,520 [(a)]	800,000	1,644,520
2016	—	900,000	600,000	1,500,000
2017	—	—	2,588,160 [(b)]	2,588,160
2018	—	1,000,000	600,000	1,600,000
	1,150,000	3,401,020	4,588,160	9,139,180
Thereafter	—	165,000	4,246,146	4,411,146
Total	$ 1,150,000	$ 3,566,020	$ 8,834,306	$ 13,550,326

[(a)] Includes $300,000 USD ($319,080 CAD) floating rate debt maturing June 15, 2015 and $400,000 USD ($425,440 CAD) floating rate debt maturing September 25, 2015 translated at the foreign exchange rate at the reporting date.

[(b)] Includes $600,000 USD ($638,160 CAD) fixed term debt maturing June 21, 2017 translated at the foreign exchange rate at the reporting date.

Additional detail on the contractual pricing and effective interest rates of outstanding debt is provided in Note 13 (d).

Note 8 – Derivative Financial Instruments

A derivative is a financial contract with the following characteristics: its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or other variable; it requires no initial net investment or the initial investment is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and it is settled in the future.

To minimize ACFA's interest rate risk on loans and debt issued after January 1, 2004, interest rate swaps may be used to swap fixed rate interest on loans and debt to floating rate so that floating rates paid and received incorporate changes in the market rates at approximately the same time. Interest received on loans to local authorities at fixed rates is swapped so that interest is received at floating rates instead. Loan swaps involve the receipt of floating rate cash flows from the counterparty in exchange for the payment of fixed rate cash flows to the counterparty. Interest paid on debt at fixed rates is swapped so that interest is paid at floating rates instead. Debt swaps involve the payment of floating rate cash flows to the counterparty in exchange for the receipt of fixed rate cash flows from the counterparty.

The notional amounts of interest rate swaps represent the amount to which the fixed and floating rates are applied in order to calculate the exchange of cash flows. The outstanding notional amounts are not recorded in the statement of financial position. They represent the volume of outstanding transactions and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. It is not ACFA's normal practice to terminate swaps

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before maturity and realize gains or losses, unless there is a valid business reason to do so. Swaps are intended to be held to maturity to reduce interest rate risk, but may be unwound with penalty if a large loan prepayment occurs or if step-up debt is called. Penalties imposed by the counterparty are in turn recovered from the local authority according to the stop-loss settlement policy so there is no financial loss to ACFA.

An interest rate swap with an outstanding notional value of $15,000 (2012 – $15,000) related to a step-up note has the option which allows the counterparty to extend or call the swap at predetermined extension or call dates. If the counterparty exercises its option to call and redeem the interest rate swap at the predetermined extension or call date, ACFA will in turn exercise its option to call and redeem the corresponding debt instrument and there will be no gain or loss to ACFA.

Interest rate swaps include cross currency swaps that:

(a) Receive fixed on an original notional value of $600,000 USD (2012 – $600,000 USD) and pay floating on an original notional value of $617,400 CAD (2012 – $617,400 CAD); and

(b) Receive floating on an original notional value of $700,000 USD (2012 – Nil) and pay floating on an original notional value of $723,010 CAD (2012 – Nil).

To minimize its foreign currency risk on US dollar denominated debt, cross currency interest rate swaps are used as described in Note 13 (g).

The outstanding notional amounts of loan and debt interest rate swaps by maturity date are summarized as follows:

Maturities	Within 1 Year	1 to 3 Years	Over 3 Years	Total
Interest rate swaps, December 31, 2013	$ 264,693	$ 2,106,887	$ 18,119,563	$ 20,491,143
Interest rate swaps, December 31, 2012	$ 12,931	$ 828,506	$ 15,875,279	$ 16,716,716

The outstanding notional amount of the interest rate swap related to the step-up note has been included in the above table based on its maturity date rather than its first extendible date.

At December 31, 2013, derivatives in favourable and unfavourable positions, as reported on the statement of financial position, include contractual amounts of accrued interest receivable and payable, respectively, as follows:

	2013
Accrued interest receivable on debt swaps	$ 9,348
Accrued interest payable on loan swaps	$ 47,505

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ACFA classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. When measurement of an item requires the use of inputs from more than one level, the measurement level attributable is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy used has the following levels:

Level	Fair Value Hierarchy
Level 1	Fair value is based on unadjusted, quoted prices in active markets, such as a public exchange, for identical assets or liabilities;
Level 2	Fair value is based on model-based valuation methods that make use of inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
Level 3	Fair value is based on valuation methods where inputs for the asset or liability are not based on observable market data (unobservable inputs) and the inputs have a significant impact on the valuation.

Derivative financial instruments recorded at fair value on the statement of financial position are classified as level 2. During the year, no transfers occurred between any of the levels on the fair value hierarchy.

The fair value of interest rate swaps has been calculated using valuation techniques that employ reputable and reliable application software to value derivatives. Observable short and long term rates in the money market and Canadian bond market, as well as swap spreads obtained from financial institutions, are used to develop an interest rate curve to discount derivative cash flows. For cross currency swaps, foreign exchange rates at the valuation date are used. As at the reporting date, the estimated sensitivity of the net fair value of derivatives to a 25 basis point increase and a 25 basis point decrease in interest rates is an increase in fair value of $123,505 and a decrease in fair value of $128,557, respectively.

Current credit exposure is limited to the amount of loss ACFA would suffer if every counterparty to which ACFA were exposed were to default at once, and is represented by the current replacement cost of all outstanding contracts in a favourable position. ACFA is part of the exposure limit established for the Province of Alberta and actively monitors its exposure and minimizes credit risk by only dealing with counterparties believed to have a good credit standing. Current and potential exposure is regularly reviewed against established limits on a counterparty basis.

Under the Province of Alberta's master agreement with counterparties, ACFA can, in the event of a counterparty default, net its favourable and unfavourable positions with the counterparty. In addition, under the agreement, several Credit Support Annexes have been signed with counterparties which may require ACFA or the counterparty to provide collateral based on established thresholds, which further enhances ACFA's credit position. During the year ended December 31, 2013, ACFA was not required to post cash collateral (2012 – $15,440 was the maximum collateral outstanding at any given time). As of December 31, 2013, no posted cash collateral was outstanding (2012 – Nil outstanding).

Derivative assets and liabilities are presented at gross fair value on the statement of financial position. Although the amounts do not qualify for offset since default has not occurred, derivatives in favourable position of $495,471 at December 31, 2013 are subject to master netting arrangements against unfavourable positions of $676,208, which reduces ACFA's credit exposure by $495,471.

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Note 9 – Share Capital

Share capital is valued at $10 per share. Voting rights for classes B to E, as established in legislation, relate only to the election of a director representing the shareholder's class. Further particulars of share capital are as follows:

			2013		2012	
Class	**Restricted to**	**Number of Shares Authorized**	**Issued and Fully Paid**	**Total Dollar Amount**	**Issued and Fully Paid**	**Total Dollar Amount**
A	Province of Alberta	4,500	4,500	$ 45,000	4,500	$ 45,000
B	Municipal, airport and health authorities	1,000	881	8,810	896	8,960
C	Cities	750	588	5,880	588	5,880
D	Town and villages	750	281	2,810	283	2,830
E	Educational authorities	500	83	830	83	830
	Total	7,500	6,333	$ 63,330	6,350	$ 63,500

During the year, two Class B shares were issued and 17 were cancelled (2012 – two issued and one cancelled), and two Class D shares were cancelled (2012 – one cancelled).

Note 10 – Capital Management

ACFA is an agent of the Crown in right of Alberta and a provincial corporation whose debt is fully guaranteed by the Province of Alberta. This allows ACFA access to capital markets to obtain debt financing at a cost commensurate with the Province of Alberta's AAA credit rating.

The business of ACFA is to provide its shareholders with flexible financing for capital projects and to manage its assets and liabilities and business affairs in such a manner so as to enhance its ability to effectively carry out its activities in an economical and effective manner.

ACFA's objective when managing capital is to safeguard its ability to continue as a going concern, to continue to benefit its shareholders by providing loans at the lowest possible cost and operate on a breakeven basis while maintaining positive net assets. Net assets for capital management purposes are defined as accumulated operating surplus. ACFA has operated effectively in accordance with its capital objective as net assets for capital management purposes as at December 31, 2013 were $236,849 (2012 – $184,979). Capital management objectives, policies and procedures are unchanged since the preceding year.

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Note 11 – Director, Audit Committee and Asset Liability Committee Fees and Related Party Transactions

Director, Audit Committee and Asset Liability Committee fees paid by ACFA are as follows:

	2013		2012	
	Number of Individuals	Total	Number of Individuals	Total
Board and Audit Committee Chairs	2	$ 14	2	$ 11
Board, Audit and Asset Liability Members	9	31	6	29
Total	11	$ 45	8	$ 40

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

ACFA has no employees. Its operations are managed by staff of Alberta Treasury Board and Finance, which is considered a related party. Other related parties are those entities consolidated or accounted for on the modified equity basis in the Province of Alberta's financial statements, including local authorities that ACFA has issued loans to, such as educational and health authorities consolidated by Alberta Education, Alberta Innovation and Advanced Education or Alberta Health, as well as the Province on-lending debt to ACFA. Loans to local authorities and debt on the statement of financial position, as well as the associated income and expense on the statement of operations, include amounts with related parties incurred in the normal course of business and are recorded at amounts of consideration agreed upon between the related parties.

Included in administration and office expenses is the amount of $683 (2012 – $705) for salaries, services or goods paid to related parties within the Province of Alberta at the amount of consideration agreed upon between the related parties. Included in accounts payable is the amount of $83 (2012 – $146) due to related parties at December 31, 2013.

Note 12 – Expense by Object

	Budget	2013	2012
Salaries and benefits	$ 546	$ 562	$ 496
Services	339	234	299
Contract services with related parties	136	150	131
Goods	46	27	9
Financial transactions and other	8	13	15
Amortization of tangible capital assets	—	1	—
	$ 1,075	$ 987	$ 950

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Note 13 – Financial Risk Management

(a) Framework

ACFA's management is accountable and responsible for monitoring performance and reporting to the Board of Directors and recommending changes to existing policies, including the Derivative Policy. The Audit Committee assists in monitoring the corporate governance, accountability processes and control systems in ACFA and reports to the Board. The Asset Liability Committee ("ALCO") also reviews the Derivative Policy, and other policies regarding interest rate risk management, funding, loan prepayments and loan pricing, and recommends changes to the Board. The Board of Directors is responsible for governance and strategic direction through its annual review and approval of all policies.

Management is primarily responsible for overseeing operational risk, which is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is managed through use of appropriate policies, procedures and controls designed to create an effective internal control environment within the organization. ACFA's accountability framework also includes: preparation of a 3 year business plan and annual budget that is approved by the Board, quarterly financial forecasting and reporting to monitor financial results, codes of conduct and ethics for the Board and staff, and a whistleblower policy.

The Audit Committee fulfills its responsibilities by offering observation and objective advice on issues concerning ACFA's risk, controls, quality of information, quality of management oversight and management assertions. It monitors the adequacy and effectiveness of internal controls, including internal controls over financial reporting. It maintains an active relationship with the Auditor General of Alberta.

The ALCO is a new management committee commencing in 2013 that oversees and manages ACFA's financial risks such as: market risk, including interest rate risk and currency risk; the risk of higher floating rate borrowing margins; the risk arising from mismatches in the floating rate reset dates of assets and liabilities; financing and refinancing risk; loan prepayment risk; and loan pricing risk. The ALCO manages financial risks to ensure ACFA's operating surplus does not decrease due to a significant, unexpected loss. It achieves this by setting risk benchmarks and monitoring performance against the benchmarks. It also assesses financial risks and formulates/evaluates acceptable risk mitigation strategies, within Board policy limits, to manage them.

Together, the aforementioned develop ACFA's strategic direction, oversee financial risk management and review and approve policies and procedures to maintain an acceptable level of financial risk.

(b) Assets and Liability Management

ACFA manages its asset and liabilities to provide local authorities with funding for capital projects at the lowest possible cost consistent with the viability of ACFA. ACFA's assets are legislatively limited to an aggregate principal sum of all outstanding loans and securities not to exceed $18 billion. As debt and earnings are used to fund these loans, ACFA raises debt at the lowest possible cost that can be obtained by the Province in the capital markets

given the amounts and terms requested by local authorities and the deals available. ACFA also manages its assets and liabilities by monitoring the duration and term to maturity of its existing loan and debt portfolios, obtaining estimated capital requirements for the local authorities to anticipate loan demand, utilizes the Province's preferential credit rating and operates under an approved financing plan that provides for a mixture of short-term, floating and fixed debt.

ACFA's viability is further managed by swapping its fixed term interest income on loans and fixed term interest expense debt to floating so that movements in market interest rates are counter balanced by offsetting revenue and expense streams. In accordance with ACFA's Derivative Policy, ACFA manages its interest rate risk by matching its debt maturity profile to the forecast cash flows and their effect on ACFA's surplus. For most loans made after January 1, 2004, ACFA uses the following to minimize the exposure related to fluctuations in interest rates: loan interest rate swaps to swap fixed rate loan interest to floating; floating rate notes which reprice at approximately the same time as the loans; and debt interest rate swaps to swap fixed rate debt interest to floating. Cross currency interest rate swaps are used to mitigate foreign exchange rate fluctuations as described in Note 13 (g).

ACFA's Canadian dollar bank accounts are exposed to interest rate risk. Canadian cash balances are held in CCITF.

(c) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk from borrowers or local authorities is described in Note 6 and ACFA does not believe it has any significant credit exposure on loans. Credit exposure with derivative counterparties is described in Note 8.

(d) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk refers to the potential impact of changes in interest rates on ACFA's earnings when maturities of its interest rate sensitive assets are not matched with the maturities of its interest rate sensitive liabilities. ACFA's interest sensitive assets and liabilities are those that: generate interest income such as loans and cash, incur interest expense such as debt, are interest rate swaps or are near-term cash inflows (outflows) such as accrued interest receivable (payable) associated with an underlying interest sensitive asset or liability. Non-interest sensitive assets and liabilities excluded in the tables below are: accounts receivable, prepaid expenses, tangible capital assets and accounts payable.

The contractual principal amounts of ACFA's interest sensitive assets and liabilities by maturity/ next repricing date are summarized below, with the assumption that the step-up note is redeemed at the first extendible date and all other debt at the maturity date, based on the earlier of repricing or principal repayments:

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Maturity/Repricing	Within 1 Year	1 to 3 Years	Over 3 Years	Total
Financial Assets:				
Cash and restricted cash	$ 137,530	$ —	$ —	$ 137,530
Accrued interest receivable on loans	106,556	—	—	106,556
Accrued interest receivable on debt swaps [a]	9,348	—	—	9,348
Loans to local authorities	874,858	1,888,092	10,736,803	13,499,753
December 31, 2013	$ 1,128,292	$ 1,888,092	$ 10,736,803	$ 13,753,187
Loan effective rate, 2013 [b]	4.22%	4.22%	4.36%	4.35%
December 31, 2012	$ 476,920	$ 2,053,338	$ 9,982,478	$ 12,512,736

[a] Included in derivatives in favourable position on the statement of financial position.

[b] The effective rate is the rate that exactly discounts estimated future cash payments through the expected term of the loan to the net carrying amount.

Maturity/Repricing	Within 1 Year	1 to 3 Years	Over 3 Years	Total
Financial Liabilities:				
Accrued interest payable on debt	$ 29,331	$ —	$ —	$ 29,331
Accrued interest payable on loan swaps [a]	47,505	—	—	47,505
Debt by type:				
Short-term [c]	1,147,420	—	—	1,147,420
Floating [b]	3,566,020	—	—	3,566,020
Step-up/extendible	15,000	—	—	15,000
Fixed [b]	—	1,400,000	7,419,306	8,819,306
December 31, 2013	$ 4,805,276	$ 1,400,000	$ 7,419,306	$ 13,624,582
Debt effective rate, 2013 [d]	2.69%	3.23%	4.26%	4.08%
December 31, 2012	$ 5,762,830	$ 815,000	$ 5,728,086	$ 12,305,916
Gap 2013	$ (3,676,984)	$ 488,092	$ 3,317,497	$ 128,605
Gap 2012	$ (5,285,910)	$ 1,238,338	$ 4,254,392	$ 206,820

[a] Included in derivatives in unfavourable position on the statement of financial position.

[b] Foreign currency denominated debt is translated at the foreign exchange rate at the reporting date.

[c] Comprised of contractual principal of $1,150,000 net of discounts on short-term notes of $2,580 (2012 – $3,044).

[d] The effective rate is the rate that exactly discounts estimated future cash payments through the expected term of the debt to the net carrying amount.

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Loan interest rate swaps and debt interest rate swaps with outstanding notional amounts of $12,095,454 and $8,395,689 respectively (2012 – $11,184,037 and $5,532,679 respectively) have not been included in the above table as notional amounts do not represent either financial assets or financial liabilities. Notional amounts are not recorded in the statement of financial position.

The interest rate sensitivity analysis below has been determined based on the exposure to interest rate fluctuations for significant interest rate sensitive assets and liabilities as at the reporting date. ACFA's significant interest rate sensitive assets and liabilities are those amounts in its loan and debt portfolios subsequent to January 1, 2004 that have been swapped, and can be represented by the outstanding notional amounts of the associated loan and debt swaps. The interest sensitivity arises due to the floating leg of the interest rate swap. Also included in the interest rate sensitivity analysis are floating rate debt and cash.

The potential impact of an immediate and sustained increase (decrease) of 25 basis points in interest rates throughout the year with all other variables held constant would impact net interest income by $3,072 increase ($3,072 decrease).

(e) Liquidity Risk

Liquidity risk is the risk that ACFA will encounter difficulty in meeting obligations associated with its financial liabilities. ACFA's exposure to liquidity risk arises due to its cash flow requirements to fulfill debt payments and redemptions and loan demand of local authorities.

ACFA manages its liquidity risk by monitoring its cash flows on a daily basis. Surplus funds are invested in CCITF. To the extent there are differences in maturities between the collection of principal and interest from loans, and repayment of principal and interest on debt, ACFA manages this by raising funds, when required, in capital markets.

Interest and principal repayments, as well as other payments for derivative financial instruments, are relevant for the presentation of the maturities of cash flows. The future cash flows below are not discounted. Foreign currencies are translated at the foreign exchange rate at the reporting date.

The maturities of ACFA's contractual cash flows for financial liabilities at December 31, 2013, with the assumption that the step-up note is redeemed at the first extendible date and all other debt at the maturity date, based on the earlier of repricing or principal repayments, are as follows:

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Estimated Future Cash Out Flows	Within 1 Year	1 to 3 Years	Over 3 Years	Total
Accounts payable	$ 599	$ —	$ —	$ 599
Debt by type, contractual repayments of principal:				
Short-term [a]	1,147,420	—	—	1,147,420
Floating [b]	3,566,020	—	—	3,566,020
Step-up/extendible	15,000	—	—	15,000
Fixed	—	1,400,000	7,419,306	8,819,306
Debt by type, contractual payments of interest:				
Short-term [a]	2,580	—	—	2,580
Floating [b]	10,310	—	—	10,310
Step-up/extendible	225	—	—	225
Fixed	288,190	521,180	1,605,440	2,414,810
Loan swaps (pay fixed, receive floating) [b]	272,104	501,782	2,263,948	3,037,834
Commitments for leases	188	86	218	492
Commitments for loans	30,000	30,500	—	60,500
Total	$ 5,332,636	$ 2,453,548	$ 11,288,912	$ 19,075,096

[a] Cash flows for debt contractual repayments of principal are presented net of discounts on short-term notes of $2,580 (2012 – $3,044).

[b] Where the amount of interest is not fixed, as is the case for issued debt with a variable interest rate or for the floating leg of a loan swap, the amounts included in the above table have been determined by reference to the conditions existing at the reporting date.

In conjunction with the liquidity analysis provided above for the financial liabilities, management has determined the following liquidity analysis of financial assets is necessary to evaluate the nature and extent of the liquidity risk. Foreign currencies are translated at the foreign exchange rate at the reporting date.

Estimated Future Cash In Flows	Within 1 Year	1 to 3 Years	Over 3 Years	Total
Accounts receivable	$ 2	$ —	$ —	$ 2
Loans, contractual repayments of principal [a]	874,858	1,888,092	10,736,803	13,499,753
Loans, contractual receipts of interest [a]	550,964	982,065	4,188,145	5,721,174
Debt swaps (receive fixed, pay floating) [a] [b]	127,248	250,622	941,098	1,318,968
Total	$ 1,553,072	$ 3,120,779	$ 15,866,046	$ 20,539,897

[a] The amounts presented represent the contractual collection of principal and interest, and assumes no loan prepayments or credit default by local authorities and no credit default by counterparties.

[b] Where the amount of interest is not fixed, as is the case for the floating leg of a debt swap, the amounts included in the above table have been determined by reference to the conditions existing at the reporting date.

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(f) Refinancing Risk

Refinancing risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to refinancing. Refinancing risk arises as local authorities may terminate loans with penalty and refinance at current interest rates. ACFA manages this risk by monitoring the contractual maturities and durations of its loan and debt portfolios; by charging penalties to local authorities in accordance with the stop-loss settlement policy; and raising debt in capital markets, either domestic and foreign, at the best possible interest rate utilizing the Province's credit rating.

(g) Foreign Currency Risk

Foreign currency risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

As at December 31, 2013, ACFA has aggregate US dollar denominated debt outstanding of $1,300,000 USD (2012 – $600,000 USD). The US dollar denominated debt instruments require ACFA to make all periodic payments of interest expense, as well as the repayment of the aggregate principal balance due at maturity, in US dollars. As such, any changes in the Canadian/US dollar foreign exchange rate from the date the US dollar denominated debt instruments were issued to the date the US dollar denominated debt instruments mature, expose ACFA to foreign currency risk.

To economically manage the exposure to foreign currency risk on the US dollar denominated debt instruments, ACFA has obtained cross currency interest rate swaps with the same payment terms, payment dates, maturity dates and notional values as the US dollar denominated debt instruments. In exchange for payments of interest and principal denominated in Canadian dollars, the cross currency interest rate swaps entitle ACFA to receive, in US dollars, all the amounts necessary to satisfy the periodic payments of interest expense and the aggregate principal balance due at maturity on the US dollar denominated debt instruments.

Because of this, any changes in the amount of cash required to satisfy the periodic settlement of interest expense throughout the term of the US dollar debt instruments as well as the principal repayment required at maturity, will be offset by the cash provided from the respective cross currency interest rate swaps, regardless of the changes in the Canadian/US dollar foreign exchange rate.

As at December 31, 2013, ACFA has no other financial instruments that are exposed to foreign currency risk.

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Note 14 – Contractual Obligations and Commitments

(a) Lease

ACFA has obligations under an operating lease expiring in July 2018 for the rental of premises, and various other obligations for supplies and services under contracts entered into before December 31, 2013. The estimated aggregate amounts payable for the unexpired terms of these contractual obligations are as follows:

	Supplies and Services	Lease
2014	$ 103	$ 85
2015	—	86
2016	—	87
2017	—	87
2018	—	44
Total	$ 103	$ 389

(b) Loans

In the normal course of business, ACFA enters into loan commitments to provide customers with sources of credit. Commitments to extend credit represent undertakings to make credit available in the form of loans for specific amounts, interest rates and terms to maturity, subject to ACFA's normal credit policies and appropriate collateral. Loan commitments include authorized loans not yet drawn down or awaiting further draw down.

The loan commitments indicate the maximum credit exposure to ACFA should the loans be fully drawn, represent future cash requirements and as at December 31, 2013 were:

	2013
2014	$ 30,000
2015	30,500
Total	$ 60,500

Note 15 – Budget

The 2013 budget was approved by the Board of Directors on December 6, 2012. Budget amounts for 2013 were prepared on an amortized cost basis and remeasurement gains and losses on foreign exchange and derivatives were not budgeted.

Note 16 – Approval of Financial Statements

The financial statements were recommended for approval by the Audit Committee on March 11, 2014 and subsequently approved by the Board of Directors on March 19, 2014.

SCHEDULE 1 – DEBT

As at December 31, 2013
(in thousands of dollars)

Maturity Date	First Extendible Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Public – Short-term:					
Jan-02-2014		1.0000%	Short-term	(e)	$ 150,000
Jan-03-2014		0.9900%	Short-term	(e)	100,000
Jan-13-2014		0.9500%	Short-term	(e)	175,000
Jan-21-2014		0.9800%	Short-term	(e)	100,000
Jan-28-2014		0.9800%	Short-term	(e)	100,000
Feb-03-2014		0.9350%	Short-term	(e)	175,000
Mar-03-2014		0.9800%	Short-term	(e)	150,000
Mar-18-2014		1.0000%	Short-term	(e)	100,000
Mar-25-2014		1.0000%	Short-term	(e)	100,000
					1,150,000
Private – Canada Pension Plan Investment Fund/CPP Investment Board:					
Oct-01-2020		6.2800%	Fixed		222,367
Jun-01-2022		6.0600%	Fixed		100,000
Apr-05-2023		5.8900%	Fixed		50,000
Dec-01-2023		5.5000%	Fixed		150,000
Dec-03-2024		5.1800%	Fixed		78,000
Nov-03-2026		4.4900%	Fixed		200,000
Nov-03-2031		4.5000%	Fixed		125,396
Nov-02-2032		4.8300%	Fixed		190,383
					1,116,146
Public – Fixed, Floating and Step-up/Extendible:					
Jul-02-2014		1.6650%	Floating	(b)	106,500
Jul-02-2014		1.6650%	Floating	(b)	550,000
Jun-01-2015		4.9000%	Fixed		100,000
Jun-01-2015		4.9000%	Fixed		100,000
Jun-03-2015		1.1750%	Floating	(b) (e)	100,000
Jun-15-2015		0.1311%	Floating	(c) (d) (e)	319,080
Jun-15-2015		3.0500%	Fixed		600,000
Sep-25-2015		0.1561%	Floating	(c) (d) (e)	425,440
May-27-2016		1.3850%	Floating	(b) (e)	900,000
Jun-15-2016		4.3500%	Fixed		300,000
Jun-15-2016		4.3500%	Fixed		300,000
Jun-15-2017		4.6500%	Fixed		400,000
Jun-15-2017		4.6500%	Fixed		300,000
Jun-15-2017		1.7500%	Fixed	(e)	500,000
Jun-21-2017		1.0000%	Fixed	(d) (e)	638,160
Dec-15-2017		1.7000%	Fixed	(e)	750,000
Jun-01-2018		5.1500%	Fixed		50,000
Jun-01-2018		5.1500%	Fixed		50,000
Jun-15-2018		1.3150%	Floating	(b) (e)	500,000
Jun-15-2018		1.3150%	Floating	(b) (e)	500,000

SCHEDULE 1 – DEBT

As at December 31, 2013
(in thousands of dollars)

Maturity Date	First Extendible Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Jun-15-2018		1.6000%	Fixed	(e)	500,000
Dec-01-2019		4.0000%	Fixed	(e)	275,000
Jun-17-2020		1.4050%	Floating	(b) (e)	165,000
Dec-15-2022		2.5500%	Fixed	(e)	720,000
Dec-15-2022		2.5500%	Fixed	(e)	600,000
Apr-28-2023	Apr-28-2014	3.0000%	Step-up/ Extendible	(a) (e)	15,000
Dec-01-2023		5.1000%	Fixed		20,000
Dec-15-2025		4.4500%	Fixed		100,000
Dec-15-2025		4.4500%	Fixed		100,000
Dec-15-2025		4.4500%	Fixed		100,000
Sep-20-2029		2.9000%	Fixed	(e)	30,000
Sep-20-2029		2.9000%	Fixed	(e)	170,000
Sep-20-2029		2.9000%	Fixed	(e)	50,000
Sep-20-2029		2.9000%	Fixed	(e)	50,000
Sep-20-2029		2.9000%	Fixed	(e)	150,000
Dec-01-2033		3.9000%	Fixed	(e)	200,000
Dec-01-2033		3.9000%	Fixed	(e)	110,000
Dec-01-2033		3.9000%	Fixed	(e)	215,000
Dec-01-2033		3.9000%	Fixed	(e)	225,000
					11,284,180
Total contractual principal outstanding – 2013					13,550,326
Unamortized net (discounts)					(48,407)
Unamortized commission fees					(19,040)
Total amortized debt – 2013					**$ 13,482,879**
Total contractual principal outstanding – 2012					12,234,586
Unamortized net premiums					15,289
Unamortized commission fees					(15,910)
Total amortized debt – 2012					$ 12,233,965

NOTES:

(a) Step-up note extendible at ACFA's option that pays interest periodically at a predetermined rate with principal paid on termination.

(b) Floating rate notes that pay interest quarterly at the Canadian Deposit Offered Rate ("CDOR") plus predetermined spreads with principal paid on termination. The interest rates provided are based on the CDOR as of the reporting date plus the contractual predetermined spread.

(c) Floating rate notes that pay interest quarterly at the USD London Interbank Offered Rate ("LIBOR") plus predetermined spreads with principal paid on termination. The interest rates provided are based on the USD LIBOR as of the reporting date plus the contractual predetermined spread.

(d) Note issued in US dollars and translated to Canadian dollars using the foreign exchange rate at the reporting date.

(e) Notes were on-lent from the Province of Alberta.

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ALBERTA INSURANCE COUNCIL

Financial Statements

December 31, 2013

KPMG LLP
Chartered Accountants
Commerce Place
10125-102 Street
Edmonton Alberta T5J 3V8
Canada

Telephone (780) 429-7300
Fax (780) 429-7379
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Members of Alberta Insurance Council

We have audited the accompanying financial statements of Alberta Insurance Council, which comprise the statement of financial position as at December 31, 2013, the statements of operations, changes in net assets and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Insurance Council as at December 31, 2013, and its results of operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matter

The financial statements of Alberta Insurance Council as at and for the year ended December 31, 2012 were audited by another auditor who expressed an unmodified opinion on those statements on April 18, 2013.

KPMG LLP

Chartered Accountants

April 24, 2014

Edmonton, Canada

ALBERTA INSURANCE COUNCIL

Statement of Financial Position

December 31, 2013, with comparative information for 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents (note 2)	$ 5,844,722	$ 5,688,251
Accounts receivable	21,916	42,684
Prepaid expenses	56,807	106,040
	5,923,445	5,836,975
Capital assets (note 3)	1,121,314	1,213,745
	$ 7,044,759	$ 7,050,720
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 425,059	$ 365,223
Deferred license and assessment fee revenue	2,251,316	1,820,795
	2,676,375	2,186,018
Asset retirement obligation (note 4)	63,630	63,020
Deferred rent and tenant inducements (note 5)	496,020	568,358
	559,650	631,378
	3,236,025	2,817,396
Net assets:		
Invested in capital assets	625,294	645,387
Unrestricted	3,183,440	3,587,937
	3,808,734	4,233,324
	$ 7,044,759	$ 7,050,720

See accompanying notes to financial statements.

On behalf of the Board:

[Original signed by]

Director

[Original signed by] Director

ALBERTA INSURANCE COUNCIL

Statement of Operations

Year ended December 31, 2013, with comparative information for 2012

	2013 Budget	2013	2012
Revenue:			
License, assessment, examination and continuing education fees	$ 4,701,000	$ 5,030,713	$ 4,829,984
Interest and other	60,000	68,802	67,941
	4,761,000	5,099,515	4,897,925
Expenses:			
Salaries and benefits (note 6)	3,200,000	2,900,198	2,815,275
Occupancy and premises	705,000	687,483	671,603
Amortization of capital assets	411,000	374,669	355,333
Councils, boards and committees (note 7)	384,000	405,913	296,284
Software and computer	360,000	453,552	343,466
Office and administration	274,000	211,967	279,111
Professional fees	223,000	206,938	229,175
Communications	167,000	165,868	197,034
Travel	130,000	117,551	127,088
(Gain) loss on disposal of capital assets	-	(34)	2,188
	5,854,000	5,524,105	5,316,557
Deficiency of revenue over expenses	$ (1,093,000)	$ (424,590)	$ (418,632)

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Statement of Changes in Net Assets

Year ended December 31, 2013, with comparative information for 2012

	Invested in capital assets	Unrestricted	2013	2012
Net assets, beginning of year	$ 645,387	$ 3,587,937	$ 4,233,324	$ 4,651,956
Deficiency of revenue over expenses	-	(424,590)	(424,590)	(418,632)
Amortization of capital assets	(374,669)	374,669	-	-
Amortization of deferred tenant inducements	70,208	(70,208)	-	-
Deferred rent adjustment	2,130	(2,130)	-	-
Gain on disposal of capital assets	34	(34)	-	-
Purchase of capital assets	283,109	(283,109)	-	-
Proceeds on sale of capital assets	(905)	905	-	-
Net assets, end of year	$ 625,294	$ 3,183,440	$ 3,808,734	$ 4,233,324

Invested in capital assets consists of the following:

	2013	2012
Capital assets	$ 1,121,314	$ 1,213,745
Deferred rent and tenant inducements	(496,020)	(568,358)
Invested in capital assets	$ 625,294	$ 645,387

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Statement of Cash Flows

Year ended December 31, 2013, with comparative information for 2012

		2013		2012
Cash provided by (used in):				
Operating activities:				
Deficiency of revenue over expenses	$	(424,590)	$	(418,632)
Items not involving cash:				
Accretion of asset retirement obligation		610		610
Amortization of deferred tenant inducements		(70,208)		(70,207)
Deferred rent adjustment		(2,130)		6,605
Amortization of capital assets		374,669		355,333
(Gain) loss on disposal of capital assets		(34)		2,188
Decrease in accounts receivable		20,768		24,786
Decrease in prepaid expenses		49,233		4,648
Increase in accounts payable and accrued liabilities		59,836		54,526
Increase in deferred license and assessment fee revenue		430,521		334,856
		438,675		294,713
Capital activities:				
Purchase of capital assets		(283,109)		(224,650)
Proceeds on sale of capital assets		905		-
		(282,204)		(224,650)
Increase in cash and cash equivalents		156,471		70,063
Cash and cash equivalents, beginning of year		5,688,251		5,618,188
Cash and cash equivalents, end of year	$	5,844,722	$	5,688,251

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements

Year ended December 31, 2013

Authority and purpose:

The Alberta Insurance Council (the "Council") operates under the authority of the Insurance Act, Chapter 1-3, Revised Statutes of Alberta 2000, as amended. As a not-for-profit organization under the Income Tax Act, the Council is not subject to either federal or provincial income taxes.

The Council provides administration services to the Life Insurance, General Insurance and Insurance Adjusters Councils. These Councils are responsible for enforcing the provisions of the Insurance Act and Regulations for their segments of the insurance industry.

1. Significant accounting policies:

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the 4200 standards which apply to government not-for-profit organizations. The Council's significant accounting policies are as follows:

(a) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and short-term deposits, which are highly liquid with original maturities of less than three months from the date of acquisition. These financial assets are convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(b) Revenue recognition:

License and assessment fees are recognized as revenue on a straight-line basis over the term of the license and assessment. Examination fees are recognized at the time the related exam is held. Continuing Education (CE) course approval fees are recognized upon submission to the Continuing Education Accreditation Committee. CE provider fees are recognized on a calendar year basis. License and assessment fees received but not yet recognized as revenue are recorded as deferred licence and assessment fee revenue.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(c) Capital assets and amortization:

Capital assets consisting of hardware, various equipment, leasehold improvements and computer software are recorded at cost, less accumulated amortization. Amortization is provided using the straight-line method over their estimated useful lives as follows:

Asset	Rate
Furniture and office equipment	3 - 10 years
Computer equipment	3 - 7 years
Computer software	3 years
Leasehold improvements	Term of lease
Telephone equipment	3 - 5 years

(d) Examination development costs:

Costs of development of examination questions are expensed as incurred.

(e) Tenant inducements, deferred rent and asset retirement obligation:

Tenant inducements associated with leased premises are amortized on a straight-line basis over the term of the related lease and recognized as a reduction of rent recorded in occupancy and premises expenses.

Rent expense is recognized on a straight-line basis over the lease term. Deferred rent comprises the aggregate difference in the rental expense incurred on a straight-line basis over the lease term and the actual rent charged.

The asset retirement obligation associated with leased premises is recorded at its discounted value, and is amortized over the term of the related lease. The associated accretion expense is included with occupancy and premises expenses.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(f) Contributed services:

The work of the Council is dependent on the voluntary services of members. The value of donated services is not recognized in these financial statements.

(g) Financial Instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations. As the Council does not have any unrealized changes in fair value, a statement of remeasurement gains and losses has not been presented.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant item subject to such estimates and assumptions include the carrying amounts of capital assets and asset retirement obligations. Actual results could differ from those estimates.

2. Cash and cash equivalents:

Included in cash and cash equivalents is an amount of $4,954,795 (2012 - $4,694,427) invested in the Consolidated Investment Trust Fund (the CCITF). The CCITF is managed by the Government of Alberta with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The average interest rate during the year ended December 31, 2013 was 1.21% (2012 - 1.23%).

3. Capital assets:

			2013	2012
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and office equipment	$ 426,103	$ 232,016	$ 194,087	$ 206,626
Computer equipment	490,415	305,164	185,251	196,554
Computer software	1,260,255	1,012,093	248,162	198,536
Leasehold improvements	1,040,972	548,634	492,338	610,460
Telephone equipment	2,263	787	1,476	1,569
	$ 3,220,008	$ 2,098,694	$ 1,121,314	$ 1,213,745

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2013

4. Asset retirement obligation:

The Council is required by the terms of its leases for premises in Edmonton and Calgary to remove improvements made to these premises upon termination of the leases. It is the opinion of management that it is highly probable that the Council will be required to remove improvements made to its Edmonton premises, and has recorded an asset retirement obligation and leasehold improvements for the discounted value of the estimated removal costs, using the discount rate of 0.94%. Amortization of $6,079 is included in amortization of capital assets, and the accretion expense in the amount of $610 has been included with occupancy costs. The undiscounted asset retirement obligation is $68,000 as at December 31, 2013.

Management has estimated the cost to remove improvements to its Calgary premises would not be material and believes the probability of incurring these costs is low. Accordingly, management has not recorded either an asset retirement cost or asset retirement obligation for the Calgary location.

The estimated carrying value of the Edmonton leasehold improvement is $424,007 at December 31, 2013 (2012 - $483,195).

5. Deferred rent and tenant inducements:

Deferred rent and tenant inducements consist of the following:

	2013	2012
Deferred rent	$ 102,618	$ 104,749
Deferred tenant inducement	393,402	463,609
	$ 496,020	$ 568,358

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2013

6. Salaries and benefits:

	Full Time Employees	Salary[a]	Benefits[b]	2013 Total
Chief Executive Officer	1	$ 268,299	$ 46,503	$ 314,802
Chief Operating Officer	1	221,799	46,759	268,558
Other staff	22	1,961,374	355,464	2,316,838
	24	$ 2,451,472	$ 448,726	$ 2,900,198

	Full Time Employees	Salary[a]	Benefits[b]	2012 Total
Chief Executive Officer	1	$ 237,429	$ 41,889	$ 279,318
Chief Operating Officer	1	211,576	52,651	264,227
Other staff	21.5	1,904,796	366,934	2,271,730
	23.5	$ 2,353,801	$ 461,474	$ 2,815,275

(a) Salary includes regular base pay, bonuses and overtime.

(b) Employer's share of all employee benefits and contributions or payments made on behalf of employees including group RRSP, health care, group life insurance, long and short-term disability plans and vacation pay. Accrued vacation pay was $226,243 (2012 - $226,390).

Employees of the Council are specifically excluded from enrolment in the Province of Alberta's Public Service Plan and the Province of Alberta's Management Employees Pension Plan. The Council employees are also not included in any of the Province of Alberta's employee benefits plans.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2013

7. Councils, Boards and Committees:

(a) The following amounts are included in Councils, Boards and Committees expenses:

		2013		2012
Councils and Council Committees	$	241,273	$	241,100
Appeal Boards		100,205		10,999
Continuing Education Accreditation Committee		64,435		44,185
	$	405,913	$	296,284

The Minister of Finance, responsible for the Insurance Act, has appointed the Continuing Education Accreditation Committee, provided for in Section 29 of the Insurance Agents and Adjusters Regulation. The Council funds the operations of and provides administrative services to the Continuing Education Accreditation Committee.

(b) Per diem payments of Council Members:

The following amounts are included in Councils, Boards and Committee expenses:

	Members #	2013[c] $	Members #	2012[c] $
Councils[a]				
Alberta Insurance Council - Chair[b]	1	21,675	1	21,677
Other - Chairs	14	105,363	6	43,317
Members	37	131,366	33	118,122
Total		258,404		183,116

(a) This includes the Alberta Insurance Council, the Life Insurance Council, the General Insurance Council, the Insurance Adjusters Council, the Audit Committee, the Appeal Boards and the Continuing Education Accreditation Committee.

(b) This includes per diem payments made for attendance at Alberta Insurance Council, Audit Committee, and the Council chair annual stipend.

(c) All per diem payments made to members of Councils, Committees and Boards are paid by the Council out of fees received from insurance licenses. This includes public members appointed by the Lieutenant Governor in Council, as well as Continuing Education Accreditation Committee members appointed by the Minister of Finance pursuant to the Government Organization Act.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2013

8. Commitments:

The Council is committed under existing lease agreements and contracted services for operating lease payments. The annual lease payments over the next five years and thereafter are as follows:

2014	$ 381,211
2015	389,104
2016	412,188
2017	423,626
2018	432,152
Thereafter	1,143,795

9. Financial risks and concentration of credit risk:

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Council is exposed to credit risk with respect to its accounts receivable.

The Council assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Council at December 31, 2013 is the carrying value of these assets.

There have been no significant changes to the credit risk exposure from 2012.

(b) Liquidity risk:

Liquidity risk is the risk that the Council will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Council manages its liquidity risk by monitoring its operating requirements. The Council prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

There have been no significant changes to the liquidity risk exposure from 2012.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2013

9. Financial risks and concentration of credit risk (continued):

(c) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in the market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Council to cash flow interest rate risk. The Council is exposed to this risk through to its interest bearing deposit in the CCITF.

There have been no significant changes to the interest rate risk exposure from 2012.

ALBERTA INVESTMENT MANAGEMENT CORPORATION

Financial Statements

For the year ended March 31, 2014

Independent Auditor's Report

To the Shareholder of Alberta Investment Management Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Investment Management Corporation, which comprise the statement of financial position as at March 31, 2014, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Investment Management Corporation as at March 31, 2014, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

May 30, 2014

Edmonton, Alberta

Statement of Financial Position

As at March 31, (*$ thousands*)	**2014**	**2013**
Assets		
Cash and cash equivalents (Note 4)	$ 45,734	$ 39,111
Accounts receivable	11,771	14,813
Prepaid expenses	4,915	3,242
Tangible capital assets (Note 5)	79,867	69,646
Other assets	2,416	2,416
	144,703	129,228
Liabilities		
Accounts payable and accrued liabilities	4,457	6,614
Accrued employment liabilities (Note 6)	64,642	59,371
Advance from the Province of Alberta (Note 7)	64,849	52,049
Pension liabilities (Note 8)	2,939	2,928
Deferred lease inducement (Note 15)	4,169	4,619
	141,056	125,581
Net assets (Note 9)	$ 3,647	$ 3,647

Contractual obligations (Note 15)

The accompanying notes are part of these financial statements.

Approved by the Board:

Original signed by:

A. Charles Baillie
Board Chair

Original signed by:

Cathy Williams
Audit Committee Chair

Statement of Operations

For the year ended March 31, (*$ thousands*)	**2014 Budget (unaudited) (Note 16)**	**2014**	**2013**
Revenue			
Cost recoveries	$ 348,464	$ 444,763	$ 402,814
Interest income	-	329	293
Total revenue	348,464	445,092	403,107
Expenses			
External investment management fees (Note 10)	141,859	141,163	125,229
External performance fees (Note 10)	31,700	114,701	103,834
External asset administration, legal, and other (Note 10)	57,368	70,365	62,669
Salaries, wages and benefits	66,204	76,979	74,661
Data, subscriptions and maintenance services	10,536	12,528	11,451
Contract and professional services	13,126	8,640	9,286
Amortization of tangible capital assets	14,000	8,501	4,236
Administrative expenses	7,377	6,657	7,438
Rent	5,894	4,849	3,851
Interest	400	709	452
Total expenses	348,464	445,092	403,107
Annual surplus	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the year ended March 31, (*$ thousands*)	**2014**	**2013**
Operating transactions		
Annual surplus	$ -	$ -
Non-cash items:		
Amortization of tangible capital assets	8,501	4,236
Amortization of deferred lease inducement	(450)	(715)
Change in obligation under capital leases	125	(125)
Change in pension liabilities	11	158
	8,187	3,554
Changes in operating accounts (Note 11)	4,483	23,048
	12,670	26,602
Capital transactions		
Acquisition of tangible capital assets	(18,722)	(29,470)
Investment transactions		
Payment of obligation under capital leases	(125)	(143)
Financing transactions		
Proceeds from advance from the Province of Alberta	15,800	23,800
Payment of advance from the Province of Alberta	(3,000)	-
	12,800	23,800
Increase in cash and cash equivalents	6,623	20,789
Cash and cash equivalents at beginning of year	39,111	18,322
Cash and cash equivalents at end of year	$ 45,734	$ 39,111

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

For the year ended March 31, 2014 ($ thousands)

NOTE 1 AUTHORITY

Alberta Investment Management Corporation ("the Corporation") is an agent of the Crown in right of Alberta and operates under the authority of the *Alberta Investment Management Corporations Act*, Chapter A-26.5. Under the Act, the Corporation is established as a Crown Corporation governed by a board of directors appointed by the Lieutenant Governor in Council. The issued share of the Corporation is owned by the Crown, and accordingly the Corporation is exempt from federal and provincial income taxes.

NOTE 2 NATURE OF OPERATIONS

The purpose of the Corporation is to provide investment management services in accordance with the *Alberta Investment Management Corporations Act* primarily to the Province of Alberta and certain public sector pension plans. The Corporation forms part of the Treasury Board and Finance for which the President of Treasury Board and Minister of Finance is responsible. The Corporation was formed January 1, 2008.

The Corporation has assets under administration of $80.4 billion (2013 - $70.9 billion), see Note 12. These assets are invested in segregated investments owned by the client or aggregated in one or more pooled investment portfolios managed by the Corporation. Some of these assets are managed by third-party investment managers selected and monitored by the Corporation in order to achieve greater diversification, as well as to access external expertise and specialized knowledge. The segregated assets and the assets within the pooled investment portfolios are not consolidated in the financial statements of the Corporation. The Corporation makes investments on behalf of its clients and may also establish companies in which the Province of Alberta is the registered owner of the shares for the purpose of managing specific investments. As the Corporation has no beneficial interest in these entities, they are not consolidated in the Corporation's financial statements.

The Corporation recovers all operating expenses and capital expenditures on a cost recovery basis. The Corporation's board of directors may approve recoveries greater than costs to maintain or increase the Corporation's general reserve, although they have not done so in the past.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards ("PSAS") and include the following significant accounting policies:

a) Measurement Uncertainty

Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount. External investment management fees which are recorded as $141,163 (2013 - $125,229), external performance fees which are recorded as $114,701 (2013 - $103,834), and pension liabilities which are recorded as $2,939 (2013 - $2,928) in these financial statements, are subject to measurement uncertainty. External investment costs include estimates of management and performance fees that are based upon specified rates and commitment levels in the investment management agreements. The pension liabilities are based on key assumptions that could impact the reported liability. Refer to Note 8 for a description of the key assumptions and how a change in the assumptions can impact the reported pension liability.

Estimates and assumptions are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from these estimates.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Revenue Recognition

All revenues are reported on the accrual basis of accounting.

Cost recovery revenue is recognized on the recovery of direct costs related to management of government funds, pension plans and other investments, and on the recovery of indirect costs representing each government fund, pension plan and pooled fund's respective share of the Corporation's operating costs. The indirect charges are allocated based on assets under management and head count.

Cost recovery revenue is accrued and billed on a monthly basis as the related costs are incurred and investment management services are provided.

Under the *Alberta Investment Management Corporations Act*, the Corporation may establish and maintain one or more Reserve Funds with the ability to recover charges in excess of direct costs.

c) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

d) Assets

Financial assets which include cash and cash equivalents and accounts receivable are assets that could be used to discharge existing liabilities or finance future operations.

Prepaid expenses are charged to expense over the periods expected to benefit from it.

e) Liabilities

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in a sacrifice of economic benefits in the future.

f) Financial Instruments

All financial assets and financial liabilities are measured at cost or amortized cost. The Corporation does not own any financial instruments designated in the fair value category and as such a Statement of Remeasurement Gains and Losses has not been included in the financial statements.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense.

The Corporation does not own any deriviative financial instruments.

Cash and cash equivalents are recorded at cost, which is equivalent to their fair value, and include short-term and mid-term liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. These short-term investments generally have a maxiumum term-to-maturity of three years or less at acquisition and are held for the purpose of meeting short-term cash commitments rather than for investing. The Corporation has access to these investments with no restrictions.

Accounts receivable are recorded at cost less any provision for doubtful accounts. Provision for doubtful accounts are made to reflect accounts receivable at the lower of cost and net recoverable value, when collectability and risk of loss exists. Changes in doubtful accounts are recognized in administrative expenses in the statement of operations (2014 and 2013 - $nil).

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Tangible Capital Assets

Tangible capital assets are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development, as well as interest costs that are directly attributable to the acquisition or construction of the asset. Computer systems hardware and software development costs, including labour and materials, and costs for design, development, testing and implementation, are capitalized when the related business systems are expected to be of continuing benefit to the Corporation.

Amortization is calculated on a straight-line basis over the following periods:

Computer systems hardware and software	5-10 years
Furniture and equipment	10 years
Leasehold improvements	Lesser of the useful life of the asset and the term of the lease

Computer systems hardware and software development costs are not amortized until the assets are available for use.

h) Write-down of Tangible Capital Assets

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The write-downs are accounted for as expenses in the statement of operations.

i) Net Assets

Net assets represent the difference between the carrying value of assets held by the Corporation and its liabilities.

PSAS require a "net debt" presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as "net debt" or "net financial assets" as an indicator of the future revenues required to pay for past transactions and events. The Corporation operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Employment Benefits

The Corporation participates in multi-employer defined benefit plans that meet the accounting requirements for treatment as defined contribution plans. The Corporation also participates in defined contribution pension plans. Employer contributions are expensed as incurred.

On January 1, 2010, the Corporation established a new Supplementary Retirement Plan ("SRP") for those individuals required to withdraw from the existing SRP for Public Service Managers. This pension plan is accounted for using the projected-benefits method pro-rated on service to account for the cost of the defined benefit pension plan. Pension costs are based on management's best estimate of expected plan investment performance, discount rate, salary escalation, and retirement age of employees. The discount rate used to determine the accrued benefit obligation is based on rates of return of assets currently held by the Plan. Plan assets are valued at fair value for the purpose of calculating the expected return on plan assets. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service life of employees active at the date of amendments. Net actuarial gains or losses and transitional obligations are amortized on a straight-line basis over the average remaining service life of active employees. Valuation allowances are calculated such that accrued benefit assets are limited to amounts that can be realized in the future by applying any plan surplus against future contributions.

The Corporation provides retention incentives to employees through a Long-Term Incentive Plan ("LTIP") and a Restricted Fund Unit Plan ("RFU"). The value of these awards, which fluctuates over the vesting period based on achievement of certain performance factors, is expensed as salaries, wages and benefits over the vesting period of the awards. The liability for the awards is remeasured at each reporting period based on changes in the intrinsic values of the awards, such that the cumulative amount of the liability will equal the expected payout at that date. Any gains or losses on remeasurement are recorded in the statement of operations. For any forfeiture of the awards, the accrued compensation cost will be adjusted by decreasing salaries, wages and benefits expense in the period of forfeiture.

k) Foreign Currency

Assets and liabilities denominated in foreign currency are translated at the year-end rate of exchange. Exchange differences on transactions are included in the determination of net operating results. Foreign currency transactions are translated into Canadian dollars using the Bank of Canada noon rate for the day.

NOTE 4 CASH AND CASH EQUIVALENTS

as at March 31, ($ thousands)	2014	2013
Deposit in Consolidated Cash Investment Trust Fund	$ 45,679	$ 39,060
Cash in U.S. bank account	55	51
	$ 45,734	$ 39,111

The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term-to-maturity of three years. As at March 31, 2014, securities held by the Fund have a time-weighted return of 1.2% per annum (2013 – 1.2% per annum).

NOTE 5 TANGIBLE CAPITAL ASSETS

for the year ended March 31 ($ thousands)

	Computer systems hardware and software	Computer systems hardware and software under development	Equipment under capital leases	Leasehold improvements	Furniture and equipment	2014	2013
Cost							
Opening Balance	$ 24,398	$ 49,049	$ 268	$ 12,365	$ 4,495	$ 90,575	$ 60,837
Additions	9,139	8,914	-	610	59	18,722	29,738
Disposals	-	-	-	-	-	-	-
Transfers	57,963	(57,963)	-	-	-	-	-
Write-downs	-	-	-	-	-	-	-
Closing Balance	91,500	-	268	12,975	4,554	109,297	90,575
Accumulated Amortization							
Opening Balance	15,863	-	20	3,753	1,293	20,929	16,693
Amortization expense	6,718	-	27	1,310	446	8,501	4,236
Disposals	-	-	-	-	-	-	-
Write-downs	-	-	-	-	-	-	-
Closing Balance	22,581	-	47	5,063	1,739	29,430	20,929
Net Book Value at March 31	$ 68,919	$ -	$ 221	$ 7,912	$ 2,815	$ 79,867	$ 69,646

Tangible capital assets includes $nil (2013 – $268) of equipment lease additions that are non-cash transactions in the statement of cash flow.

Included in Computer systems hardware and software are the costs of the Innovations project amounting to $66,529 that commenced operations in August 2013. The systems are being amortized over 10 years, whereas other computer systems are amortized over five years.

NOTE 6 ACCRUED EMPLOYMENT LIABILITIES

as at March 31, ($ thousands)	2014	2013
Annual incentive plan (a)	$ 26,554	$ 23,076
Long-term incentive plan (b)	34,241	32,504
Restricted fund unit incentive plan (c)	821	973
Accrued vacation, salaries and benefits	3,026	2,818
	$ 64,642	$ 59,371

a) Annual Incentive Plan

Variable pay per the Corporation's Annual Incentive Plan is accrued based on goal attainment for the calendar year and paid in the subsequent year. Payments are tied to asset class and total fund value-added and include a component for achievement of annual individual objectives. The Chief Executive Officer may also make limited discretionary awards.

b) Long-Term Incentive Plan

The Corporation provides retention incentives to employees through an LTIP and an RFU plan. The LTIP program promises a deferred reward for generating superior average net incremental return from active management ("value-added") over a four-year period. Senior management and other key professionals of the Corporation receive LTIP grants effective January 1 of each year that vary in size with their level of responsibility and quality of past performance and vest at the end of the fourth calendar period subsequent to the grant date. In the majority of situations, employees must be actively working for the Corporation on the date of payment. LTIP grants have an initial cash value of zero. When they vest after four years, they will pay between zero and three times the size of the grant based on cumulative performance under the four-year vesting period. The maximum amount will be paid if the average four-year value-added exceeds the average "stretch target" annually set by the Board. The stretch target for the 2014 calendar year is $807,000.

Information about the target, stretch target and actual results achieved for the last five calendar years is as follows:

	Target	Stretch Target	Actual Value Added
2009	$ 166,667	$ 500,000	$ 130,000
2010	166,667	500,000	221,000
2011	166,667	500,000	715,000
2012	200,000	600,000	1,284,000
2013	266,667	800,000	589,000
Total	$ 966,668	$ 2,900,000	$ 2,939,000

If the average four-year value-added exceeds the average stretch target annually set by the Board, employees have the potential to receive a Special LTIP Grant at the vesting date. This Special LTIP Grant, which cannot exceed the original grant, has a new four-year vesting period and is subject to the same parameters as regular LTIP grants. Strong performance in certain asset classes since the first grants were awarded have resulted in the potential for Special LTIP Grants. A Special LTIP Grant was awarded in the current year for $2,311 (2013 – $2,233).

The accrued LTIP liability as at March 31, 2014 of $34,241 (2013 - $32,504) reflects the potential value of all LTIP, based on actual results to that date from the date they were awarded.

NOTE 6 ACCRUED EMPLOYMENT LIABILITIES (continued)

Information about total LTIP grants awarded and outstanding is as follows:

for the year ended March 31, (thousands)	2014			2013		
	Notional Value			Notional Value		
LTIP grants outstanding, beginning of year	29,251	$	32,504	20,911	$	15,764
Granted	10,753		709	10,513		658
LTIP Accrual	-		13,840	-		17,720
Forfeited	(2,563)		(2,848)	(2,173)		(1,638)
Paid	(3,378)		(9,964)	-		-
LTIP grants outstanding, end of year	34,063	$	34,241	29,251	$	32,504

The maximum potential obligation related to the LTIP as at March 31, 2014 was $102,189 (2013 - $87,753). Total expense related to the LTIP for the year ended March 31, 2014 was $11,554 (2013 - $16,084) which was recorded in salaries, wages and benefits.

c) Restricted Fund Unit Incentive Plan

The RFU program is a supplementary compensation plan based on a notional investment in the total assets under administration, where the value fluctuates based on the total rate of return. Unlike the LTIP grants, rates of return relative to benchmark do not impact the value of the RFUs. RFUs have time horizons of one-to-three years for vesting provisions. Employees must be on staff as of the payment date in order to be eligible to receive any vested payments.

The accrued RFU liability as at March 31, 2014 of $821 (2013 - $973) reflects the potential value of all RFUs, based on actual results to that date from the date they were awarded.

Information about total RFU grants awarded and outstanding is as follows:

for the year ended March 31, (thousands)	2014			2013		
	Notional Value			Notional Value		
RFU grants outstanding, beginning of year	1,230	$	973	1,550	$	614
Granted	-		-	-		-
Accrual	-		385	-		751
Paid	(480)		(537)	(320)		(392)
RFU grants outstanding, end of year	750	$	821	1,230	$	973

Total expense related to the RFU plan for the year ended March 31, 2014 was $385 (2013 - $751) which was recorded in salaries, wages and benefits.

NOTE 7 ADVANCE FROM THE PROVINCE OF ALBERTA

Pursuant to Order in Council 219/2012 and in accordance with a loan advance agreement, the Corporation received advances from the Province of Alberta during the year ended March 31, 2014 totaling $15,800 to fund capital cost requirements. As at March 31, 2014, the outstanding advances from the Province totaled $64,849 (2013 - $52,049).

The advance is a revolving demand credit facility up to a maximum of $70,000. The advance is repayable within six months of demand by the Province and is interest bearing at a rate equal to the Province's one-month borrowing rate of 0.84% (2013 - 0.98%). At March 31, 2014, the Corporation was in compliance with the terms of its revolving demand facility.

NOTE 8 PENSION LIABILITIES

Information about the Corporation's SRP is as follows:

for the year ended March 31, ($ thousands)	2014	2013
Accrued retirement obligation		
Beginning of year	$ 2,299	$ 2,275
Current service cost	310	406
Interest cost	109	112
Benefits paid	(9)	(18)
Actuarial loss (gain)	578	(476)
End of year	3,287	2,299
Plan assets		
Fair value, beginning of year	812	579
Actual return on plan assets	117	13
Employer contributions	136	119
Employee contributions	136	119
Benefits paid	(9)	(18)
End of year	1,192	812
Funded status - plan deficit	(2,095)	(1,487)
Unamortized net actuarial gain	(844)	(1,441)
Reported liability	$ (2,939)	$ (2,928)
Current service cost	310	406
Interest cost	109	112
Expected return on plan assets	(40)	(39)
Net actuarial gain amortization	(96)	(83)
Less: employee contributions	(136)	(119)
Total SRP expense	$ 147	$ 277

The measurement date for the plan assets and the accrued retirement obligation for the Corporation's defined benefit pension plan is March 31. Actuarial valuations are performed at least every three years to determine the actuarial present value of the accrued retirement obligation. An actuarial valuation for funding purposes was prepared as of December 31, 2012. An extrapolation of the actuarial valuation dated December 31, 2012 was performed to March 31, 2014.

Approximate asset allocations, by asset category, of the Corporation's defined benefit pension plan assets were as follows:

as at March 31,	2014	2013
Equity securities	55%	55%
Debt securities	44%	44%
Other	1%	1%

NOTE 8 PENSION LIABILITIES (continued)

The following table presents key assumptions applicable to the SRP:

as at March 31,	2014	2013
Annual discount rate	4.4%	4.2%
Annual salary increase - base	4.0%	3.5%
Expected long-term return on plan assets	5.8%	5.6%
Inflation rate	2.0%	2.0%

The reported liability of the SRP is significantly impacted by these assumptions. A 1% increase or decrease in the discount rate would decrease or increase the reported liability by $919 as at March 31, 2014 (2013 - $590). A 1% increase or decrease in the rate of salary increases would increase or decrease the reported liability by $1,023 as at March 31, 2014 (2013 - $737). A 1% increase or decrease in the inflation rate would increase or decrease the reported liability by $308 as at March 31, 2014 (2013 - $208).

Pension and Disability Plans

The Corporation participates in two multi-employer public sector pension plans, the Management Employees Pension Plan and the Public Service Pension Plan, and two multi-employer Long-Term Disability Income Continuance plans. The Corporation also participates in a defined contribution pension plan and a defined contribution supplementary retirement plan, established for employees hired after the formation of the Corporation on January 1, 2008.

The Corporation's expense for the pension and disability plans was equivalent to the annual contributions of $3,694 (2013 - $3,122) for the year ended March 31, 2014 which was recorded in salaries, wages and benefits.

At December 31, 2013, the Management Employees Pension Plan reported a surplus of $ 50,457 (2013 – deficiency of $303,423) and the Public Service Pension Plan reported a deficiency of $ 1,254,678 (2013 - $1,645,141).

NOTE 9 NET ASSETS

The accumulated surplus is made up as follows:

as at March 31, ($ thousands)	2014	2013
Contributed surplus (a)	$ 3,647	$ 3,647
Share capital (b)	-	-
Accumulated surplus	-	-
	$ 3,647	$ 3,647

a) Contributed Surplus

Contributed surplus of $3,647 (2013 - $3,647) represents equity received by the Department of Treasury Board and Finance in exchange for the transfer of the net book value of capital assets to the Corporation on January 1, 2008.

b) Share Capital

as at March 31, ($ thousands)	2014	2013
Issued and Authorized		
Province of Alberta - one share	$ -	$ -

NOTE 10 EXTERNAL INVESTMENT COSTS

External investment costs include external investment management and performance-based fees, as well as asset administration, legal and other expenses incurred on behalf of the Corporation's clients.

External investment management fees are based on a percentage of net assets under management at fair value and committed amounts in the case of private equity and private income pools. Fees charged by external managers include regular management fees as well as performance/incentive-based fees. These fees include significant estimates and measurement uncertainty. Actual results could differ from these estimates.

External asset administration, legal and other expenses are incurred directly by the Corporation's investment portfolios and include fees for the following services: asset custody and administration, audit, compliance and valuation, and investment acquisition, disposition and structuring. During the March 31, 2014 year-end, $6,852 (2013 - $13,774) of one-time acquisition fees related to insurance investments were incurred.

NOTE 11 CHANGES IN OPERATING ACCOUNTS

for the year ended March 31, ($ thousands)	2014	2013
Decrease (increase) in accounts receivable	$ 3,042	$ (1,036)
Increase in prepaid expenses	(1,673)	(284)
(Decrease) increase in accounts payable and accrued liabilities	(2,157)	1,636
Increase in accrued employment liabilities	5,271	22,732
	$ 4,483	$ 23,048

NOTE 12 ASSETS UNDER ADMINISTRATION

The Corporation provides investment management services on behalf of certain Province of Alberta endowment funds, other government funds and certain public sector pension plans.

At March 31, 2014 assets under administration totalled approximately $80.4 billion (2013 - $70.9 billion), at market value. These assets were administered on behalf of the following clients of the Corporation:

as at March 31, ($ thousands)	2014	2013
Pension plans	$ 45,806,894	$ 39,926,701
Ministry of Treasury Board and Finance		
General revenue and entity investment funds [1]	8,246,024	6,454,918
Endowment funds (including the Alberta Heritage Savings Trust Fund)	21,055,820	20,247,990
Insurance-related funds	2,672,544	2,070,890
Other government Ministry investment funds	2,587,099	2,256,240
	$ 80,368,381	$ 70,956,739

[1] General Revenue Fund Policy loans have been excluded as they are managed by the Ministry of Finance.

The Corporation manages the majority of these investments through pooled investment funds. However, some investments are managed by third party investment managers selected and monitored by the Corporation in order to achieve greater diversification, access to external expertise and specialized knowledge. Investments are made in accordance with the investment policies established and approved by the clients.

NOTE 12 ASSETS UNDER ADMINISTRATION (continued)

Investments administered by the Corporation were held in the following asset classes:

as at March 31, ($ thousands)	2014	2013
Fixed income		
Fixed income [1]	$ 25,541,210	$ 22,538,737
Private mortgages	2,313,914	2,362,946
Private debt & loan	770,284	725,482
Inflation sensitive		
Real estate	9,207,509	8,100,378
Infrastructure and timber	4,382,537	3,869,644
Real return bonds and commodities	2,341,455	2,218,677
Equities		
Public equities and absolute return strategies	31,690,568	28,363,195
Private equity and venture capital	3,748,189	2,287,474
Overlays	372,715	489,565
Currency derivatives	-	641
	$ 80,368,381	$ 70,956,739

[1] General Revenue Fund Policy loans have been excluded as they are managed by the Ministry of Finance.

NOTE 13 RELATED PARTY TRANSACTIONS

Related parties are the government funds, pension plans and other entities for which the Corporation provides investment management services. The Corporation had the following transactions with related parties recorded at the exchange amount which is the amount of consideration agreed upon between the related parties:

for the year ended March 31, ($ thousands)	2014	2013
Revenues		
Indirect cost recoveries [1]	$ 118,534	$ 111,082
Expenses		
Interest on advance from Province of Alberta	599	384
Contracted services (rent and other) [2]	777	230
	1,376	614
Assets		
Accounts receivable [1]	11,575	14,504
Liabilities		
Advance from Province of Alberta	64,849	52,049
	$ 64,849	$ 52,049

[1] Recovered from government funds, pension plans and other entities.

[2] Transacted with Ministry of Finance and other entities.

NOTE 14 SALARIES AND BENEFITS DISCLOSURE

The Corporation has a pay for performance strategy that exists to attract, retain and motivate top performers. Base salaries are market driven and variable compensation programs reward consistent value-added performance.

The tables below present total compensation of the directors and senior management of the Corporation earned for the year ended March 31, 2014 in accordance with direction from the Department of Treasury Board and Finance.

for the year ended March 31, ($ thousands)						2014	2013
		Incentive Plan					
	Base Salary[1]	Annual[2]	Long-Term[3]	Other Cash Benefits[4]	Other Non-Cash Benefits[5]	Total	Total
Chairman of the Board[6]	$ -	$ -	$ -	$ 90	$ -	$ 90	$ 91
Board Members[6]	-	-	-	372	-	372	448
Chief Executive Officer	500	1,318	1,500	17	74	3,409	3,049
Chief Financial Officer	263	375	-	1	33	672	480
EVP, Public Market Investments	331	850	716	2	62	1,961	1,544
EVP, Private Investments	329	502	-	-	48	879	892
EVP, Investment Strategy & Risk [7]	353	725	-	32	38	1,148	225
EVP, Venture & Innovations [8]	359	753	716	4	57	1,889	1,805

(1) Base Salary consists of all regular pensionable base pay earned.
(2) Annual Incentive Plan is accrued based on goal attainment for the calendar year and paid in the subsequent period.
(3) Long-Term Incentive Plan consists of amounts that became eligible for payment in the year and paid in a subsequent period.
(4) Other Cash Benefits consist of RFU paid in the year, retainers, honoraria, lump sum payments, and any other direct cash remuneration.
(5) Other Non-Cash Benefits consist of the Corporation's share of all employee benefits and contributions or payments made on behalf of employees, including pension, supplementary retirement plans, statutory contributions, and health plan coverage.
(6) The Board consists of 11 independent members including the Chairman, whose compensation is disclosed separately.
(7) The EVP, Investment Strategy & Risk commenced employment with the Corporation on March 12, 2013.
(8) The EVP, Venture & Innovation resigned effective March 31, 2014.

NOTE 14 SALARIES AND BENEFITS DISCLOSURE (continued)

LTIP awards are granted at the the start of each fiscal year and paid out after the end of a four year vesting period. The table below shows the LTIP grants and estimated future payouts for each named executive. The future value of awards granted for 2011, 2012 and 2013 but not vested are estimated as at March 31, 2014 based on actual performance for calendar years 2011, 2012 and 2013 and no assumed growth for future years. For awards granted in 2014, the estimated future payout is estimated to be equal to the grant amount. No amount is payable if performance is below a certain level.

	Notional Value				
	As at March 31, 2013	Granted in Year	Eligible for Payout in Year	Forfeited in Year	As at March 31, 2014
Chief Executive Officer [1]	2,500.0	250.0	(500.0)	-	2,250.0
Chief Financial Officer	209.0	108.2	-	-	317.2
EVP, Public Market Investments	1,282.5	581.9	(238.5)	-	1,625.9
EVP, Private Investments	805.5	333.5	-	-	1,139.0
EVP, Investment Strategy & Risk	350.0	360.5	-	-	710.5
EVP, Venture & Innovations [2]	1,433.5	-	(238.5)	(1,195.0)	-

	Estimated Future Payout				
	As at March 31, 2013	Change in Estimated Future Payout in Year	Eligible for Payout in Year	Forfeited in Year	As at March 31, 2014
Chief Executive Officer [1]	$ 4,884.6	$ 513.4	$ (1,500.0)	$ -	$ 3,898.0
Chief Financial Officer	$ 351.3	$ 118.6	$ -	$ -	$ 469.9
EVP, Public Market Investments	$ 2,716.5	$ 662.4	$ (715.5)	$ -	$ 2,663.4
EVP, Private Investments	$ 1,056.2	$ 442.0	$ -	$ -	$ 1,498.2
EVP, Investment Strategy & Risk	$ 350.0	$ 228.0	$ -	$ -	$ 578.0
EVP, Venture & Innovations [2]	$ 2,699.7	$ -	$ (715.5)	$ (1,984)	$ -

(1) On April 25, 2014 the Board announced the commencement of a search to replace the Chief Executive Officer as part of its ongoing successio planning. According to the terms of the CEO's employment contract, LTIP grants that are unvested when the CEO ceases to be employed by th Corporation continue to accrue and are payable after the normal vesting period of the grant.

(2) The EVP, Venture & Innovation resigned effective March 31, 2014. At that date, unvested LTIP awards with a notional amount of $1,195 wer forfeited.

NOTE 15 CONTRACTUAL OBLIGATIONS

Contractual obligations of $33,367 are obligations to others that will become liabilities in the future when the terms of those contracts or agreements are met. The Corporation has entered into various agreements with minimum annual commitments for office space and other contracted services. Estimated payment requirements for each of the next five years and thereafter are as follows:

as at March 31, ($ thousands)	2014
2015	$ 8,252
2016	5,735
2017	5,187
2018	4,860
2019	4,655
Thereafter	4,678
Total	$ 33,367

The Corporation entered into a lease agreement commencing January 1, 2010, for 10 years, with two optional renewal periods of five years each. As part of the lease agreement, the Corporation received a lease inducement of $6,768. The inducement is recognized as a reduction in lease expense over the 10-year term of the lease. The Corporation entered into two lease agreements commencing April 30, 2013 and April 1, 2014 respectively. The first agreement is for 9 years with an option to renew for a further 6 years. Included in this agreement is a lease inducement of $300 to be recognized as a reduction in lease expenses over the 9-year term of the lease. The second agreement is for 69 months with no option to renew. Included in this agreement is a lease inducement of $353 to be recognized as a reduction in lease expenses over the term of the lease. The total deferred lease inducement as at March 31, 2014, which includes the Corporation's offices in Toronto, is $4,169 (2013 – $4,619).

Pursuant to Order in Council 23/2008, the Province of Alberta has made available a facility to access up to a maximum of $200,000 for letters of credit for security purposes. This facility is utilized by the investment pools and at March 31, 2014 the balance outstanding against the facility is $134,059 (2013 - $116,974).

NOTE 16 2013-2014 BUDGET

The Corporation's budget for the year ended March 31, 2014 was approved by the Board of Directors on November 30, 2012.

NOTE 17 RISK MANAGEMENT

The Corporation has minimal exposure to credit risk, liquidity risk and foreign exchange risk due to the nature of our operations.

a) Credit Risk

The Corporation is exposed to minimal credit risk as all our clients are established organizations that have a proven history of payment.

As at March 31, 2014, the total carrying amount in accounts receivable balance is current.

b) Liquidity Risk

The Corporation has limited exposure to liquidity risk as it recovers all operating expenses and capital expenditures from our clients on a cost recovery basis.

Liquidity risk exposure is managed through regular recovery of all operating costs on a monthly basis. Further, the Corporation's board of directors may approve recoveries greater than costs to maintain or increase the Corporation's general reserve, in the event additional funding is needed.

NOTE 17 RISK MANAGEMENT (continued)

c) Foreign Exchange Risk

The Corporation has limited exposure to foreign exchange risk as amounts are payable and paid in a timely manner.

The carrying amount of the Corporation' s US denominated foreign currency in accounts payable and accrued liabilities as at March 31, 2014 is $758 (2013 - $135).

d) Interest Rate Risk

The Corporation is exposed to interest rate risk from our advance from the Province of Alberta. The sensitivity of the Corporation's operating surplus due to a 1% change in the interest rate is $648 (2013 - $520).

NOTE 18 COMPARATIVE FIGURES

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

ALBERTA LOCAL AUTHORITIES PENSION PLAN CORPORATION

Financial Statements

Year Ended December 31, 2013

Independent Auditor's Report

To the Shareholder of Alberta Local Authorities Pension Plan Corp.

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Local Authorities Pension Plan Corp., which comprise the statement of financial position as at December 31, 2013, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Local Authorities Pension Plan Corp. as at December 31, 2013, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General
April 25, 2014
Edmonton, Alberta

Statement of Financial Position

As at December 31, 2013

	(thousands)	
	2013	2012
Assets		
Cash	$ 141	$ 323
Accounts receivable	2	1
	143	324
Liabilities		
Accrued liabilities	$ 71	$ 243
Deferred revenue (Note 5)	72	81
	143	324
Net Assets	-	-
	$ 143	$ 324

The accompanying notes are part of these financial statements.

Approved by the Board:

[original signed by]

Mike Mahar
Chair of the Board

[original signed by]

Don Sieben
Audit Committee Chair

Approved by Management:

[original signed by]

Meryl Whittaker
President & CEO

Statement of Operations

For the year ended December 31, 2013

(thousands)

	Budget 2013 (Note 9)	Actual 2013	Actual 2012
Revenue			
Service revenue (Note 5)	$ 3,448	$ 2,458	$ 2,636
Miscellaneous revenue	-	3	3
Total revenue	3,448	2,461	2,639
Operating costs			
Salaries and benefits (Note 7)	1,263	1,108	1,029
Professional fees	436	234	285
Stakeholder Relations & Communication	634	213	303
Board costs	460	281	287
Actuarial services	405	387	492
General and administrative	250	238	243
Total operating costs	3,448	2,461	2,639
Annual surplus	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the year ended December 31, 2013

	(thousands)	
	2013	2012
Operating activities		
Annual surplus	$ -	$ -
Changes in non-cash working capital		
Decrease (Increase) in accounts receivable	(1)	-
Increase (Decrease) in accrued liabilities	(172)	56
Increase (Decrease) in deferred revenue	(9)	64
Increase (Decrease) in cash for the year	(182)	120
Cash at beginning of year	323	-
Cash at end of year	$ 141	$ 323

The accompanying notes are part of these financial statements.

Alberta Local Authorities Pension Plan Corp.
Notes to the financial statements
December 31, 2013

1. Authority

Alberta Local Authorities Pension Plan Corp. (the Corporation) was incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000 and commenced operations on January 1, 2006. The Corporation is controlled by the Government of Alberta and is exempt from income and other taxes.

2. Nature of Operations

The Minister of Finance of Alberta, operating under the authority of the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 (the Act) and the *Financial Administration Ac*t, Chapter F-12, RSA 2000, is responsible for administering the Local Authorities Pension Plan (the Plan). Certain governance services are provided by the Corporation pursuant to a delegation from the Minister and an Administrative Services Agreement with the Minister, each effective January 1, 2006. These services include supporting the Board of Trustees of the Plan in performing its statutory functions under the Act, and providing strategic guidance for the Plan.

3. Summary of Significant Accounting Policies and Reporting Practices

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards.

Revenue

All revenues are reported on the accrual basis of accounting. Revenue for future expenses received in advance is recorded as deferred revenue.

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations. Financial assets of the Corporation are limited to cash and accounts receivable.

Liabilities

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair value of cash, accounts receivable and accrued liabilities are estimated to approximate their carrying values because of the short-term nature of these instruments.

Financial Instruments

As the Corporation does not have any transactions involving financial instruments that are classified in the fair value category and has no foreign currency transactions, there are no remeasurement gains and losses and therefore a statement of remeasurement gains and losses has not been presented.

4. Share Capital

	2013	2012
Authorized		
Unlimited number of common shares		
Unlimited number of preferred shares		
Issued		
1 common share (Note 1)	$ 1	$ 1

5. Service Revenue / Deferred Revenue

The Corporation commenced charging the Local Authorities Pension Plan for its operating costs, as authorized by the Administrative Services Agreement with the Minister of Finance, effective January 1, 2006. Therefore, revenue is recognized as the related expenses are incurred and recorded by the Corporation.

6. Commitments

The Corporation has entered into agreements with minimum annual commitments for office space and automobile parking space as follows:

	(thousands)
2014	$ 201

7. Salaries and Benefits Disclosure

(thousands)

		2013				2012
		Base Salary [a]	Other Cash Benefits [b]	Other Non-cash Benefits [c]	Total	Total
Corporation Board Chair	[d]	$ -	$ 34	$ -	$ 34	$ 40
Corporation Board Members (excluding Chair)	[d]	-	96	-	96	117
President & Chief Executive Officer		214	51	61	326	318
Vice-Presidents:						
Investments		141	49	7	197	194
Pension Policy & Funding	[e]	130	22	30	182	99
Stakeholder Relations		137	23	34	194	189

[a] Base salary includes regular base pay.

[b] Other cash benefits include incentive pay, lump sum payments, vacation payouts and car allowance honoraria.

[c] Other non-cash benefits include the Corporation's share of all employees' benefits and contributions or payments made on their behalf including pension, health care, dental coverage, professional memberships and group life insurance.

[d] Remuneration paid for the services of the Chair and 13 board members is classified under Board Meeting Fees and is paid in accordance with the fee structure approved by the President of Treasury Board and Minister of Finance.

[e] This position was vacant five months in 2012.

8. Defined Benefit Plans
(thousands)

The Corporation participates in two multi-employer public sector pension plans, the Management Employees Pension Plan and the Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $118 for the year ended December 31, 2013 (2012: $89).

At December 31, 2012, the Management Employees Pension Plan reported a deficiency of $303,423 (2011: deficiency of $517,726), the Public Service Pension Plan reported a deficiency of $1,645,141 (2011: deficiency of $1,790,383) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $51,870 (2011: deficiency of $53,489).

9. Approval of 2013 Budget

The 2013 budget was approved by the Corporation's Board of Directors on October 19, 2012 and the Corporation was notified of the approval by the President of the Treasury Board and Minister of Finance on April 22, 2013.

10. Financial Statement Approval

The financial statements were approved by the Corporation's Board of Directors.

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ALBERTA PENSIONS SERVICES CORPORATION

Financial Statements

Year Ended December 31, 2013

These Alberta Pensions Services Corporation (APS) Financial Statements are a copy from the APS 2013 Annual Report. A complete copy of the APS Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the APS website at www.apsc.ca.

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Alberta Pensions Services Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Pensions Services Corporation, which comprise the statement of financial position as at December 31, 2013, and the statements of operations and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Pensions Services Corporation as at December 31, 2013, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

AUDITOR GENERAL
May 7, 2014
Edmonton, Alberta

ALBERTA PENSIONS SERVICES CORPORATION

STATEMENT OF OPERATIONS

Year ended December 31

($ thousands)

	2013		2012
	Budget	**Actual**	**Actual**
EXPENSES			
Staff and related expenses	30,233	29,244	26,393
Contract services	5,807	3,732	5,764
Materials and supplies	4,815	4,694	4,662
Amortization	2,320	2,179	2,600
Data processing and maintenance	1,873	1,796	1,997
Total before plan specific and employer specific services	45,048	41,645	41,416
Plan specific services (Note 6)	2,103	1,449	1,583
Employer specific services (Note 7)	95	99	100
Total operating expenses	47,246	43,193	43,099
Recovery of costs (Note 8)	47,246	43,193	43,099
Contractual obligations (Note 12)			

The accompanying notes are an integral part of these financial statements.

Approved by the Board:

[Original signed by]

AL MONDOR, FCA
Chair
Board of Directors

[Original signed by]

GARTH SHERWIN, CA
Chair
Audit Committee

ALBERTA PENSIONS SERVICES CORPORATION

STATEMENT OF FINANCIAL POSITION

As at December 31

($ thousands)

	2013	2012
ASSETS		
Cash	234	203
Accounts receivable	51	60
Prepaid expenses	878	669
Due from pension plans (Note 8)	3,967	4,885
Tangible capital assets (Note 4)	23,236	10,949
	28,366	16,766
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	1,592	2,457
Accrued salaries and benefits	2,204	1,883
Accrued vacation pay	289	245
Deferred lease inducement (Note 12)	1,045	1,232
Unamortized deferred capital contributions (Note 4)	23,236	10,949
	28,366	16,766
NET ASSETS		
Net assets (Note 5)	–	–
	28,366	16,766

The accompanying notes are an integral part of these financial statements.

ALBERTA PENSIONS SERVICES CORPORATION

STATEMENT OF CASH FLOW

Year ended December 31

($ thousands)

	2013	2012
OPERATING TRANSACTIONS		
Non-cash items:		
Amortization of tangible capital assets	2,179	2,600
Decrease in deferred lease inducement (Note 12)	(187)	(187)
Amortization of unamortized deferred capital contributions	(2,179)	(2,600)
	(187)	(187)
Decrease (increase) in accounts receivable	9	(6)
(Increase) decrease in prepaid expenses	(209)	328
Decrease in due from pension plans	918	156
Decrease in accounts payable and accrued liabilities	(865)	(436)
Increase in accrued salaries and benefits	321	152
Increase in accrued vacation pay	44	–
Cash provided by operating transactions	31	7
CAPITAL TRANSACTIONS		
Acquisition of tangible capital assets	(14,466)	(7,010)
FINANCING TRANSACTIONS		
Increase in unamortized deferred capital contributions	14,466	7,010
Increase in cash	31	7
Cash at beginning of year	203	196
Cash at end of year	234	203

The accompanying notes are an integral part of these financial statements.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2013

1. AUTHORITY

Alberta Pensions Services Corporation (APS) is incorporated under the *Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000*. The issued share of the Corporation is owned by the President of Treasury Board and Minister of Finance (the Minister) on behalf of the Government of Alberta and accordingly the Corporation is exempt from income and other taxes. APS is referred to as the Corporation throughout the Notes to the Financial Statements.

2. NATURE OF OPERATIONS

The Minister, operating under the authority of the *Public Sector Pension Plans Act, Chapter P-41, Revised Statutes of Alberta 2000* is responsible for administering the following public sector pension plans:

- Local Authorities Pension Plan (LAPP)
- Public Service Pension Plan (PSPP)
- Management Employees Pension Plan (MEPP)
- Special Forces Pension Plan (SFPP)
- Public Service Management (Closed Membership) Pension Plan (PSM(CM)PP)

The Minister, operating under the authority of the *Provincial Court Act* and *the Court of Queen's Bench Act, Chapter 196, Regulation 2001* is responsible for administering the following public sector pension plans:

- Provincial Judges and Masters In Chambers (Registered) Pension Plan (PJMC(R)PP)
- Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (PJMC(U)PP)

The Minister, operating under the authority of the *Members of the Legislative Assembly Pension Plan Act, Chapter M-12, Revised Statutes of Alberta 2000* is responsible for administering the following public sector pension plan:

- Members of the Legislative Assembly Pension Plan (MLAPP)

The Minister, operating under the authority of the *Financial Administration Act, Chapter F-12, Revised Statutes of Alberta 2000* and the *Supplementary Retirement Plan – Retirement Compensation Arrangement Directive (Treasury Board Directive 01/06)* is responsible for administering the following public sector pension plan:

- Supplementary Retirement Plan for Public Service Managers (MSRP)

Specific pensions services required by the pension plans and employers are provided by the Corporation pursuant to a Pensions Services Agreement with the Minister through to December 31, 2014. These services include the collection and recording of contributions, calculating and paying benefits, communicating to plan members and employers, pension plan board support services and risk management services. The Corporation also provides specific services, on a cost recovery basis, for some employers (Note 7).

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended December 31, 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements are prepared by management in accordance with Canadian Public Sector Accounting Standards (PSAS).

Recovery of Costs

All recoveries of costs are reported on the accrual basis of accounting. Accruals for the recovery of costs are recorded as the related expenses are incurred.

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed.

Tangible Capital Assets

Tangible capital assets are recorded at cost. The threshold for capitalizing software is $100,000; and $5,000 for all other items, where these items have a useful life in excess of one year. Amortization is calculated on a straight line basis as follows:

Assets under construction	Refer to (a) below
Leasehold improvements	Refer to (b) below
Computer hardware	3 years
Furniture and equipment	5 years
Telephone system	3 years
Computer software	3 years

Amortization will commence the month immediately after the tangible capital asset has been deemed substantially complete and ready for productive use.

(a) Assets under construction, which include the replacement of the current pensions services systems and the development of its applications, are not amortized.

(b) Amortization is over the term of lease plus one optional renewal period, to a maximum of 5 years.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended December 31, 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Contributions

All externally restricted contributions received for the acquisition or construction of depreciable tangible capital assets are recognized as revenue when the assets are used for the purposes specified. All external restricted contributions received before meeting these criteria are recorded as a liability until the assets are used.

Use of Estimates

The preparation of financial statements in conformity with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities in the financial statements. Actual results could differ from these estimates, and the impact of any such differences will be recorded in future periods. The significant area requiring the use of management estimates relates to the estimated useful lives of tangible capital assets.

Financial Instruments

Financial instruments of the Corporation consist of cash, accounts receivable, due from pension plans, accounts payable and accrued liabilities, accrued salaries and benefits and accrued vacation pay. Due to their short term nature, the carrying value of these instruments approximates their fair value.

As the Corporation does not have any transactions involving financial instruments that are classified in the fair value category, there are no remeasurement gains and losses and therefore a statement of remeasurement gains and losses has not been presented.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended December 31, 2013

4. TANGIBLE CAPITAL ASSETS

($ thousands)

	2013			2012
	Cost	**Accumulated Amortization**	**Net Book Value**	**Net Book Value**
Assets under construction	20,840	–	20,840	7,308
Leasehold improvements	7,853	6,789	1,064	2,037
Computer hardware	8,270	7,258	1,012	1,181
Furniture and equipment	1,567	1,252	315	362
Telephone system	406	401	5	61
Computer software	12,498	12,498	–	–
	51,434	28,198	23,236	10,949

Financing obtained from the public sector pension plans to acquire tangible capital assets is recorded as unamortized deferred capital contributions. The recovery of costs is recognized on the same basis as the tangible capital assets are amortized.

5. SHARE CAPITAL

	2013	2012
Issued:		
1 common share	$1	$1

An unlimited number of common and preferred shares are authorized with a single common share issued (Note 1).

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended December 31, 2013

6. PLAN SPECIFIC SERVICES

($ thousands)

The Corporation makes certain payments on behalf of the public sector pension boards or committees. These expenses, which are incurred directly by the boards or committees and which the Corporation does not control, are as follows:

	2013				2012
Plan	**Contract Services**	**Other**	**Board and Committee Remuneration**	**Total**	**Total**
MEPP	385	87	52	524	480
SFPP	327	69	49	445	578
PSPP	323	71	14	408	407
MSRP	40	3	–	43	35
MLAPP	15	–	–	15	3
PSM(CM)PP	7	–	–	7	32
PJMC(R)PP	2	2	–	4	33
PJMC(U)PP	3	–	–	3	15
	1,102	232	115	1,449	1,583

7. EMPLOYER SPECIFIC SERVICES

($ thousands)

In 2008, the Minister approved the Corporation administering post retirement benefits for certain employers who participate in the public sector pension plans. All costs associated with administering these benefits are recovered directly from the specific employers as follows:

Employer	**2013**	**2012**
City of Calgary	9	9
City of Edmonton	7	8
EPCOR	5	5
Government of Alberta	2	2
Legislative Assembly	1	1
	24	25
Alberta Investment Management Corporation[1]	75	75
	99	100

1 In 2011, the Corporation entered into an agreement to provide certain administration services on a cost-recovery basis to Alberta Investment Management Corporation (AIMCo), a related Crown Corporation, in respect of an AIMCo supplementary retirement plan. The service agreement provided APS with a one-time fee in the amount of $75 with recurring annual fees of $75 commencing January 1, 2011.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended December 31, 2013

8. RECOVERY OF COSTS

($ thousands)

The Corporation charges each public sector pension plan with its proportionate share of the Corporation's operating and plan specific costs based on the allocation formula approved by the Minister. At December 31, 2013, $3,967 (2012 – $4,885) is receivable from the plans. The receivable at year end is directly related to the timing of the receipt and disbursement of funds.

Plan	2013	2012
LAPP	26,919	27,225
PSPP	10,618	10,615
MEPP	2,398	2,181
SFPP	2,007	1,818
MSRP	549	522
PSM(CM)PP	281	318
PJMC(R)PP	99	128
PJMC(U)PP	98	97
MLAPP	93	68
	43,062	42,972
Interest and other miscellaneous cost recoveries	32	27
Employer specific services (Note 7)	99	100
	43,193	43,099

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended December 31, 2013

9. EMPLOYEE FUTURE BENEFITS

($ thousands)

The Corporation participates in three multi-employer, defined benefit public sector pension plans: PSPP, MEPP and MSRP. The Trustee of the plans is the Minister. Multi-employer plans are accounted for as defined contribution plans. Accordingly, the Corporation does not recognize its share of any plan surplus or deficit. The expense for these pension plans is equivalent to the annual contributions of $3,315 for the year ended December 31, 2013 (2012 – $2,619). This amount is included in staff and related expenses.

An actuarial valuation is performed to assess the financial position of the plan and adequacy of the plan funding. At December 31, 2012, PSPP reported a deficiency of $1,645,141 (2011 – deficiency of $1,790,383), MEPP reported a deficiency of $303,423 (2011 – deficiency of $517,726) and MSRP had a deficiency of $51,870 (2011 – deficiency of $53,489).

10. RELATED PARTY TRANSACTIONS

($ thousands)

The Corporation received the following services at amounts which approximate market value from:

	2013	2012
Service Alberta	1,125	1,045
Data processing, software licenses and postage and printing		
Treasury Board and Finance	45	43
Risk management and insurance		
University of Alberta	3	2
Management training		
	1,173	1,090

At year end, $151 (2012 – $257) is payable to Service Alberta.

The Corporation also provided services to the pension plans and pension plan boards and committees as disclosed in Notes 6 and 8. These transactions are in the normal course of operations.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended December 31, 2013

11. SALARIES AND BENEFITS DISCLOSURE

Details of Executive and Board member remuneration are presented in the Compensation Discussion and Analysis section of the Corporation's 2013 annual report.

12. CONTRACTUAL OBLIGATIONS

($ thousands)

The Corporation has entered into some multi-year agreements whereby the Corporation will be obligated to make future payments when the goods or services are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

YEAR	OBLIGATIONS
2014	11,572
2015	8,883
2016	1,916
2017	1,916
2018	1,916
Thereafter	1,277
	27,480

The Corporation entered into a lease agreement for a new facility commencing on September 1, 2009. This agreement is for 10 years, with two optional renewal periods of five years each. As part of the lease agreement, the Corporation received a lease inducement of $1,868. The inducement is recognized as a reduction in lease expense over the 10 year term of the lease.

In 2012, the Corporation entered into an agreement for consulting services related to a major pension services systems replacement project with expected completion by November 2015, and total contractual obligations over the next two years totalling $16,640.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended December 31, 2013

13. FINANCIAL INSTRUMENTS

Liquidity risk is the risk of not being able to meet the Corporation's cash requirements in a timely and cost-effective manner. The Corporation's only source of liquidity is amounts charged to pension plans (Note 8).

It is management's opinion that the Corporation is not exposed to any risk arising from this financial instrument.

14. 2013 BUDGET

The Corporation's 2013 budget was approved by the Board of Directors on November 21, 2012.

15. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors.

ALBERTA SECURITIES COMMISSION

Financial Statements

Year Ended March 31, 2014

Independent Auditor's Report

To the Members of the Alberta Securities Commission

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Securities Commission, which comprise the statement of financial position as at March 31, 2014, and the statements of operations, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Securities Commission as at March 31, 2014, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 11, 2014

Edmonton, Alberta

Statement of Financial Position

thousands of dollars	March 31, 2014	March 31, 2013
Assets		
Cash and cash equivalents (Note 4)	$ 7,540	$ 7,761
Accounts receivable	98	146
Prepaid expenses	213	77
Restricted cash (Note 3)	2,216	365
Investments (Notes 2 and 4)	28,006	29,232
Capital assets (Note 6)	7,241	7,999
	$ 45,314	$ 45,580
Liabilities		
Accounts payable and accrued liabilities	$ 4,815	$ 4,919
Lease inducements (Note 7)	2,666	2,941
Accrued pension liability (Note 8)	6,458	5,691
	13,939	13,551
Net Assets		
Accumulated operating surplus, beginning of year	31,162	35,102
Net operating results	(470)	(3,940)
Accumulated operating surplus, end of year	30,692	31,162
Accumulated remeasurement gains, end of year	683	867
Net assets, end of year (Notes 2 and 3)	31,375	32,029
	$ 45,314	$ 45,580

The accompanying notes and schedule are part of these financial statements.

Approved by the Members

[original signed by]

William S. Rice, *Q.C.*

Chair and Chief Executive Officer

[original signed by]

Daniel McKinley, *FCA ICD.D*

Member

Statement of Operations

thousands of dollars

	For year ended March 31		
	2014 Budget (Note 12)	2014 Actual	2013 Actual
Revenue			
Fees (Note 9)	$ 29,755	$ 30,196	$ 27,837
Investment income (Note 5)	1,525	2,014	1,816
Administrative penalties (Note 3)	280	2,034	247
Other enforcement receipts (Note 9)	720	1,037	649
Conference fees and other	20	15	15
	32,300	35,296	30,564
Regulatory expenses			
Salaries and benefits	27,006	25,632	24,561
Administration	3,542	2,893	2,941
Premises	3,080	3,044	2,869
Professional services	2,614	2,642	2,381
Amortization of capital assets	1,560	1,359	1,558
Investor education (Note 3)	240	196	194
	38,042	35,766	34,504
Budget contingency	1,458	–	-
Net operating results	$ (7,200)	$ (470)	$ (3,940)

The accompanying notes and schedule are part of these financial statements.

Statement of Remeasurement Gains and Losses (Note 2)

thousands of dollars

	For year ended March 31	
	2014	2013
Accumulated remeasurement gains, beginning of year	$ 867	$ -
Accumulated remeasurement gains, April 1, 2012 adoption of PS 3450		318
Unrealized (losses) gains on investments during the year	(56)	580
Less: Amounts reclassified to the Statement of Operations on realized gains from investments	(128)	(31)
Net remeasurement (losses) gains for the year	(184)	867
Accumulated remeasurement gains, end of year	$ 683	$ 867

The accompanying notes and schedule are part of these financial statements.

Statement of Cash Flows

thousands of dollars

	For year ended March 31	
	2014	2013
Operating transactions		
Fees and other	**$ 30,212**	$ 27,837
Payments to and on behalf of employees	**(24,524)**	(23,577)
Payments to suppliers for goods and services	**(9,615)**	(9,022)
Investment income	**2,014**	1,816
Other enforcement receipts	**1,159**	649
Administrative penalties	**2,034**	138
Cash received from (used in) operating transactions	**1,280**	(2,159)
Capital transactions		
Cash used to acquire capital assets	**(694)**	(745)
Cash from lease inducement	**–**	209
Proceeds on disposal of capital assets	**2**	2
Cash used in capital transactions	**(692)**	(534)
Investing transactions		
Increase in restricted cash	**(1,851)**	(66)
Purchases of investments	**(1,958)**	(1,750)
Disposals of investments	**3,000**	3,300
Cash (used in) received from investing transactions	**(809)**	1,484
Decrease in cash and cash equivalents	**(221)**	(1,209)
Opening cash and cash equivalents	**7,761**	8,970
Closing cash and cash equivalents	**$ 7,540**	$ 7,761

The accompanying notes and schedule are part of these financial statements.

Notes to the Financial Statements

March 31, 2014
thousands of dollars

NOTE 1 NATURE OF OPERATIONS

The Alberta Securities Commission (ASC), a provincial corporation operating under the *Securities Act* (Alberta), is the regulatory agency responsible for administering the province's securities laws.

The ASC's investments are independently managed by the Alberta Investment Management Corporation (AIMCo). AIMCo is a provincial corporation responsible to the Minister of Finance. AIMCo invests ASC assets in pooled investment funds in accordance with the investment policy asset mix approved by the ASC. The ASC does not participate in capital market investment decisions or transactions.

The ASC, as an Alberta provincial corporation, is exempt from income tax under the *Income Tax Act* (Canada).

NOTE 2 SIGNIFICANT ACCOUNTING POLICIESAND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards (PSAS).

a) INVESTMENTS

AIMCo invests the ASC's assets in pooled investment funds in accordance with the investment policy asset mix approved by the ASC. AIMCo controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the ASC does not report the financial instruments of the pools on its statement of financial position and does not participate in capital market investment decisions or transactions.

AIMCo manages and reports all ASC investments and cash balances using the accounting policies outlined in (a), (b), (c), (d) and (e).

Fixed-income securities and equities consist of units in pooled investment funds. The units are recorded at fair value based on the fair value of the financial instruments held in the pools.

b) VALUATION OF INVESTMENTS

Fair values of investments managed and held by AIMCo in pooled investment funds are determined as follows:

i) Public fixed-income securities and equities are valued at the year-end closing sale price, or, if not actively traded, the average of the latest bid and ask prices quoted by an independent securities valuation company;

ii) Private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market; and

iii) The pools include derivative contracts. Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. The value of derivative contracts is included in the fair value of the pools.

c) INVESTMENT INCOME AND EXPENSES

Income from investment in units of the pools and total expense and transaction costs incurred by the pools are allocated to the ASC based on the ASC's pro-rata share of units in each pool. Investment services provided by AIMCo are charged directly to the pools on a cost recovery basis. Investment services provided by external managers are charged to the pools based on a percentage of net assets under management. Investment income, including that from derivative contracts, and expenses are recorded on the accrual basis.

Gains and losses arising as a result of disposal of investments and related pool units are included in the determination of investment income and reported in investment income on the statement of operations. The cost of disposal is determined on an average cost basis.

Interest income attributable to interest bearing financial assets held by the pools is recognized using the effective interest method.

Dividend income attributable to equities held by the pools is recognized on the ex-dividend date.

Note 2 (continued)

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains represent the excess of the fair value of the pool units at year-end over the cost of the pool units. Changes in accumulated remeasurement gains are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains during the year include unrealized increases and decreases in fair value of the pooled units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in net income on the statement of operations.

e) VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Cash and cash equivalents, accounts receivable, restricted cash and accounts payable and accrued liabilities are measured at cost or amortized cost.

f) CAPITAL ASSETS

Capital assets are recorded at cost.

Assets are amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment and software	3 years
Furniture and equipment	10 years
Leaseholds	over 15 - year lease term December 2010 – November 2025, and over a 3.5 - year lease term to March 2016.

g) FEES, ADMINISTRATIVE PENALTIES AND OTHER ENFORCEMENT RECEIPTS RECOGNITION

Fees are recognized when earned, which is upon cash receipt.

Administrative penalties and other enforcement receipts that include disgorgements, settlement payments and cost recoveries, are recognized when the decision is issued or agreement reached.

h) EMPLOYEE FUTURE BENEFITS

The ASC participates in the Public Service Pension Plan, a multi-employer defined benefit pension plan, with other government entities. This plan is accounted for as a defined contribution plan as the ASC has insufficient information to apply defined benefit plan accounting to this pension plan. Pension costs included in these financial statements are comprised of the cost of employer contributions for current service of employees during the year and additional employer contributions for the service relating to prior years.

The ASC established a retirement plan for one employee at the time of transition to a provincial corporation. The employee is retired and the plan costs are fully provided for.

The ASC maintains a Supplemental Pension Plan for certain designated executives of the ASC. The cost of the pension is actuarially determined using the projected unit credit cost method pro-rated on services and management's best estimate of economic assumptions. Past service costs and actuarial losses arising from assumption changes are amortized on a straight-line basis over the average remaining service period of employees active at the date of commencement of the Supplemental Pension Plan. The average remaining service period of active employees of the Supplemental Pension Plan is six years.

The ASC also maintains a plan whereby it makes Registered Retirement Savings Plan contributions on behalf of certain employees of the ASC. The contributions are calculated based on a fixed percentage of the employee's salary to a maximum of the Registered Retirement Savings Plan contribution limit as specified in the *Income Tax Act* (Canada). The expense included in these financial statements represents the current contributions made on behalf of the employees.

i) LEASE INDUCEMENTS

Cash payments received as lease inducements are deferred and amortized on a straight-line basis over the lease term.

Note 2 (continued)

j) ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates include uncollectible amounts of accounts receivable for administrative penalties and related cost recoveries, the useful lives of capital assets, and the value of accrued employee benefit liabilities. Actual results could differ from those estimates.

Estimates of capital asset useful lives are outlined in Note 6.

Benefit liability estimates are primarily subject to actuarial assumptions summarized in Note 8.

The estimated provision for uncollectible administrative penalties and cost recoveries is based on an assessment of the ability to pay at the time of penalty assessment. Subsequent collection actions and changes in the ability to pay may result in recovery of amounts previously considered uncollectible. However, it is not possible to estimate what, if any, subsequent recoveries may occur.

k) RESTRICTED CASH

The *Securities Act* (Alberta) restricts the use of revenues the ASC receives from administrative penalties to certain operating expenditures that educate investors and enhance the knowledge of securities market operation.

l) NET ASSETS

Net assets represent the difference between the carrying value of assets held by the ASC and its liabilities.

PSAS require a “net debt” presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as “net debt” or “net financial assets” as an indicator of the future revenues required to pay for past transactions and events. While the ASC operates within the government reporting entity, it is in a net asset position and is self funded, raising revenues from those entities it regulates. Accordingly, these financial statements do not report a net debt indicator.

NOTE 3 RESTRICTED CASH AND NET ASSETS

Net assets include $2,216 of accumulated net penalty revenues ($365 in F2013) because accumulated penalty revenues exceeded eligible expenditures. This amount is represented by restricted cash, as described in Note 2(k). Restricted cash includes $1,900 of current year administrative penalty receipts that are under appeal. The appeal also includes $178 of other enforcement receipts. However, management believes that the appeal, scheduled for the Alberta Court of Appeal in 2014, will not be successful.

The change in restricted cash is comprised of:

	2014	2013
Administrative penalties	**$ 6,910**	$ 6,189
Less provision for uncollectible amounts	**(5,022)**	(6,069)
Plus recoveries of prior-year assessments	**126**	124
Net realizable value	**2,014**	244
Interest income and other	**20**	3
Administrative penalty revenue	**2,034**	247
Plus: Education seminar fees	**13**	13
Less: Eligible restricted cash expenses	**(196)**	(194)
Restricted cash increase	**1,851**	66
Restricted cash opening balance	**365**	299
Restricted cash closing balance	**$ 2,216**	$ 365

NOTE 4 CASH AND CASH EQUIVALENTS AND INVESTMENTS

a) Summary

	2014						2013		
	Cost	Remeasurement Gain	Fair Value	Fair Value Hierarchy Level 1	Fair Value Hierarchy Level 2	%	Cost	Fair Value	%
Cash and cash equivalents									
CCITF deposit	$7,540	-	$ 7,540	-	$ 7,540	-	$ 7,761	$ 7,761	-
Investments									
CCITF deposit	$ 78	-	$ 78	-	$ 78	0.3	$ 78	$ 78	0.3
Fixed income securities	20,484	$ 62	20, 546	-	20,546	75.0	21,114	21,738	74.4
Canadian equities	6,761	621	7,382	$ 4,577	2,805	24.7	7,173	7,416	25.3
	$27,323	$ 683	$28,006	$ 4,577	$23,429	100.0	$28,365	$29,232	100.0

Cash and cash equivalents consists of demand deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed by AIMCo with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The CCITF portfolio comprises high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2014, securities held by the CCITF have a time weighted annualized return of 1.17 per cent (1.25 per cent in F2013).

At March 31, 2014, the carrying amounts of the ASC's investments are recorded on a fair value basis. The ASC's investments are held in pooled investment funds established and managed by AIMCo. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

Fixed-income securities held at March 31, 2014 have maturities ranging from less than one year to over 10 years (36.4 per cent of maturities are greater than 10 years), a market yield of 3.22 per cent (2.87 per cent in F2013) and an average duration of 6.3 years (6.5 years in F2103). The fixed income pool includes a mix of high-quality government and corporate (public and private) fixed income securities and debt related derivatives. The fund is actively managed to minimize credit and market risk through the use of derivatives, portfolio duration and sector rotation.

Equity investments include publicly traded Canadian large cap and market index participant equities. The equity pools participate in derivative transactions to simulate index composition and minimize investment risk.

Disclosure of the hierarchy of inputs used in the determination of fair value for investments are reported according to the following levels:

a) Level one: fair value is based on quoted prices in an active market.
b) Level two: fair value is based on model-based valuation methods for which all significant inputs are market-observable other than quoted prices.

b) Investment Risk Management

Income and financial returns of the ASC are exposed to credit, interest rate, price and market risk.

In order to earn an optimal financial return at an acceptable level of risk, ASC management has established an investment policy that is reviewed annually. Investment income risk is reduced through asset class allocation targets of 75 per cent fixed-income securities and 25 per cent equities with a small value of residual cash.

AIMCo manages risk through diversification within each asset class, and quality and duration constraints on fixed-income instruments, and use of derivative contracts. Specific risk management measures and exposures include:

- fixed income credit risk reduction primarily through credit ratings of investment grade (Corp. BBB) or higher of 94.6 per cent (93.2 per cent in F2013);
- interest rate risk control using duration constraints that limit loss exposure on fixed income securities to 6.3 per cent (6.5 per cent in F2013) should interest rates increase 1 per cent;
- price risk associated with equity investments that, subject to a decline of 10% in equity values, with all other variables held constant, would cause a 2.5 per cent (2.5 per cent in F2013) decline in the fair value of total investments, and
- market risk using derivative instruments.

AIMCo uses several types of derivatives across most product areas to cost-effectively manage asset exposure, hedge interest rate and foreign currency risk, and enhance return. Current credit exposure is represented by the current replacement cost of all outstanding derivative contracts in a favourable position (positive fair value). The ASC's investments include derivative contracts with a net positive fair value of $98 ($139 in F2013).

NOTE 5 INVESTMENT INCOME

The ASC's investment income included $1,126 from interest-bearing securities ($1,528 in F2013) and $888 from equities ($288 in F2013).

The ASC's investments realized market value returns of 6.6 per cent for the year ended March 31, 2014 (8.0 per cent in F2013). This performance compares to a benchmark (composite of DEX 91 Day T-Bill, DEX Universe Bond and S&P/TSX indexes) gain of 4.5 per cent in F2014 and a benchmark gain of 5.1 per cent in F2013.

NOTE 6 CAPITAL ASSETS

	Computer Equipment & Software	Furniture & Equipment	Leaseholds	2014 Total	2013 Total
Estimated useful life	3 years	10 years	Lease duration		
Cost					
Beginning of year	$ 3,090	$ 2,589	$ 6,468	$ 12,147	$ 11,259
Additions	547	52	5	604	907
Disposals	(1,151)	(22)	–	(1,173)	(19)
	$ 2,486	$ 2,619	$ 6,473	$ 11,578	$ 12,147
Accumulated amortization					
Beginning of year	$ 2,313	$ 818	$ 1,017	$ 4,148	$ 2,607
Amortization expense	613	246	500	1,359	1,560
Disposals	(1,151)	(19)	–	(1,170)	(19)
	$ 1,775	$ 1,045	$ 1,517	$ 4,337	$ 4,148
Net book value	$ 711	$ 1,574	$ 4,956	$ 7,241	$ 7,999

Leaseholds at March 31, 2014, are for a 15-year lease (leasehold net book value of $4,771) commencing December 1, 2010 and a 3.5 year lease (leasehold net book value of $185) commencing October 2012. Disposals are primarily the result of technology assets review.

NOTE 7 LEASE INDUCEMENTS

Lease terms	2014	2013
15 years ending November 30, 2025 and 3.5 years ending March 31, 2016	$ 2,666	$ 2,941

NOTE 8 ACCRUED PENSION LIABILITY AND PENSION EXPENSE

The accrued pension liability is comprised of:

	2014	2013
Retirement Plan	$ 84	$ 109
Supplemental Pension Plan	6,539	5,691
Less: accounts payable	(165)	(109)
	$ 6,458	$ 5,691

The following pension expense for the plans is included in the statement of operations under salaries and benefits.

	2014	2013
Public Service Pension Plan	$ 1,193	$ 1,013
Registered Retirement Savings Plan	527	545
Supplemental Pension Plan	955	927
	$ 2,675	$ 2,485

a) Public Service Pension Plan

The ASC participates in the Public Service Pension Plan. At December 31, 2013, the Public Service Pension Plan reported a deficiency of $1,254,678 and in 2012 a deficiency of $1,645,141. ASC is not responsible for future funding of the plan deficit other than through contribution increases.

b) Registered Retirement Savings Plan

The ASC makes contributions on behalf of employees who do not participate in the Public Service Pension Plan to employee Registered Retirement Savings Plans.

c) Retirement Plan

The Retirement Plan is unfunded and the benefits will be paid to August 2017 ($26 in F2014, $25 in F2013) from the assets of the ASC.

d) Supplemental Pension Plan

The ASC has a Supplemental Pension Plan for certain designated executives of the ASC. The provisions of the Plan were established pursuant to a written agreement with each designated executive.

Note 8 (continued)

The Supplemental Pension Plan provides pension benefits to the designated executives based on pensionable earnings that are defined by reference to base salary in excess of the limit ($135 effective January 1, 2014, and $132 effective January 1, 2013) imposed by the *Income Tax Act* (Canada) on registered pension arrangements.

Pension benefits from the Supplemental Pension Plan are payable on or after attainment of age 55 and are equal to 1.75 per cent of the highest average pensionable earnings (average over five years) for each year of service with the ASC. Members of the Supplemental Pension Plan become vested in the benefits of the plan after two years of service. Accrued benefits are also payable on early retirement (with reductions), death or termination of employment of the designated executive.

The Supplemental Pension Plan is unfunded and the benefits will be paid as they come due from the assets of the ASC.

Actuarial valuations of the Supplemental Pension Plan are undertaken every three years. At March 31, 2012, an independent actuary performed a Supplemental Pension Plan valuation. The next valuation is scheduled for March 31, 2015. The results of the actuarial valuation and management's cost estimates as they apply to the Supplemental Pension Plan are summarized below:

	2014	2013
Accrued benefit and unfunded obligation	$ 7,226	$ 6,549
Unamortized transitional obligation	-	(4)
Unamortized actuarial loss	(687)	(854)
Accrued benefit liability	**$ 6,539**	**$ 5,691**

Accrued benefit obligation at beginning of year	$ 6,549	$ 5,877
Service cost	502	503
Interest cost	281	253
Benefits paid	(106)	(84)
Accrued benefit obligation at end of year	**$ 7,226**	**$ 6,549**

Note 8 (continued)

Pension Expense	2014	2013
The pension expense for the Supplemental Pension Plan is as follows:		
Service cost	$ 503	$ 503
Interest cost	281	253
Amortization of actuarial losses during the year	171	171
	$ 955	$ 927

The assumptions used in the actuarial valuation of the Supplemental Pension Plan and three-year projections are summarized below. The discount and other economic assumptions were established as management's best estimate in collaboration with the actuary. Demographic assumptions were selected by the actuary based on a best estimate of the future experience of the plans.

Pension Expense	2014	2013
Discount rate, year-end obligation	4.0%	4.0%
Discount rate, annual pension expense	4.0%	4.0%
Rate of inflation, year-end obligation	2.25%	2.25%
Salary increases, year-end obligation	3.5%	3.5%
Remaining service life, year-end obligation	6 years	6 years

NOTE 9 FEES, AND OTHER ENFORCEMENT RECEIPTS

Fees		
	2014	2013
Distribution of securities	$ 14,139	$ 12,123
Registrations	10,498	10,386
Annual financial statements	5,227	5,095
Orders (applications)	228	233
SEDI late fees	104	-
Total fees	$ 30,196	$ 27,837

Other enforcement receipts (Note 3, $178 of disgorgement receipts are subject to an appeal)		
Settlement payments, disgorgements and cost recoveries assessed	$ 11,892	$ 51,494
Less provision for uncollectible amounts	(11,023)	(50,880)
Plus recoveries of prior-year assessments	168	35
Total other enforcement receipts	$ 1,037	$ 649

NOTE10 NATIONAL SYSTEMS

Canadian Securities Administrators (CSA), National Systems and Operating Agreements

CDS Inc. (CDS) owned and operated, the CSA National Systems, SEDAR (electronic filing and payment), NRD (national registration database) and SEDI (insider trading) since their inception, on behalf of the CSA, under various operating contracts that concluded in January 2014.

In preparation for termination of these agreements with CDS, the CSA signed a CSA National Systems operations management and governance agreement (the Agreement) in April of 2013. The Agreement empowers the ASC, jointly with three other CSA members, British Columbia Securities Commission (BCSC), Ontario Securities Commission (OSC) and L'Autorité des marchés financiers (AMF) (the Principal Administrators, PAs), to contract for and manage a new National Systems outsourced service agreement with CGI, a Canadian based international information technology and business process firm.

The Agreement also identifies how certain functions of the CSA National Systems will be performed by Designated Principal Administrators (DPAs); outlines how system user fees will be established, collected and deployed; and addresses allocation and payment of liabilities arising from supplier agreements entered into by the CSA and the CSA National Systems.

Under the Agreement and related contracts, the CSA pays CGI outsourced systems operation contract costs, all CSA Information Systems Technology Office systems management costs, all DPA costs for systems accounting and intellectual property management, all continuing systems enhancement and maintenance costs and through its outsourcing partner CGI, collects all system user and data distribution subscription fees.

These CSA National Systems processes and Agreement formalize the CSA Systems operational, management and governance processes that were in place while CDS was the systems operator. CGI commenced independent systems operations on January 13, 2014, following transfer of National Systems to the CSA PAs and termination of the CDS contract. The cash surplus accumulated during CDS operations and subsequent cash surplus accumulation under the new arrangement is controlled by, but not owned by the PA's, as all CSA jurisdictions share an undivided interest in system surpluses. The Agreement provides that each PA has a 25 per cent voting interest in National Systems financial and operating decisions. However, while CSA National Systems control and management is vested in the four PAs, the assets and accumulated surplus arising from this arrangement can only be used for continued CSA systems operation, enhancement and user fee adjustment purposes. As a result, the arrangement has no economic impact on the funding of ongoing ASC operations and cash flows. While the ASC shares an equal 25 per cent responsibility for any operating cost shortfalls, the likelihood of any liability arising is minimal. Financial risk is minimal because of the significant $112.1 million accumulated cash surplus at commencement and Agreement intent to adjust system user fees to recover any projected funding shortfalls.

Accumulated cash surplus earned under the former National Systems operating contracts with CDS and subsequent surplus resulting from the new operations model and governance agreements totalling $112.1 million at March 31, 2014 ($94.4 million F2013) are administered by OSC in segregated bank accounts and earn interest at prime less 1.85 per cent.

CSA System assets include $708 of information technology capital at March 31, 2014. These assets are being amortized over three years commencing January 13, 2014 and are net of $42 of accumulated amortization in F2014.

NOTE 10 (continued)
A summary of CSA National Systems finances includes:

CSA National Systems Operations

	Commencement (January 13, 2014) to March 31, 2014
Revenues	
System user fees	$ 6,333
Data distribution fees	136
Investment income	295
Total revenue	6,764
Expenses	
Professional fees	3,098
Salaries and benefits	426
Premises and other	60
Amortization of IT capital	42
Total expenses	3,626
Net income	$ 3,138

Accumulated CSA National System surplus

Accumulated CSA National System surplus arising prior to Arrangement commencement, at January 13, 2014	$ 112,548
Plus Income for the period	3,138
CSA National Systems surplus, March 31, 2014	115,686
Less receivables and prepaid expenses	(4,234)
Less information technology (IT) capital	(708)
Plus payables and accrued expense	1,362
Accumulated CSA National Systems cash surplus, March 31, 2014	$ 112,106

NOTE 11 COMMITMENTS

Details of commitments to organizations outside the ASC are set out below.

a) Commitments

Premises Leases and Equipment Rental

Commitments arising from contractual obligations are associated primarily with the lease of premises to March 31, 2025 and March 2016, and rental of office equipment to 2018 totalling $53,935 ($56,587 in F2013). These commitments become expenses of the ASC when the terms of the contracts are met.

2014–15	$ 3,221
2015–16	3,675
2016–17	4,280
2017–18	4,365
2018 -19	4,455
Thereafter	33,939
Total	$ 53,935

Canadian Securities Administrators

The ASC shares, based on an agreed-upon cost-sharing formula, the costs incurred for the maintenance of the CSA Secretariat and any third-party costs incurred in the development of harmonized rules, regulations and policies. The CSA Secretariat was established to assist in the development and harmonization of rules, regulations and policies across Canada.

NOTE 12 BUDGET

The ASC's F2014 budget was approved on January 16, 2013.

NOTE 13 RELATED PARTY TRANSACTIONS

The ASC is related through common ownership to all provincial government ministries, agencies, boards, commissions and crown corporations. The ASC conducted all transactions with these entities as though they were unrelated parties and recorded transaction costs of $36 in administration expenses ($58 in F2013).

NOTE 14 COMPARATIVE FIGURES

Certain F2013 figures have been reclassified to conform to the F2014 presentation.

SCHEDULE OF SALARIES & BENEFITS – SCHEDULE A

thousands of dollars	2014				2013
	Base salary (1)	Cash benefits (2)	Non-cash benefits (3)	Total	Total
Chair, Securities Commission[4]	$ 518	$ 87	$ 159	$ 764	$ 755
Executive Director	$ 362	$ 61	$ 173	$ 596	$ 576
Vice-Chair, Securities Commission[4]	$ 350	$ 56	$ 136	$ 542	$ 533
Vice-Chair, Securities Commission[4]	$ 226	$ 2	$ 153	$ 381	$ 589
Independent Members[5]	$ 522	-	-	$ 522	$ 537

1) Base salary includes regular base pay and Independent Member compensation.

2) Cash benefits include variable pay, Chair and Executive Director's automobile allowances, transit allowances and memberships.

3) Employer's share of all employee benefits including; health, insurance, pension, professional memberships and current and prior service cost for the unfunded Supplemental Pension Plan for designated executives as described in Note 8(d) of the financial statements and summarized in the accounting narrative.

4) The Chair and Vice-Chairs are full-time Commission Members. One Vice-Chair's position was vacant for five months and ineligible for the variable pay cash benefit.

5) The Independent Members compensation includes fees paid in dollars for governance responsibilities of $290,000 ($294,000 in F2013) and hearing and application panel participation of $232,000 ($243,000 in F2013). Independent Member fees include a $10,000 annual retainer, $2,500 for Committee memberships, $5,000 for Committee chairing and $5,000 for the Lead Independent Member position. Meeting attendance fees include $1,000 per day for an ASC meeting and $750 for a Committee meeting. Hearing fees are payable as to $1,000 per hearing day and $125 per hour of related preparation, review and decision writing.

Supplemental Retirement Benefits

Under the terms of the Supplemental Pension Plan as described in Note 8(d) of the ASC financial statements, executive officers may receive supplemental retirement payments. Supplemental Pension Plan costs, as detailed below for the four most highly paid executives of the ASC, are not cash payments in the period, but are the period expense for rights to future compensation. Costs shown reflect the total estimated cost to provide annual pension income over an actuarially determined post-employment period. The Supplemental Pension Plan provides future pension benefits to participants based on years of service and earnings as described in Note 8(d). The cost of these benefits is actuarially determined using the projected benefit method pro-rated on services, a cost of borrowing interest rate and management's best estimate of expected inflation, salary costs and the remaining service period for benefit coverage. Net actuarial gains and losses of the benefit obligations are amortized over the average remaining service life of the employee group. Current service cost is the actuarial present value of the benefits earned in the fiscal year. Prior service and other costs include amortization of past service costs on plan initiation, amortization of actuarial gains and losses, and interest accruing on the actuarial liability.

Annual expense

thousands of dollars	2014			2013
	Current service costs	Prior service and other costs	Total	Total
Chair, Securities Commission	$ 134	$ (5)	$ 129	$ 120
Executive Director	$ 111	$ 31	$ 142	$ 135
Vice-Chair, Securities Commission *	$ 84	$ 53	$ 137	$ 152
Vice-Chair, Securities Commission	$ 81	$ 25	$ 106	$ 101

* The incumbent resigned and commenced pension receipt during the year.

The accrued obligation for each of the four highest paid executives under the Supplemental Pension Plan is outlined in the following table:

Accrued obligations

thousands of dollars	Accrued obligation April 1, 2013	Changes in accrued obligation	Accrued obligation March 31, 2014
Chair, Securities Commission	$ 765	$ 135	$ 900
Executive Director	$ 1,079	$ 110	$ 1,189
Vice-Chair, Securities Commission *	$ 1,053	$ 64	$ 1,117
Vice-Chair, Securities Commission	$ 567	$ 76	$ 643

N.A. PROPERTIES (1994) LTD.

Financial Statements

Year Ended March 31, 2014

Independent Auditor's Report

To the Shareholder of N.A. Properties (1994) Ltd.

Report on the Financial Statements

I have audited the accompanying financial statements of N.A. Properties (1994) Ltd., which comprise the statement of financial position as at March 31, 2014, and the statement of operations and surplus for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of N.A. Properties (1994) Ltd. as at March 31, 2014, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 4, 2014

Edmonton, Alberta

Statement of Financial Position

As at March 31

	($ thousands)	
	2014	2013
Assets		
Cash and cash equivalents (Note 4)	$ 3,022	$ 2,986
Note receivable (Note 5)	75	63
	$ 3,097	$ 3,049
Liabilities		
Obligations under indemnities and commitments (Note 6)	$ 137	$ 154
Net assets		
Accumulated surplus	2,960	2,895
	$ 3,097	$ 3,049

The accompanying notes are part of these financial statements.

On Behalf of the Board:

[Original signed by]

Rod Matheson
Sole Director

Statement of Operations and Surplus

Year Ended March 31

	($ thousands)	
	2014	2013
Revenue		
Interest and other	$ 48	$ 47
Operating income before provision	48	47
Recovery of obligations under indemnities and commitments (Note 6)	17	16
Excess of revenue over expense for the year	65	63
Accumulated surplus, beginning of year	2,895	2,832
Accumulated surplus, end of year	$ 2,960	$ 2,895

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31
(thousands of dollars)

NOTE 1 AUTHORITY

N.A. Properties (1994) Ltd. (the "Company") was continued on March 31, 1994 as an amalgamated corporation under the *Business Corporation Act, Statutes of Alberta 2000,* Chapter B-9, as amended. The Province of Alberta owns all issued shares of the Company and accordingly the Company is exempt from income tax.

NOTE 2 NATURE OF OPERATIONS

The Company's mandate is to dispose of its remaining assets. The Province of Alberta has indemnified the Company for all net losses, expenses or liabilities existing or subsequently incurred by the Company. There were no recoveries from the Province of Alberta in satisfaction of this indemnity in the past three years.

The Company also manages indemnities described in Note 6.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards. Effective April 1, 2012, the Company adopted PS 3450 Financial Instruments. This section deals with how to account for and report financial instruments. The accounting policies of significance to the Company are as follows:

a) FINANCIAL STATEMENT PRESENTATION

A cash flow statement is not provided due to the limited nature of the Company's operations. All information about the Company's cash flows are contained within the financial statements.

b) VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of cash is estimated to approximate its carrying value because of the short-term nature of this instrument.

c) FINANCIAL INSTRUMENTS

As the Company does not have any transactions involving financial instruments that are classified in the fair value category and has no foreign currency transactions, there are no remeasurement gains and losses and therefore a statement of remeasurement gains and losses has not been presented.

NOTE 4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents is comprised of deposits in the bank. At March 31, 2014 the deposits in the bank had a time weighted return of 1.2% per annum (2013: 1.3% per annum).

NOTE 5 NOTE RECEIVABLE

The non-interest bearing note receivable in the amount of $933 was issued in November 1987 and matures in the year 2027. The carrying value of the note receivable as at March 31, 2014 is $75 (2013: $63). The note receivable is discounted by 20% based on the yield in effect at the time of issuance and adjusting the rate for a risk premium.

NOTE 6 INDEMNITIES AND COMMITMENTS

In the past, the Company provided indemnities of principal and interest on mortgages sold to a Canadian chartered bank. The principal and interest on these mortgages totaled $137 at March 31, 2014 (2013: $154). The Company's indemnities expire in part in 2015 and in full in 2017. The Company estimates its liability under the indemnities annually, based on its assessment of the mortgages.

Changes in the Company's obligations under indemnities and commitments are as follows.

	($ thousands)	
	2014	**2013**
Beginning balance	$ 154	$ 170
Recovery of obligations under indemnities and commitments	(17)	(16)
Ending balance	$ 137	$ 154

NOTE 7 SHARE CAPITAL

		($ thousands)	
		2014	**2013**
Issued			
1	Class "A" share	$ 5,768	$ 5,768
1,000	Class "B" shares	1	1
		$ 5,769	$ 5,769

Authorized

Unlimited number of Class "A" voting shares
Unlimited number of Class "B" voting shares
Unlimited number of Class "C" non-voting shares
Unlimited number of Class "D" non-voting shares
Unlimited number of Class "E" voting shares
Unlimited number of Class "F" non-voting shares

NOTE 8 RELATED PARTY TRANSACTIONS

Other than interest earned from the Consolidated Cash Investment Trust Fund, there were no other related party transactions in the year ended March 31, 2014.

NOTE 9 FEES AND SALARIES

There were no director's fees or salaries paid during the year. The Company had no employees in 2014.

NOTE 10 BUDGET

The Company's annual budget appears in the 2013-14 Government Estimates. The budget projected a net excess of revenue over expenses for the year of $120. Since the Company has liquidated almost all of its assets, a detailed budget was not prepared.

GAINERS INC.

Consolidated Financial Statements

September 30, 2013

Independent Auditor's Report

To the Shareholder of Gainers Inc.

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Gainers Inc., which comprise the consolidated statement of financial position as at September 30, 2013, and the consolidated statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Gainers Inc. as at September 30, 2013, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

February 19, 2014

Edmonton, Alberta

Consolidated Statement of Financial Position

As at September 30

	($ thousands)	
	2013	**2012**
Assets		
Cash	$ 1	$ 1
Investment in and amount due from former affiliate (Note 3)	-	-
	$ 1	$ 1
Liabilities		
Accounts payable and accrued liabilities	$ 7	$ 4
Principal and interest on prior years income taxes (Note 4)	11,334	11,334
Long-term debt (Note 5)	193,178	193,172
	204,519	204,510
Net Liabilities		
Accumulated deficit	(204,518)	(204,509)
	$ 1	$ 1

Approved by the Board of Directors

The accompanying notes are part of these consolidated financial statements.

Approved by the Board of Directors

[Original signed by]

Dan Harrington, Director

Consolidated Statement of Operations

Year ended September 30

	($ thousands)		
	2013		2012
	Budget	Actual	Actual
Expenses			
Legal expenses	$ -	$ 5	$ 4
General and administrative	-	4	6
Annual deficit	-	(9)	(10)
Accumulated deficit, beginning of year	-	(204,509)	(204,499)
Accumulated deficit, end of year	$ -	$ (204,518)	$ (204,509)

The accompanying notes are part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended September 30

	($ thousands)	
	2013	2012
Cash provided by (used in)		
Operating activities		
Annual deficit	$ (9)	$ (10)
Increase in payables	3	1
	(6)	(9)
Financing activities		
Proceeds from long-term debt	6	9
Change in cash	-	-
Cash, beginning of year	1	1
Cash, end of year	$ 1	$ 1

Notes to the Consolidated Financial Statements

September 30
(in thousands of dollars, except per share amounts)

NOTE 1 AUTHORITY

Gainers Inc. is a commercial Crown-controlled corporation and operates under the Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000. The Corporation is controlled by the Government of Alberta and is exempt from income and other taxes.

Through September 25, 1993, the company operated on a going-concern basis, which contemplated the realization of assets and discharge of liabilities in the normal course of business. Events since that date have resulted in the discontinuance of all ongoing business. The company has disposed of its non-monetary assets, with the exception of its investment in Pocklington Corp. Inc. described below. Management does not expect any recovery of that investment.

Any repayment of the long-term debt by the company is expected by management to be immaterial.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards.

a) REPORTING ENTITY AND METHOD OF CONSOLIDATION

The consolidated financial statements reflect the assets, liabilities, revenues, and expenses of the reporting entity, which is composed of all organizations, which are controlled by Gainers. These organizations are Gainers Properties Inc. (GPI) and MPF Note Inc., collectively the “company”.

b) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year end is recorded as deferred revenue.

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed. Interest expense includes debt servicing costs such as amortization of discounts and premiums, foreign exchange gains and losses, and issuance costs.

Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets of Gainers are limited to financial claims, such as advances to and receivables from other organizations.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Liabilities

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

Liabilities include the unrecognized portions of government transfers received and restricted donations and other contributions.

Financial Instruments

As the Company does not have any transactions involving financial instruments that are classified in the fair value category and has no foreign currency transactions, there are no remeasurement gains and losses and therefore a statement of remeasurement gains and losses has not been presented.

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of cash, accounts payable and accrued liabilities are estimated to approximate their carrying values because of the short-term nature of these instruments. Fair values of loans and debts are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair value with sufficient reliability.

NOTE 3 INVESTMENT IN AND AMOUNTS DUE FROM FORMER AFFILIATES

The investment, which has been written down to $nil value, comprises 77,500 Class A preferred shares of Pocklington Corp. Inc. with a par value of, and which are redeemable at, US $100 per share and which carry annual non-cumulative dividends of US $11 per share. In November 1989, a demand for redemption of the shares was made by Gainers Inc. and an action was commenced against Mr. Pocklington arising from this investment, seeking by way of damages the monies invested together with interest thereon. Mr. Pocklington has counterclaimed seeking statutory indemnification as a director for his actions. Management believes that this counterclaim is without merit. Management does not expect any recovery from this claim.

Advances to the former affiliate, Pocklington Financial Corporation (formerly Pocklington Holdings Inc.), which are recorded at $nil value, are non-interest bearing and have no specific terms of repayment. In January 1990, Gainers Inc. made demand on and brought an action against Pocklington Financial Corporation to recover the advances. In December 1995, a judgment was rendered and collected in favour of Gainers Inc. in the amount of $770. This amount has been recovered by the company from Pocklington Financial Corporation. This amount was subject to the secured claim of the Province as described in Note 5 and was subsequently remitted to the Province of Alberta ("Alberta"). Gainers Inc. appealed this decision to the Alberta Court of Appeal and was successful on all issues. The Court of Appeal ordered that a new calculation of the amount to be repaid be made by the Court of Queen's Bench. Gainers Inc. has not taken further steps as Pocklington Financial Corporation is bankrupt.

On August 8, 1989, Gainers Inc. acquired the shares of 350151 Alberta Ltd. (350151) for $100 cash. On October 4, 1989, Gainers Inc., at the direction of the former owner, sold the shares of 350151 to Pocklington Holdings Inc. for one hundred dollars cash. Alberta filed a claim to have the sale reversed. The accounts of 350151 are not included in these financial statements. In December 1995, a judgment as to the ownership of the shares was rendered in favour of Pocklington Financial Corporation. Alberta appealed this decision, and on November 21, 2000 the Alberta Court of Appeal reversed the 1995 judgment. The Court of Appeal has held that the purported sale of the shares of 350151 to Pocklington Holdings Inc. on October 4, 1989 was a breach of the Master Agreement (Note 5) and awarded $4,700 in damages plus trial and appeal costs of Alberta against Mr. Pocklington. This judgment was subsequently paid from realizing on collateral security held for the debt.

NOTE 4 INCOME TAXES

The prior years' liability for income taxes plus accrued interest is an unsecured debt. The long-term debt owed to Alberta is a secured debt and thus ranks in priority. The company will not be able to settle this liability for income taxes and interest as the amount owing to Alberta exceeds the amount which is reasonably expected to be recovered from the remaining assets of the company.

The company has capital and non-capital income tax losses available for carry forward to reduce taxable income of future years. The amount of capital losses available for carry forward is $54,491. The amount of non-capital losses available for carry forward is $143. These non-capital losses expire between 2014 and 2033.

NOTE 5 LONG-TERM DEBT

	($ thousands)	
	2013	**2012**
Province of Alberta		
Term loan	$ 6,000	$ 6,000
Assignment of prior operating loans from previous banker		
Term bank loan (US $8,749)	11,567	11,567
Operating loan	20,979	20,979
Advances under guarantee for principal interest payments	31,947	31,947
Promissory note	42,846	42,846
Advance to facilitate sale	13,000	13,000
Advances under guarantee and indemnity for operating line	18,469	18,469
Default costs and guarantee fees	13,879	13,873
Accrued interest	34,491	34,491
	$193,178	$193,172

The fair value of the long-term debt is dependent on outcomes from claims filed by or against Gainers Inc. The fair value as at September 30, 2013 is estimated to be $nil.

PROVINCE OF ALBERTA

On September 25, 1987, Gainers Inc. and GPI entered into the Master Agreement with Alberta, which provided for a term loan facility and a loan guarantee. Pursuant to the Master Agreement, Gainers Inc. and GPI granted securities to 369413 Alberta Ltd. (Nominee) which holds the securities and loans, as later described in this Note, in trust for

NOTE 5 LONG TERM DEBT... CONTINUED

Alberta. A number of events of default, which still continue, occurred during 1989, resulting in the long-term debt and liability to Alberta becoming due and payable. Alberta acted on its security and, on October 6, 1989, took control of Gainers Inc.'s issued and outstanding shares, which previously were controlled by Mr. Pocklington.

On October 6, 1989, operating loans of $20,979, and a term loan of US $8,749 were purchased, transferred and assigned to the Nominee. In addition, Alberta made payments from October 6, 1989 under the guarantee to cover principal and interest payments due, until the purchase in December 1993 of the balance due under the promissory note made by GPI to Yasuda Mutual Life Assurance Company.

INTEREST

The interest on the loans and other indebtedness owing to Alberta has not been paid in accordance with the terms of the indebtedness. Effective February 5, 1994, Alberta declared all indebtedness owing by the company to Alberta to be non-interest bearing from the later of February 5, 1994 and the date the indebtedness to the Province of Alberta was incurred.

SECURITY

Collateral security for the indebtedness to Alberta includes a general assignment of book debts, general security agreements over all real and personal property of the company, a pledge of inventory, and fixed and floating charge debentures amounting to $70,000 covering all of the assets of the company. The company continues to be in default and in breach of certain covenants of this indebtedness.

MASTER AGREEMENT

The Master Agreement provided for Alberta to advance a term loan to GPI in the aggregate amount of $12,000. As at September 30, 1989, $6,000 of the term loan had been advanced. An interest payment due on October 1, 1989 was not made and Alberta, acting on its security, seized control of the company. Since default has occurred under the Master Agreement, the entire amount of the monies advanced for the term loan is due and owing by GPI to Alberta. The term loan which has been advanced, and interest thereon, and the performance and observance of the other covenants of GPI under the Master Agreement, including the obligations of GPI to the Nominee in the principal sum of $67,000 dated September 25, 1987 and constituting a fixed mortgage and charge over all of the real property, equipment and chattels of GPI and a floating charge over all of the undertaking and other property and assets of GPI, and by a pledge by GPI of preferred shares held by GPI in Gainers Inc.

NOTE 6 CONTINGENT LIABILITIES

a) The company and Alberta have filed claims against Mr. Pocklington and companies controlled by him for recovery of certain loans, payments and other transactions prior to October 6, 1989. The claim aggregates approximately $38,000 plus interest. Management does not expect any recovery of this claim.

b) Under the terms of the Master Agreement, the company and Mr. Pocklington are liable for all losses, expenses, costs and claims incurred by Alberta as a consequence of a default by the company, as defined in Note 1, or by Mr. Pocklington. As a result, since the date of default the company has incurred approximately $14,226 (net of repayments)

in the consolidated financial statements for these costs and expenses. It is expected that further costs and expenses will be incurred in the future as a result of continuing default. Management does not expect any recovery of this claim.

c) Alberta has brought a claim against Mr. Pocklington for damages arising out of breaches by him of the Master Agreement or alternatively, negligent misrepresentations made by him in certificates sworn by him in 1988 and 1989, which caused the Crown to make advances under the Term Loan.

Alberta obtained summary judgment which has been upheld by the Alberta Court of Appeal in the amount of $2,000 in respect of one of the certificates made by Mr. Pocklington in 1988. The Court of Appeal sent the issue of the amount of interest on the judgment to the Trial Court to calculate. The Trial Court granted summary judgment to Alberta for $10,000 for such interest. The judgments were renewed by Order granted November 25, 2009, in the amount of $12,747. Mr. Pocklington has filed for bankruptcy in California and the Province has registered its claim in California.

NOTE 7 SHARE CAPITAL

AUTHORIZED

Unlimited number of Class A common shares.

Unlimited number of Class B preferred shares, redeemable/retractable at $1 per share with non-cumulative annual dividends at a rate not exceeding 16% of the redemption value.

12,000,000 Class C preferred shares redeemable at $1 per share with cumulative annual dividend compounded semi-annually at 9.6% of the redemption price.

ISSUED

	($ thousands)	
	2013	**2012**
101 Class A common shares	$ 1	$ 1
6,000,000 Class C preferred shares	6,000	6,000
	6,001	6,001
Less: 6,000,000 Class C preferred shares held by GPI	(6,000)	(6,000)
	$ 1	$ 1

NOTE 8 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Gainers Inc.

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Government Business Enterprises

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ALBERTA GAMING AND LIQUOR COMMISSION

Financial Statements

Year Ended March 31, 2014

Independent Auditor's Report

To the Members of the Alberta Gaming and Liquor Commission

Report on the Financial Statements
I have audited the accompanying financial statements of the Alberta Gaming and Liquor Commission, which comprise the balance sheet as at March 31, 2014, and the statements of operations and comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Gaming and Liquor Commission as at March 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

May 28, 2014

Edmonton, Alberta

Balance Sheet

(thousands of dollars)

At March 31

	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents (note 4)	$ 163,624	$ 234,225
Accounts receivable	37,190	40,612
Prepaid expenses and inventories (note 5)	12,746	11,154
	213,560	285,991
Property, Plant and Equipment (note 6)	261,548	211,866
Computer Software (note 7)	31,391	32,892
Investment Property (note 8)	7,881	8,005
Investment in Western Canada Lottery Corporation (note 16)	31,074	32,104
	$ 545,454	$ 570,858
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 152,458	$ 175,619
Due to the Alberta Lottery Fund (note 9)	84,547	93,585
	237,005	269,204
Due to General Revenues (note 10)	276,689	269,663
Provision for Loss on Leased Properties (notes 17 and 18)	236	1,751
Net Defined Benefit Pension Liability (notes 3d and 11)	58,090	47,071
Accumulated Other Comprehensive Income (Loss) (note 11)	(26,566)	(16,831)
	$ 545,454	$ 570,858

The accompanying notes are part of these financial statements.

Approved by:

BOARD

[Original signed by]

Thorna Lawrence, CA
Board Member

MANAGEMENT

[Original signed by]

D. W. (Bill) Robinson
President and Chief Executive Officer

Statement of Operations and Comprehensive Income
(thousands of dollars)

For the year ended March 31

	2014	2013
Liquor Revenue	$ 2,402,714	$ 2,300,661
Liquor Cost of Sales	(1,644,463)	(1,556,267)
	758,251	744,394
Gaming Revenue (note 12)	1,844,027	1,832,499
	2,602,278	2,576,893
Commissions and Federal Payments (note 13)	(464,221)	(465,895)
Operating Expenses (note 14)	(223,778)	(195,715)
PROFIT FROM OPERATIONS FOR THE YEAR	1,914,279	1,915,283
Other Revenue (note 15)	19,078	12,357
Income from Western Canada Lottery Corporation (note 16)	298,126	286,294
NET OPERATING RESULTS (notes 3j, 9 and 10)	$ 2,231,483	$ 2,213,934
OTHER COMPREHENSIVE INCOME (LOSS)		
Net Actuarial Gains (Losses) (note 11)	(9,735)	1,025
TOTAL COMPREHENSIVE INCOME	$ 2,221,748	$ 2,214,959

The accompanying notes are part of these financial statements.

Statement of Cash Flows
(thousands of dollars)

For the year ended March 31

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating results for the year	$ 2,231,483	$ 2,213,934
Decrease in provision for loss on leased properties	(1,515)	(192)
Amortization	59,851	42,823
(Gain) loss on disposal of property, plant and equipment	(1,150)	5,090
Net change in non-cash working capital balances	(20,046)	47,175
	2,268,623	2,308,830
Transfers to the Alberta Lottery Fund	(1,493,495)	(1,492,071)
Transfers to General Revenues	(740,000)	(730,000)
	35,128	86,759
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(106,183)	(103,597)
Purchase of computer software	(3,868)	(32,086)
Purchase of additions to investment property	(434)	(621)
Proceeds on disposal of property, plant and equipment	3,726	3,369
Net change in Investment in Western Canada Lottery Corporation	1,030	3,394
	(105,729)	(129,541)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(70,601)	(42,782)
CASH AND CASH EQUIVALENTS, beginning of year	234,225	277,007
CASH AND CASH EQUIVALENTS, end of year	$ 163,624	$ 234,225
Supplemental cash flow information:		
Interest received	$ 2,082	$ 3,650

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Gaming and Liquor Commission (Commission) operates under the authority of the *Gaming and Liquor Act*, Chapter G-1, Revised Statutes of Alberta 2000. The registered office operates out of 50 Corriveau Avenue, St. Albert, Alberta.

The Commission is an agency of the Government of Alberta which conducts and manages provincial lotteries, carries out functions respecting gaming under the *Criminal Code* (Canada), and controls, in accordance with legislation, the manufacture, importation, sale, and purchase of liquor for the Government of Alberta. As an agent of the Government of Alberta, the Commission is not subject to federal or provincial corporate income taxes.

The Commission also administers the Alberta Lottery Fund which was established under the *Interprovincial Lottery Act*, RSA cl-8.

The financial statements for the year ended March 31, 2014 were authorized by the Board on May 28, 2014.

NOTE 2 BASIS OF PREPARATION

Statement of Compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Standards Interpretation Committee (IFRIC).
These financial statements have been prepared on a historical cost basis and are presented in Canadian dollars. All values are rounded to the nearest thousand dollars except where indicated.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The preparation of the Commission's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.
For long lived assets, judgment is used to estimate each component of an asset's useful life and is based on an analysis of all pertinent factors including the expected use of the asset. If the estimated useful lives were incorrect, this could result in an increase or decrease in the annual amortization expenses, and future impairment charges.

For the provision for pension liability, judgment is used to estimate the underlying assumptions for future salary increases, inflation rates, and discount rates. If these assumptions are incorrect, this could result in an adjustment to the liability and the gain or loss recorded in Other Comprehensive Income (Loss) in the Statement of Operations and Comprehensive Income.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Cont'd)

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are described throughout these notes to the financial statements. The Commission based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future development, however, may change due to market changes or circumstances arising beyond the control of management. Such changes are reflected in the assumptions when they occur.

(a) Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Classification depends on the nature and purpose of the financial asset or financial liability and the Commission's intentions.
Classifications are described below:

Cash and cash equivalents	Loans and receivables
Accounts receivables	Loans and receivables
Accounts payable and accrued liabilities	Financial liabilities
Due to Alberta Lottery Fund	Financial liabilities
Due to General Revenues	Financial liabilities

Loans and receivables
Cash and cash equivalents and accounts receivables are accounted for at cost.

Financial liabilities
Accounts payable and accrued liabilities, due to Alberta Lottery Fund and due to General Revenues are accounted for at cost.

Impairment
Financial assets and financial liabilities are assessed for indicators of impairment on an annual basis. If there is objective evidence that an impairment exists, the loss is recorded on the Statement of Operations and Comprehensive Income. The impairment loss is measured as the difference between the acquisition cost and the current fair value.

(b) Inventories

Gaming parts and supplies are valued at weighted average cost which is not in excess of net realizable value.

Liquor inventory is held on behalf of liquor suppliers or agents. As such, the value, and related duties and taxes, are not recorded in these financial statements.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Cont'd)

(c) Property, Plant and Equipment, Computer Software and Investment Property

Property, plant and equipment, computer software, and investment property are reported at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful life of the assets, reducing the original cost to estimated residual value. Where an item is comprised of major components with different useful lives, the components are accounted for as separate items. Amortization begins when the asset is put into use. Land is not amortized.

The estimated useful lives, residual value and amortization method are reviewed at the end of each fiscal year, with the effect of any changes in estimate accounted for on a prospective basis.

Investment property is defined as land, building or a combination thereof, that is held to earn rental income rather than for use in the ordinary course of business by the owner. The warehouse located in St. Albert that is leased to Connect Logistics Services Inc. is an investment property.

(d) Defined Benefit Pension Plans

The Commission participates in multi-employer defined benefit pension plans sponsored by the Province of Alberta; the Public Services Pension Plan (PSPP), the Management Employees Pension Plan (MEPP), and the Supplementary Retirement Plan for Public Service Managers (SRP). The cost of providing benefits under the defined benefit plans is determined separately for each plan by independent actuaries based on several assumptions. An expense and a liability for benefits earned are recognized in the period that employee service has been rendered. Under defined benefit pension plan accounting, the Commission must recognize its proportionate share, determined on an actuarial basis, of plan assets, obligations, re-measurement amounts, and service cost.

For defined benefit pension plans, current benefit cost represents the actuarial present value of the benefits earned in the current period. Such cost is actuarially determined using the accrued benefit method prorated on service, a market interest rate, management's best estimate of projected costs, and the expected years of service until retirement. The liability is the present value of the defined benefit obligation, which is determined by discounting the estimated future cash flows using a discount rate based on market yields of high quality corporate bonds having terms to maturity that approximate the duration of the related benefit liability. Interest expense represents the amount required in each year to build up the liability over the projected period to its future value. Remeasurement changes in benefit liabilities, composed of actuarial changes in assumptions and experience gains and losses, are recognized in other comprehensive income.

The Net Defined Benefit Pension Liability, including the underlying assumptions for future salary increases, inflation rates and discount rates, is reviewed annually.

(e) Investment in an Associate – Western Canada Lottery Corporation

The Commission's investment in its associate is accounted for using the equity method of consolidation. The associate is the Western Canada Lottery Corporation (WCLC) in which the Commission has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the associate but has no control or joint control over those policies.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Cont'd)

(e) Investment in an Associate – Western Canada Lottery Corporation (Cont'd)

WCLC is a non-profit organization authorized to manage, conduct and operate ticket lottery activities for its members, the governments of Alberta, Saskatchewan, and Manitoba. The Yukon Territory, the Northwest Territories, and Nunavut participate as associate members.

Under the equity method, the investment in WCLC is carried in the balance sheet at cost plus post acquisition changes in the Commission's share of net assets of WCLC.

The Statement of Operations and Comprehensive Income reflects the share of the results of operations of WCLC. Where there has been a change recognized directly in the equity of WCLC, the Commission recognizes its share of any changes and discloses this, when applicable, in Due to General Revenues. Unrealized gains and losses resulting from transactions between the Commission and WCLC are eliminated to the extent of the interest in WCLC.

The share of income from WCLC is shown on the face of the Statement of Operations and Comprehensive Income.

The financial statements of WCLC are prepared under IFRS for the same reporting period as the Commission. Where necessary, adjustments are made to bring the accounting policies into conformity with those of the Commission.

If there are indicators that the investment in WCLC is impaired, the Commission calculates the amount of impairment as the difference between the recoverable amount of WCLC and its carrying value. This difference would be recognized in the income from WCLC in the Statement of Operations and Comprehensive Income.

Upon any loss of significant influence over WCLC, the Commission would measure and recognize any remaining investment at its fair value. Any difference between the carrying amount of WCLC upon loss of significant influence and the fair value of the investment and proceeds from disposal is recognized in the Statement of Operations and Comprehensive Income.

(f) Revenue and Expense Recognition

Revenue from gaming terminals, video lottery terminals and personal play electronic bingo is based on each bet and is recognized at the time that play has been completed and all machine credits have been played or converted to cash. Revenue from play along electronic bingo is recognized at the time of purchase of the cards. Prizes, commissions and federal payments related to gaming terminals, video lottery terminals, and all forms of electronic bingo, are recognized on the same basis as related revenues.

Revenue from the sale of liquor is recognized when goods are shipped and title has passed to the customer. Revenue received in advance of shipment is deferred and recognized when goods are shipped and title has passed to the customer. Cost of product sold related to liquor is recognized on the same basis as the related revenue.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Cont'd)

(g) Impairment of Non-Financial Assets

At each reporting date, if there are indicators that non-financial assets carried at amortized cost may be impaired, the Commission would complete a formal impairment assessment. For this purpose, non-financial assets would be grouped at the lowest levels for which are there are separately identifiable cash inflows; these groupings are referred to as cash-generating units. An impairment loss would be the amount by which the cash-generating units' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses would be recognized in the Statement of Operations and Comprehensive Income.

For previously impaired non-financial assets, an assessment is made annually as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Commission estimates the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the non-financial asset's recoverable amount since the last impairment loss was recognized. An impairment loss is reversed only to the extent that the non-financial asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the non-financial asset in prior years.

Such reversal is recognized in the Statement of Operations and Comprehensive Income in a manner consistent with the originally recognized impairment loss.

(h) Federal Taxes

Under the Excise Tax Act and Games of Chance (GST/HST) Regulations, the Commission is required to pay GST and Federal Tax on gaming operations. However, the Commission as a Crown agent of the Government of Alberta has a tax-exempt status for its liquor and regulatory operations.

(i) Operating Expenses

Operating expenses are allocated against Provincial Lotteries Revenue or Liquor and Other Revenue, based on the nature of the expense.

(j) Allocation of Net Operating Results

The *Gaming and Liquor Act* requires the Commission to transfer net operating results to the Alberta Lottery Fund and the General Revenue Fund.

Net operating results arising from the conduct of authorized gaming terminal, video lottery, lottery ticket, and electronic bingo in Alberta is transferred to the Alberta Lottery Fund. Note 9 discloses further information on amounts due to the Alberta Lottery Fund.

Net operating results of liquor operations and other income is transferred to General Revenues. Note 10 discloses further information on amounts due to General Revenues.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Cont'd)

(k) Contingent Liabilities and Provisions

Contingent liabilities are possible obligations that may result in the future sacrifice of economic benefits arising from existing conditions or situations involving uncertainty.

Provisions are recognized when the Commission has a present obligation as a result of a past event. It is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Statement of Operations and Comprehensive Income net of any reimbursement.

All legal claims are assessed by the Commission's legal counsel to determine the possible liability. Disclosure is made if the assessment of possible liability meets specific criteria and the likelihood is greater than 10%. Additionally, a provision is recognized if the assessment of possible liability meets specific criteria and the likelihood is greater than 50%.

(l) Future Accounting Change

The future accounting change is based on standards issued but not yet effective up to the date of the issuance of the financial statements. This change is of standards and interpretations issued, which management reasonably expects to be applicable at the future date. The Commission is assessing the impact of this new standard on its financial statements.

IFRS 9 *Financial Instruments* – Effective for annual periods commencing on or after January 1, 2015 with early adoption permitted. Under IFRS 9 there are new requirements for classifying and measuring financial assets measured at amortised cost and hedge accounting. The Commission is not expecting any impact on the financial statements from the new standard.

NOTE 4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. Additionally, cash and cash equivalents include the proceeds from table games which the Commission holds on behalf of charities; further details are provided in Note 19.

The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high quality, short-term and mid-term fixed income securities with a maximum term to maturity of three years. For the year ended March 31, 2014, securities held by the Fund had a time-weighted yield of 1.17% per annum (March 31, 2013: 1.25% per annum). Due to the short-term nature of CCITF investments, the carrying value approximates fair value.

NOTE 5 PREPAID EXPENSES AND INVENTORIES
(in thousands)

	2014	2013
Prepaid Expenses	$ 1,542	$ 1,441
Gaming Parts	10,357	8,937
Supplies	847	776
	$ 12,746	$ 11,154

NOTE 6 PROPERTY, PLANT, AND EQUIPMENT
(in thousands)

	Land	Buildings & Leasehold Improvements	Vehicles	Equipment	Gaming Equipment &Terminals	Total
Cost, March 31, 2012	$ 2,057	$ 33,510	$ 3,366	$ 30,404	$ 406,208	$ 475,545
Additions	-	1,449	632	2,168	99,348	103,597
Disposals	-	-	(328)	(369)	(71,477)	(72,174)
Cost, March 31, 2013	2,057	34,959	3,670	32,203	434,079	506,968
Accumulated Amortization, March 31, 2012	-	(18,933)	(2,696)	(28,580)	(268,624)	(318,833)
Additions	-	(847)	(470)	(1,718)	(36,946)	(39,981)
Disposals	-	-	327	579	62,806	63,712
Accumulated Amortization, March 31, 2013	-	(19,780)	(2,839)	(29,719)	(242,764)	(295,102)
Net Book Value, March 31, 2013	$ 2,057	$ 15,179	$ 831	$ 2,484	$ 191,315	$ 211,866
Cost, March 31, 2013	$ 2,057	$ 34,959	$ 3,670	$ 32,203	$ 434,079	$ 506,968
Additions	-	1,776	716	7,180	96,511	106,183
Disposals	-	(53)	(586)	(5,901)	(103,812)	(110,352)
Cost, March 31, 2014	2,057	36,682	3,800	33,482	426,778	502,799
Accumulated Amortization, March 31, 2013	-	(19,780)	(2,839)	(29,719)	(242,764)	(295,102)
Additions	-	(881)	(618)	(1,880)	(50,590)	(53,969)
Disposals	-	53	581	5,901	101,285	107,820
Accumulated Amortization, March 31, 2014	-	(20,608)	(2,876)	(25,698)	(192,069)	(241,251)
Net Book Value, March 31, 2014	$ 2,057	$ 16,074	$ 924	$ 7,784	$ 234,709	$ 261,548

The estimated useful life over which property, plant, and equipment are amortized is as follows:

Buildings	Up to 40 years
Leasehold improvements	Lease term
Vehicles	3 years
Equipment	3 years
Gaming Equipment and Terminals	Up to 10 years

NOTE 7 COMPUTER SOFTWARE
(in thousands)

	Computer Software	Software Under Development	VLT Software	Total
Cost, March 31, 2012	$ 14,407	$ 2,292	$ -	$ 16,699
Additions	270	5,555	26,261	32,086
Disposals	-	-	-	-
Cost, March 31, 2013	14,677	7,847	26,261	48,785
Accumulated Amortization, March 31, 2012	(13,563)	-	-	(13,563)
Additions	(596)	-	(1,734)	(2,330)
Disposals	-	-	-	-
Accumulated Amortization, March 31, 2013	(14,159)	-	(1,734)	(15,893)
Net Book Value, March 31, 2013	$ 518	$ 7,847	$ 24,527	$ 32,892
Cost, March 31, 2013	$ 14,677	$ 7,847	$ 26,261	$ 48,785
Additions	2,699	1,169	-	3,868
Transfers	7,808	(7,808)	-	-
Disposals	(1,796)	-	-	(1,796)
Cost, March 31, 2014	23,388	1,208	26,261	50,857
Accumulated Amortization, March 31, 2013	(14,159)	-	(1,734)	(15,893)
Additions	(1,390)	-	(3,979)	(5,369)
Disposals	1,796	-	-	1,796
Accumulated Amortization, March 31, 2014	(13,753)	-	(5,713)	(19,466)
Net Book Value, March 31, 2014	$ 9,635	$ 1,208	$ 20,548	$ 31,391

The estimated useful life over which computer software is amortized is as follows:

Gaming system related	3 - 10 years
Other computer software	3 years

NOTE 8 INVESTMENT PROPERTY (LIQUOR WAREHOUSES)

(in thousands)

	Land	Building	Work in Progress Land	Work in Progress Building	Total
Cost, March 31, 2012	$ 2,056	$ 27,885	$ -	$ -	$ 29,941
Additions	-	621	-	-	621
Disposals	-	-	-	-	-
Cost, March 31, 2013	2,056	28,506	-	-	30,562
Accumulated Amortization, March 31, 2012	-	(22,049)	-	-	(22,049)
Additions	-	(508)	-	-	(508)
Disposals	-	-	-	-	-
Accumulated Amortization, March 31, 2013	-	(22,557)	-	-	(22,557)
Net Book Value, March 31, 2013	$ 2,056	$ 5,949	$ -	$ -	$ 8,005
Cost, March 31, 2013	$ 2,056	$ 28,506	$ -	$ -	$ 30,562
Additions	-	260	31	143	434
Disposals	-	-	-	-	-
Cost, March 31, 2014	2,056	28,766	31	143	30,996
Accumulated Amortization, March 31, 2013	-	(22,557)	-	-	(22,557)
Additions	-	(558)	-	-	(558)
Disposals	-	-	-	-	-
Accumulated Amortization, March 31, 2014	-	(23,115)	-	-	(23,115)
Net Book Value, March 31, 2014	$ 2,056	$ 5,651	$ 31	$ 143	$ 7,881

(a) The estimated useful life over which investment property is amortized is as follows:

Buildings	Up to 40 years

(b) Net Profit from Investment Property

	2014	2013
Rental income derived from investment property	$ 2,841	$ 2,793
Direct operating expenses (including repair and maintenance) generating rental income	$ (102)	(65)
Net profit arising from investment property	$ 2,739	2,728

Estimated rental income for the current lease term which expires January 31, 2018 is:

2014-15	$ 2,840
2015-16	$ 2,943
2016-17	$ 3,251
2017-18	$ 2,712

NOTE 8 INVESTMENT PROPERTY (LIQUOR WAREHOUSES) (Cont'd)
(in thousands)

(c) Fair Value of Investment Property

	2014	2013
Fair value of investment property	$ 45,850	$ 43,000

Investment property is stated at cost.

The fair value at March 31, 2013 and March 31, 2014 is based on a valuation performed by Bourgeois & Company Ltd., an accredited independent valuer. Bourgeois & Company Ltd. have appropriate qualifications and recent experience in the valuation of similar properties. Two market based techniques (income and direct comparison approaches) were applied to estimate fair value.

(d) Subsequent Event – Work in Progress Land and Building

The *Gaming and Liquor Act* requires the Commission to obtain approval of the Lieutenant Governor in Council to acquire land or buildings. On March 5, 2014, Order in Council 058/2014 granted approval for the Commission to purchase land for construction of a new liquor warehouse. As at March 31, 2014, an offer to purchase land for $16.2 million was accepted with conditions. The conditions were removed on April 29, 2014 and the required land transfer documentation submitted to Land Titles Office of the Government of Alberta. As of May 9, 2014 it is anticipated transfer of ownership will occur prior to May 31, 2014.

Once the conditions described above were removed, the Commission was able to enter into an initial development agreement with the City of St. Albert. Subsequent to year end, the Commission paid approximately $2.7 million for offsite levies related to transportation and water.

During fiscal 2013-14, in anticipation of land acquisition and warehouse construction, the Commission incurred costs totaling $174 thousand; these costs are classified as work in progress.

NOTE 9 DUE TO THE ALBERTA LOTTERY FUND
(in thousands)

The *Gaming and Liquor Act* requires the Commission to transfer net operating results from provincial lotteries to the Alberta Lottery Fund. This amount represents the portion of net operating results from provincial lottery operations, which has not been transferred to the Alberta Lottery Fund.

	2014	2013
Due to the Alberta Lottery Fund, beginning of year	$ 93,585	$ 100,451
Net operating results, Provincial Lotteries (note 12)	1,484,457	1,485,205
Transfers to the Alberta Lottery Fund	(1,493,495)	(1,492,071)
Due to the Alberta Lottery Fund, end of year	$ 84,547	$ 93,585

NOTE 9 DUE TO THE ALBERTA LOTTERY FUND (Cont'd)
(in thousands)

Amounts due to the Alberta Lottery Fund are unsecured, non-interest bearing and have no specific terms of repayment. The amounts due to the Alberta Lottery Fund are as a result of year end invoicing cycles and timing of transfers to the Alberta Lottery Fund.

NOTE 10 DUE TO GENERAL REVENUES
(in thousands)

The *Gaming and Liquor Act* requires the Commission to transfer net operating results from the sale of liquor to the General Revenue Fund. Due to General Revenues reflects the outstanding balance due to General Revenues from liquor operations and other income, as follows:

	2014	2013
Due to General Revenues, beginning of year	$ 269,663	$ 270,934
Net operating results, Liquor and Other (note 12)	747,026	728,729
Transfers to General Revenues	(740,000)	(730,000)
Due to General Revenues, end of year	$ 276,689	$ 269,663

Amounts due to General Revenues are unsecured, non-interest bearing and have no specific terms of repayment. The Commission does not expect to pay the total amount owing to General Revenues during the next fiscal year as the Commission retains funds to maintain sufficient level of liquidity to support its business operations.

NOTE 11 EMPLOYEE BENEFIT PLANS
(in thousands)

The principle assumptions used in determining pension obligations for the Commission are shown below:

	2014			2013		
	PSPP	MEPP	SRP	PSPP	MEPP	SRP
Discount rate:	4.40%	4.40%	4.40%	3.80%	3.80%	3.80%
Inflation rate:	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%
Average wage increases:	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Commission's share of plan payroll:	2.18%	1.79%	1.81%	1.73%	1.47%	1.92%
Date of the most recent actuarial valuation from which results are extrapolated:	Dec. 31, 2012	Dec. 31, 2012	Dec. 31, 2012	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2009
Commission's Expected Contributions For The Next Period:						
All plans		$ 9,892			$ 8,186	

Additional assumptions are described in the valuation reports for each of the respective plans.

NOTE 11 EMPLOYEE BENEFIT PLANS (Cont'd)
(in thousands)

The Commission's Proportionate Share of Defined Benefit Pension Plan Liabilities

	2014				2013			
	PSPP	MEPP	SRP	Total	PSPP	MEPP	SRP	Total
Change in Fair Value of Plan Assets								
Opening fair value of plan assets	$ 63,500	$ 27,752	$ 1,655	$ 92,907	$ 56,500	$ 23,600	$ 1,148	$ 81,248
Employer contributions	7,041	1,922	185	9,148	4,120	1,508	63	5,691
Benefit payments	(4,851)	(1,678)	(36)	(6,565)	(3,147)	(1,395)	(42)	(4,584)
Interest income on assets	2,455	1,059	66	3,580	2,564	1,065	52	3,681
Actuarial (loss) gain	26,780	9,259	(611)	35,428	3,463	2,974	434	6,871
Acquisitions, settlements, & curtailments	-	-	-	-	-	-	-	-
Closing Fair Value of Plan Assets	$ 94,925	$ 38,314	$ 1,259	$ 134,498	$ 63,500	$ 27,752	$ 1,655	$ 92,907
Change in Defined Benefit Obligation								
Opening defined benefit obligation	$ 99,000	$ 39,123	$ 1,855	$ 139,978	$ 90,000	$ 35,626	$ 1,592	$ 127,218
Current service cost (employer)	6,260	2,278	120	8,658	4,134	1,319	171	5,624
Benefit paid	(4,851)	(1,678)	(36)	(6,565)	(3,147)	(1,395)	(42)	(4,584)
Interest expense	3,773	1,498	82	5,353	4,165	1,631	78	5,874
Actuarial losses (gains)	36,549	9,186	(571)	45,164	3,848	1,942	56	5,846
Acquisitions, settlements, & curtailments	-	-	-	-	-	-	-	-
Closing Defined Benefit Obligation	$ 140,731	$ 50,407	$ 1,450	$ 192,588	$ 99,000	$ 39,123	$ 1,855	$ 139,978
Net Defined Benefit Liability	$ 45,806	$ 12,093	$ 191	$ 58,090	$ 35,500	$ 11,371	$ 200	$ 47,071

The Commission records a provision for only the employer portion of the surplus (deficit) attributable to the Commission. The employer portions are 50% for PSPP, 63% for MEPP, and 80% for SRP.

Accumulated Other Comprehensive Income

	2014				2013			
	PSPP	MEPP	SRP	Total	PSPP	MEPP	SRP	Total
Actuarial loss(gain) on plan assets	$ (26,780)	$ (9,259)	$ 611	$ (35,428)	$ (3,463)	$ (2,974)	$ (434)	$ (6,871)
Experience loss on plan liabilities	36,548	9,186	(571)	45,163	3,848	1,942	56	5,846
Amount recognized in OCI	9,768	(73)	40	9,735	385	(1,032)	(378)	(1.025)
Beginning balance, AOCI	11,647	5,180	4	16,831	11,262	6,212	382	17,856
Ending balance, AOCI	$ 21,415	$ 5,107	$ 44	$ 26,566	$ 11,647	$ 5,180	$ 4	$ 16,831

NOTE 11 EMPLOYEE BENEFIT PLANS (Cont'd)
(in thousands)

Net Defined Benefit Pension Expense

	2014				2013			
	PSPP	MEPP	SRP	Total	PSPP	MEPP	SRP	Total
Current service cost (including provision for expenses)	$ (781)	$ 356	$ (65)	$ (490)	$ 14	$ (189)	$ 108	$ (67)
Net Interest on employee benefits	1,319	439	16	1,774	1,601	566	26	2,193
Net pension-benefit expense recognized	$ 538	$ 795	$ (49)	$ 1,284	$ 1,615	$ 377	$ 134	$ 2,126

Risks arising from defined benefit plans

Economic risks
Defined benefit plans are directly exposed to economic risks from plan assets invested in capital markets, and indirectly with respect to measurement risk from assumptions based on economic factors, such as discount rates affected by volatile bond markets.

Demographic risks
Demographic factors affect current and future benefit costs with respect to the amount and time horizon of expected payments due to such factors as workforce average age and earnings levels, attrition and retirement rates, mortality and morbidity rates, etc.

Multi-employer plan funding risk
In addition to economic and demographic risk factors, the Commission is exposed to funding risk in the multi-employer plans arising from:

- Legislative changes affecting eligibility for and amount of pension and related benefits; and
- Performance of plan assets affected by investment policies set by the government.

Because these plans are governed by legislation rather than contract, there is little flexibility for participants with respect to withdrawal from the plan, plan wind-up or amendments, and mandatory funding requirements.

Sensitivity Analysis:

	2014			2013		
	PSPP	MEPP	SRP	PSPP	MEPP	SRP
Estimated sensitivity of liabilities to a 1% change in the discount rate:	14.20%	13.40%	18.70%	13.20%	13.04%	23.98%
Estimated sensitivity of liabilities to a 1% change in the inflation rate, corresponding ultimate general salary increase rate at validation date:	9.04%	7.92%	25.09%	9.50%	7.30%	23.29%

NOTE 12 GAMING AND LIQUOR OPERATING RESULTS
(in thousands)

Management monitors the operating results of the various revenue sectors for the purpose of making decisions about resource allocation and performance assessment. Operating expenses are not allocated to the individual revenue sectors but are allocated between Provincial Lotteries Revenue and Liquor and Other Revenue as authorized by the *Gaming and Liquor Act.*

	2014					
	Provincial Lotteries				Liquor and Other	Total
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo (a)	Subtotal		
Credits Played	$ 15,812,590	$ 7,641,522	$ 34,691	$ 23,488,803	$ -	$ 23,488,803
Liquor Revenue	-	-	-	-	2,402,714	2,402,714
	15,812,590	7,641,522	34,691	23,488,803	2,402,714	25,891,517
Credits Won	(14,591,778)	(7,029,632)	(23,366)	(21,644,776)	-	(21,644,776)
Cost of Liquor Product	-	-	-	-	(1,644,463)	(1,644,463)
	(14,591,778)	(7,029,632)	(23,366)	(21,644,776)	(1,644,463)	(23,289,239)
	1,220,812	611,890	11,325	1,844,027	758,251	2,602,278
Commissions & Federal Payments	(363,302)	(97,280)	(3,639)	(464,221)	-	(464,221)
	$ 857,510	$ 514,610	$ 7,686	1,379,806	758,251	2,138,057
Operating Expenses				(193,475)	(30,303)	(223,778)
Profit from Operations for the Year				1,186,331	727,948	1,914,279
Other Revenue				-	19,078	19,078
Income from Western Canada Lottery Corporation				298,126	-	298,126
Net Operating Results				$ 1,484,457	$ 747,026	$ 2,231,483
Other Comprehensive Income (Expense)				-	(9,735)	(9,735)
Total Comprehensive Income				$ 1,484,457	$ 737,291	$ 2,221,748

*(a) includes Keno charity commissions

NOTE 12 GAMING AND LIQUOR OPERATING RESULTS (Cont'd)
(in thousands)

	2013					
	Provincial Lotteries				Liquor and Other	Total
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo (a)	Subtotal		
Credits Played	$ 15,934,036	$ 7,190,977	$ 37,992	$ 23,163,005	$ -	$ 23,163,005
Liquor Revenue	-	-	-		2,300,661	2,300,661
	15,934,036	7,190,977	37,992	23,163,005	2,300,661	25,463,666
Credits Won	(14,689,535)	(6,615,223)	(25,748)	(21,330,506)	-	(21,330,506)
Cost of Liquor Product	-	-	-	-	(1,556,267)	(1,556,267)
	(14,689,535)	(6,615,223)	(25,748)	(21,330,506)	(1,556,267)	(22,886,773)
	1,244,501	575,754	12,244	1,832,499	744,394	2,576,893
Commissions & Federal Payments	(370,666)	(91,303)	(3,926)	(465,895)	-	(465,895)
	$ 873,835	$ 484,451	$ 8,318	1,366,604	744,394	2,110,998
Operating Expenses				(167,693)	(28,022)	(195,715)
Profit from Operations for the Year				1,198,911	716,372	1,915,283
Other Revenue				-	12,357	12,357
Income from Western Canada Lottery Corporation				286,294	-	286,294
Net Operating Results				$ 1,485,205	$ 728,729	$ 2,213,934
Other Comprehensive Income (Expense)				-	1,025	1,025
Total Comprehensive Income				$ 1,485,205	$ 729,754	$ 2,214,959

*(a) includes Keno charity commissions

NOTE 13 COMMISSIONS AND FEDERAL PAYMENTS
(in thousands)

	2014			
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo (a)	Total
Commissions				
Operators	$ 179,145	$ 91,720	$ 1,701	$ 272,566
Charities	173,032	-	1,764	174,796
Federal Tax Expense (b)	11,125	5,560	174	16,859
	$ 363,302	$ 97,280	$ 3,639	$ 464,221

	2013			
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo (a)	Total
Commissions				
Operators	$ 183,032	$ 86,288	$ 1,837	$ 271,157
Charities	176,439	-	1,908	178,347
Federal Tax Expense (b)	11,195	5,015	181	16,391
	$ 370,666	$ 91,303	$ 3,926	$ 465,895

*(a) includes Keno Charity Commissions

*(b) as prescribed by the Games of Chance (GST/HST) Regulations, taxes are paid to the Government of Canada in lieu of the Goods and Services Tax (GST) on gaming terminal, video lottery terminal and electronic bingo sales based on a prescribed formula. This tax is in addition to the GST paid on the purchase of goods and services for which a credit is not allowed under the formula.

NOTE 14 OPERATING EXPENSES
(in thousands)

	2014	2013
Salaries and benefits	$ 88,047	$ 80,272
Amortization	59,851	42,823
Leased gaming terminals	31,142	27,974
Equipment and vehicles	10,146	11,794
Data communications	7,578	7,346
Fees and services	5,656	4,284
Data processing	5,576	5,182
Travel and training	3,142	3,080
Property	3,063	2,631
Freight and ticket product delivery	1,917	1,928
Stationery and supplies	1,876	1,995
Net interest in net defined benefit pension liability (note 11)	1,774	2,193
Retailer relations	1,723	2,303
Insurance and bank charges	1,303	950
Miscellaneous	858	840
Liquor product expense	126	120
	$ 223,778	$ 195,715

NOTE 15 OTHER REVENUE
(in thousands)

	2014	2013
Licences	$ 6,259	$ 6,260
Miscellaneous	3,187	1,550
Premises rental revenue	2,841	2,809
Liquor levies	2,240	2,154
Interest revenue	2,082	3,650
Gain (loss) on disposal of property, plant, and equipment	1,150	(5,090)
Retailer service fees	749	618
Administrative sanctions	570	406
	$ 19,078	$ 12,357

NOTE 16 INVESTMENT IN WESTERN CANADA LOTTERY CORPORATION (WCLC)
(in thousands)

The Commission's interest in the WCLC is based upon Alberta's share of lottery ticket sales.

The WCLC is a private entity that is not listed on any public exchange. The following table illustrates summarized financial information of the Commission's investment in the WCLC.

	2014	2013
Balance Sheet (WCLC)		
Current Assets	$ 83,226	$ 97,820
Capital and Intangible Assets	21,194	21,763
	$ 104,420	$ 119,583
Current Liabilities	$ 71,666	$ 90,480
Due to Provincial Governments or Appointed Organizations	45,790	45,806
Equity	(13,036)	(16,703)
	$ 104,420	$ 119,583
Statement of Operations (Alberta Only)		
Ticket Lottery Revenue (a)	$ 857,695	$ 815,400
Ticket Lottery Prizes (a)	(444,549)	(420,191)
Gaming Revenue	413,146	395,209
Commissions (a)	(61,627)	(57,990)
Federal Tax Expense (a)	(4,637)	(4,383)
Payment to Federal Government (b)	(8,506)	(8,150)
	338,376	324,686
Operating Expenses	(40,250)	(38,392)
Net Operating Results	$ 298,126	$ 286,294

NOTE 16 INVESTMENT IN WESTERN CANADA LOTTERY CORPORATION (WCLC) (Cont'd)
(in thousands)

(a) On-line ticket lottery revenues are recognized at the date of the draw, with instant ticket revenues being recognized at the date activated for sale by the retailer. Prizes, commissions and federal payments related to ticket revenues are recognized on the same basis as related revenues.

(b) A payment is made to the federal government which represents the Province of Alberta's share resulting from an agreement between the provincial governments and the federal government on the withdrawal of the federal government from the lottery field. The payment is made by WCLC on behalf of Alberta and is based on current population statistics and its share of ticket lottery sales.

Statement of Change in Investment in WCLC

	2014	2013
Investment in WCLC, beginning of year	$ 32,104	$ 35,498
Net Operating Results recorded in AGLC	298,126	286,294
Interest Revenue recorded in Alberta Lottery Fund	1,075	944
WCLC Net Income Allocated to Alberta	299,201	287,238
Advances received from WCLC	(300,231)	(290,632)
Investment in WCLC, end of year	$ 31,074	$ 32,104

NOTE 17 COMMITMENTS
(in thousands)

Commitments are obligations of the Commission to others that will become liabilities in the future when the terms of those contracts or agreements are met.

	2014	2013
Obligations under operating leases and contracts		
Premise Leases and other contracts	$ 4,456	$ 5,631
Former Retail Liquor Stores	1,105	1,116
Video Lottery Terminal replacement initiative	10,500	91,521
Investment Property Land Purchase (note 8d)	16,200	-
	$ 32,261	$ 98,268

NOTE 17 COMMITMENTS (Cont'd)
(in thousands)

Estimated payment requirements for each of the next five years and thereafter are as follows:

2014-15	$	20,824
2015-16		4,531
2016-17		4,247
2017-18		471
2018-19		362
Thereafter		1,826
	$	32,261

The Commission has lease obligations for former retail liquor stores, most of which have been subleased to third parties. Provision for loss on leased properties of $0.24 million (2013 - $1.75 million) has been made where the payments to be received on the sub-leases are less that the lease payments to be made. Estimated receipts for each of the five years and thereafter are as follows:

2014-15	$	50
2015-16		50
2016-17		50
2017-18		50
2018-19		50
Thereafter		668
	$	918

NOTE 18 CONTINGENT LIABILITIES AND PROVISIONS
(in thousands)

The Commission is a defendant in several legal claims. Management has assessed these claims as at March 31, 2014, and determined, due to the nature of the claims, none of the claims will be provided for in our accounts or disclosed in these notes as they are remote and are not expected to have material adverse effect in the financial position or operations of the Commission.

The Commission amended a lease agreement with a tenant on January 22, 2014. Under the terms of the amended agreement, the Commission has agreed to assume certain third party premise leases for the remainder of the lease term if a significant change in the terms of the tenant's appointment occurs before January 31, 2018. As of March 31, 2014, the Commission's potential liability is $19.2 million (2013 - $13.7 million).

NOTE 18 CONTINGENT LIABILITIES AND PROVISIONS (Cont'd)
(in thousands)

Provisions are recognized as liabilities because they are present obligations and it is probable that an outflow of resources will be required to settle the obligation.

A provision for loss on leased properties has been recorded on onerous lease contracts on former retail liquor store operations that could not be terminated by the Commission at the time of liquor privatization in 1993. The provision is determined based on the difference between the aggregate estimated sublease revenue and the total lease obligations. As at March 31, 2014 there were 2 leases (2013 – 6 leases) that make up the provision.

	Lease Provision
As at March 31, 2013	$ 1,751
Amounts used against the provision	(101)
Amounts written off against the provision	(1,414)
As at March 31, 2014	$ 236
Expected Outflow of Resources	
Within one year	$ 10
After one year but not more than five years	40
After five years	186
	$ 236

NOTE 19 FUNDS UNDER ADMINISTRATION
(in thousands)

The Commission manages the collection, investment and distribution of the charities' share of proceeds/losses from table games at licensed charitable casino events.

The share of proceeds/losses from these table games allocated to charities is established in policy and by agreement between the participating charity and the relevant casino operator. These allocations are collected by the Commission and pooled by casino or region over a three month period. The pooled funds earn interest and the Commission deducts administrative fees from the pools. The net proceeds in each pool at the end of the pooling period are distributed equally to each charity holding a licensed charitable casino event in the casino/region during the pooling period.

	2014	2013
Charitable Proceeds	$ 16,316	$ 15,183
Held Charitable Proceeds	85	107
Returned Funds	-	35
	$ 16,401	$ 15,325

NOTE 20 SALARIES AND BENEFITS
(in thousands)

The Commission is an agent of the Government of Alberta and as such, is required to disclose certain information in accordance with the Fiscal Management Act.

		2014				2013
		Base Salary *note a*	Other Cash Benefits *note b*	Other Non-cash Benefits *note c*	Total	Total
Board						
Chairperson		$ 102	$ -	$ -	$ 102	$ 109
Board Members		260	-	-	260	272
Chief Executive						
President and Chief Executive Officer	*note d*	264	10	79	353	257
Executive Management	*note e*					
Chief Financial Officer & Senior Vice President		198	4	58	260	274
Vice President, Lottery and Gaming Services	*note f*	193	317	57	567	255
Chief Information Officer and Vice President, Innovation		192	5	56	253	245
Vice President, Compliance and Social Responsibility		186	-	54	240	259
Vice President, Human Resources and Learning & Development		165	1	45	211	203
Vice President, Strategy, Transformation and Ethics	*note g*	115	382	30	527	249
Vice President, Liquor Services	*note h*	98	-	29	127	-

(a) Base salary includes regular base pay and acting pay.

(b) Other cash benefits include vacation payouts, lump sum payouts and severance. There were no bonuses paid in fiscal 2013-14.

(c) Other non-cash benefits include the Commission's share of all employee benefits and contributions or payments made on behalf of employees including pension and supplementary retirement plans, health care, dental coverage, group life insurance, and short and long term disability plans.

(d) Automobile provided; taxable benefit amount of $10 (2013 - $2) is not included in other non-cash benefits.

(e) A corporate restructuring that took effect November 1, 2013 resulted in a realignment of some Vice Presidents and responsibilities between divisions.

(f) The position was occupied by two individuals during the year.

(g) The incumbent resigned effective November 1, 2013 and the duties reassigned to other Vice Presidents.

(h) The position was created September 1, 2013.

NOTE 21 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying values of the Commission's financial instruments approximate their fair values unless otherwise noted.

The Commission is exposed to various risks related to its financial assets and liabilities. These risk exposures are managed on an ongoing basis.

Credit risk represents the loss that would be recognized if parties holding financial assets of the Commission fail to honour their obligations. Credit risk is minimized as the Commission does not have significant exposure to any individual retail entity.

Liquidity risk is the risk the Commission will not be able to meet its financial obligations as they fall due. The majority of the Commission's operational activities involve cash sales and short term accounts receivables. The Commission relies on funds generated from its operations to meet operating requirements and to finance capital investment.

NOTE 22 RELATED PARTY TRANSACTIONS
(in thousands)

The Commission is a wholly-owned entity of the Government of Alberta. The Government significantly influences the Commission.

The Commission reports to the President of Treasury Board and Minister of Finance. Any ministry, department or entity the Minister is responsible for is a deemed related party to the Commission. These include:

- Department of Treasury Board and Finance, including Risk Management and Insurance
- Alberta Lottery Fund
- General Revenue Fund

The Commission made payments totalling $362 (2013 - $363) to Risk Management and Insurance. Transactions with the Alberta Lottery Fund are disclosed in Note 9 and transactions with the General Revenue Fund are disclosed in Note 10.

The Western Canada Lottery Corporation (WCLC), an associated entity as disclosed in Note 3, is also a deemed related party to the Commission. Details of transactions with WCLC are disclosed in Note 16. In addition, the Commission received $749 (2013 - $618) in retailer service fees from WCLC.

The Board members of the Commission, executive management and their close family members are deemed to be related parties to the Commission. Transactions with close family members are immaterial; compensation for Board members and executive management is disclosed in Note 20.

NOTE 23 APPROVED BUDGET
(in thousands)

The Commission includes its annual budget, on a summarized basis, in its business plan. The summarized budget receives approval by the Minister the Commission reports to on recommendation from the Commission Board and becomes part of the fiscal plan of the Government of Alberta.

		2014
Liquor Revenue	$	2,253,071
Liquor Cost of Sales		(1,512,981)
		740,090
Gaming Revenue		1,925,988
		2,666,078
Commissions and Federal Payments (a)		(494,280)
Operating Expenses		(257,595)
PROFIT FROM OPERATIONS FOR THE YEAR		1,914,203
Other Revenue		16,481
Income from Western Canada Lottery Corporation		271,402
NET OPERATING RESULTS	$	2,202,086
OTHER COMPREHENSIVE INCOME (LOSS)		
Loss on Pension Liability		(10,000)
TOTAL COMPREHENSIVE INCOME	$	2,192,086

(a) Includes Keno Charity Commissions

ATB FINANCIAL

Consolidated Financial Statements

Year Ended March 31, 2014

These ATB Financial Consolidated Financial Statements are a copy from the ATB Financial 2014 Annual Report. A complete copy of the ATB Financial Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the ATB Financial website at www.atb.com.

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of ATB Financial, which comprise the consolidated statement of financial position as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ATB Financial as at March 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General
May 29, 2014
Edmonton, Alberta

Consolidated Statement of Financial Position

As at March 31 *($ in thousands)*	2014	2013 restated (*note 3*)
Assets		
Cash resources (*note 6*)		
Cash	$ 438,917	$ 556,603
Interest-bearing deposits with financial institutions	1,143,128	803,072
	1,582,045	1,359,675
Securities (*note 7*)		
Securities measured at fair value through net income	921,955	881,841
Securities available for sale	374	469
	922,329	882,310
Securities purchased under reverse repurchase agreements	-	100,007
Loans (*note 8*)		
Business	15,167,687	12,732,228
Residential mortgages	12,012,454	10,705,908
Personal	6,184,463	5,744,958
Credit card	651,931	598,256
	34,016,535	29,781,350
Allowance for credit losses (*note 9*)	(131,391)	(122,889)
	33,885,144	29,658,461
Other assets		
Derivative financial instruments (*note 10*)	392,531	286,508
Property and equipment (*note 11*)	359,900	290,795
Software and other intangibles (*note 12*)	266,101	284,585
Other assets (*note 13*)	259,179	217,753
	1,277,711	1,079,641
Total assets	$ 37,667,229	$ 33,080,094
Liabilities and equity		
Liabilities		
Deposits (*note 14*)		
Personal	$ 11,840,449	$ 11,100,357
Business and other	15,475,989	12,631,014
	27,316,438	23,731,371
Other liabilities		
Wholesale borrowings	2,694,161	2,595,711
Collateralized borrowings (*note 15*)	3,411,352	3,103,492
Derivative financial instruments (*note 10*)	324,665	207,584
Other liabilities (*note 16*)	857,396	786,205
	7,287,574	6,692,992
Capital investment notes (*note 17*)	250,508	244,617
Subordinated debentures (*note 18*)	228,775	155,653
Total liabilities	35,083,295	30,824,633
Equity		
Retained earnings	2,591,694	2,315,285
Accumulated other comprehensive (loss)	(7,760)	(59,824)
Total equity	2,583,934	2,255,461
Total liabilities and equity	$ 37,667,229	$ 33,080,094

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the board:

[Original signed by]
Brian Hesje
Chairman of the Board

[Original signed by]
Colette Miller
Chair of the Audit Committee

Consolidated Statement of Income

For the year ended March 31 *($ in thousands)*	2014	2013 restated (*note 3*)
Interest income		
Loans	$ 1,355,872	$ 1,241,989
Interest-bearing deposits with financial institutions	8,962	7,446
Securities measured at fair value through net income	19,105	26,169
	1,383,939	1,275,604
Interest expense		
Deposits	267,638	242,483
Wholesale borrowings	49,318	60,380
Collateralized borrowings	83,170	79,192
Capital investment notes	10,525	10,254
Subordinated debentures	7,276	5,143
	417,927	397,452
Net interest income	966,012	878,152
Other income		
Service charges	67,273	63,867
Investor Services	97,373	72,864
Card fees	58,892	54,424
Credit fees	42,343	30,314
Insurance	13,195	15,329
Foreign exchange	9,879	15,371
Net gains on derivative financial instruments	20,367	8,395
Net gains on financial instruments at fair value through net income	70,718	88,188
Sundry	4,407	2,833
	384,447	351,585
Operating revenue	1,350,459	1,229,737
Provision for credit losses (*note 9*)	42,395	45,923
Non-interest expenses		
Salaries and employee benefits (*notes 19 and 20*)	481,458	438,030
Data processing	108,577	102,152
Premises and occupancy, including depreciation	85,797	86,646
Professional and consulting costs	50,427	40,185
Deposit guarantee fee	37,592	29,036
Equipment, including depreciation	21,355	23,742
Software and other intangibles amortization	37,625	41,279
General and administrative	78,788	71,409
ATB agencies	9,470	9,039
Other	38,002	27,874
	949,091	869,392
Net income before payment in lieu of tax	358,973	314,422
Payment in lieu of tax (*note 21*)	82,564	73,122
Net income	$ 276,409	$ 241,300

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended March 31 *($ in thousands)*		2014		2013 restated (*note 3*)
Net income	$	276,409	$	241,300
Other comprehensive income (loss)				
Items that may be reclassified subsequently to profit or loss:				
Unrealized net gains on financial assets available for sale:				
Unrealized net gains arising during the period		63		3
Net gains (losses) reclassified to net income		(42)		9
Unrealized net gains on derivative financial instruments designated as cash flow hedges:				
Unrealized net gains arising during the period		26,979		27,878
Net gains reclassified to net income		(36,427)		(27,917)
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plan liabilities		61,491		(47,375)
Other comprehensive income (loss)		52,064		(47,402)
Comprehensive income	$	328,473	$	193,898

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended March 31 *($ in thousands)*		2014		2013 restated (*note 3*)
Retained earnings				
Balance at beginning of the year	$	2,315,285	$	2,073,985
Net income		276,409		241,300
Balance at end of the year		2,591,694		2,315,285
Accumulated other comprehensive (loss)				
Available-for-sale financial assets				
Balance at beginning of the year		(173)		(185)
Other comprehensive income		21		12
Balance at end of the year		(152)		(173)
Derivative financial instruments designated as cash flow hedges				
Balance at beginning of the year		55,905		55,944
Other comprehensive (loss)		(9,448)		(39)
Balance at end of the year		46,457		55,905
Defined benefit plan liabilities				
Balance at beginning of the year		(115,556)		(68,181)
Other comprehensive income (loss)		61,491		(47,375)
Balance at end of the year		(54,065)		(115,556)
Accumulated other comprehensive (loss)		(7,760)		(59,824)
Equity	$	2,583,934	$	2,255,461

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended March 31 *($ in thousands)*	2014	2013 restated (*note 3*)
Cash flows from operating activities:		
Net income	$ 276,409	$ 241,300
Adjustments for non-cash items and others:		
Provision for credit losses	42,395	45,923
Depreciation and amortization	84,411	91,955
Net gains on financial instruments at fair value through net income	(70,718)	(88,188)
Adjustments for net changes in operating assets and liabilities:		
Loans	(4,177,677)	(2,924,477)
Deposits	3,591,032	1,493,008
Derivative financial instruments	1,609	(14,452)
Interest-bearing deposits with financial institutions	(340,043)	66,852
Prepayments and other receivables	(49,380)	6,405
Due to clients, brokers, and dealers	(4,716)	9,832
Deposit guarantee fee payable	8,555	2,380
Accounts payable and accrued liabilities	100,061	106,567
Liability for payment in lieu of tax	9,441	14,843
Net interest receivable and payable	55,848	48,185
Change in accrued pension-benefit liability	(72,764)	(16,486)
Others, net	25,802	(16,983)
Net cash used in operating activities	(519,735)	(933,336)
Cash flows from investing activities:		
Change in securities measured at fair value through net income	(40,007)	1,032,507
Change in securities purchased under reverse repurchase agreements	100,007	(10)
Purchases of property and equipment, software, and other intangibles	(135,032)	(98,667)
Net cash (used in) provided by investing activities	(75,032)	933,830
Cash flows from financing activities:		
Change in wholesale borrowings	98,450	(185,028)
Change in capital investment notes	(2,351)	(1,134)
Change in collateralized borrowings	307,860	452,275
Issuance of subordinated debentures	73,122	42,290
Net cash provided by financing activities	477,081	308,403
Net (decrease) increase in cash	(117,686)	308,897
Cash at beginning of period	556,603	247,706
Cash at end of period	$ 438,917	$ 556,603
Net cash (used in) provided by operating activities includes:		
Interest paid	$ (387,313)	$ (422,660)
Interest received	$ 1,400,930	$ 1,340,949

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2014 ($ in thousands)

1. Nature of Operations

Alberta Treasury Branches (ATB) is an agent of the Crown in right of Alberta and operates under the authority of the *Alberta Treasury Branches Act* (the *ATB Act*), Revised Statutes of Alberta, 2000, chapter A-37. Under the *ATB Act*, ATB was established as a provincial Crown corporation governed by a board of directors appointed by the Lieutenant-Governor in Council. The address of the head office is 2100, 10020 – 100 Street, Edmonton, Alberta, Canada.

ATB is exempt from Canadian federal and Alberta provincial income taxes but pays an amount to the provincial government designed to be in lieu of such a charge. (Refer to note 21.) ATB is an Alberta-based financial services provider engaged in retail and commercial banking, credit cards, wealth management, and investment management services.

2. Significant Accounting Policies

a. General Information

Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the accounting requirements of the Alberta Superintendent of Financial Institutions (ASFI). These consolidated financial statements were approved by the board of directors on May 29, 2014.

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through profit or loss, and liabilities for cash-settled share-based payments, which have been measured at fair value.

The consolidated financial statements are presented in Canadian dollars, and all values are rounded to the nearest thousand dollars, except when otherwise indicated.

Consolidation – Subsidiaries

Subsidiaries are entities controlled by ATB. Control exists when ATB is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. The financial statements of the subsidiaries have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

These consolidated financial statements include the assets, liabilities, and results of operations and cash flows of ATB and its subsidiaries. All intercompany transactions and balances have been eliminated from the consolidated results.

The following wholly owned subsidiaries, created for the purpose of offering investor services, were established by Order in Council and incorporated under the *Business Corporations Act* (Alberta):

- ATB Investment Management Inc., incorporated August 21, 2002
- ATB Securities Inc., incorporated February 6, 2003
- ATB Insurance Advisors Inc., incorporated July 21, 2006

Significant Accounting Judgments, Estimates, and Assumptions

In the process of applying ATB's accounting policies, management has exercised judgment and has made estimates in determining amounts recognized in the consolidated financial statements. The most significant judgments and estimates made include the allowance for credit losses, the fair value of financial instruments, and assumptions underlying the accounting for employee benefit obligations. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The consolidated financial statements for the year ended March 31, 2014, provide additional information in the following notes:

- Note 2(c): Financial instruments – fair value
- Note 2(d): Impairment of financial assets – for the establishment of allowance for credit losses
- Note 7: Securities – for establishing fair value of asset-backed commercial paper notes
- Note 20: Employee benefits – description of assumptions used

Translation of Foreign Currencies

Financial assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect as at the balance sheet date. Operating revenues and expenses related to foreign-currency transactions are translated using the exchange rate at the date of the transaction. Realized and unrealized gains and losses arising from these translations are included in foreign exchange in the Consolidated Statement of Income.

b. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition. ATB classifies financial assets as either financial assets at fair value through net income, loans and receivables, or held-to-maturity or available-for-sale financial assets. Financial liabilities are classified as either financial liabilities at fair value through net income or financial liabilities at amortized cost.

All financial assets and liabilities are initially recognized on the trade date. This is the date that ATB becomes a party to the contractual provisions of the instrument.

ATB derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. For funding transactions, all financial assets that cannot be derecognized continue to be held on ATB's Consolidated Statement of Financial Position, and a secured liability is recognized for the proceeds received. ATB derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial Assets

Financial Assets at Fair Value Through Net Income

This category comprises two subcategories: financial assets held for trading and financial assets designated by ATB at fair value through net income upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are classified as financial assets held for trading unless they are designated and effective as hedging instruments. Gains and losses arising from changes in fair value are included directly in the Consolidated Statement of Income and are reported as net gains on derivative financial instruments.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to the Consolidated Statement of Income. Gains and losses arising from changes in fair value are included directly in the Consolidated Statement of Income and are reported as net gains on financial instruments at fair value through net income. Interest income and expense on financial assets held for trading are included in net interest income. Interest accruals are recorded separately from fair value measurements. Changes in fair value are determined on a clean-price basis.

ATB designates certain financial assets upon initial recognition as financial assets at fair value through net income (fair value option). This designation cannot subsequently be changed. The fair value option is only applied when one of the following conditions is met:

- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.
- The financial assets are part of a portfolio of financial instruments that is risk managed and reported to senior management on a fair value basis.
- The financial asset contains one or more embedded derivatives that must be separated.

The fair value option is applied to certain interest-bearing deposits and securities that are part of a portfolio managed on a fair value basis. The fair value option is also applied to structured instruments that include embedded derivatives. Fair value changes relating to financial assets designated at fair value through net income are recognized in net gains on financial instruments at fair value through net income.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that ATB intends to sell immediately or in the short term, classifies as held for trading, or upon initial recognition designates as fair value through net income or available for sale
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration

Loans and receivables are initially recognized at fair value—which is the cash consideration to originate or purchase the loan including any transaction costs—and measured subsequently at amortized cost using the effective interest rate method. Loans and receivables are reported in the Consolidated Statement of Financial Position as securities purchased under reverse repurchase agreements or loans. Interest on items classified

as loans and receivables is included in the Consolidated Statement of Income and is reported as part of net interest income. Loans, subject to impairment losses, are reported as a deduction from the carrying value of the loan and recognized in the Consolidated Statement of Income as provision for credit losses.

Available-for-Sale Financial Assets

Available-for-sale financial assets are financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices, or that are not classified as loans and receivables, held-to-maturity investments, or financial assets at fair value through net income.

Available-for-sale financial assets are initially recognized at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognized in other comprehensive income, except for impairment losses and foreign-exchange gains and losses, until the financial asset is derecognized.

If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is recognized in the Consolidated Statement of Income. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the Consolidated Statement of Income.

Available-for-sale financial assets are reported in the Consolidated Statement of Financial Position as securities available for sale.

Held-to-Maturity Financial Assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that ATB's management has the intention and ability to hold to maturity.

These are initially recognized at fair value including direct and incremental transaction costs and measured subsequently at amortized cost, using the effective interest method. Interest on held-to-maturity investments is included in the Consolidated Statement of Income as net interest income. In the case of an impairment, the impairment loss would be reported as a deduction from the carrying value of the investment and recognized in the Consolidated Statement of Income. ATB did not hold any instrument in this category at the reporting date.

Financial Liabilities

Financial Liabilities at Fair Value Through Net Income

This category comprises two subcategories: financial liabilities held for trading and financial liabilities designated by ATB as fair value through net income upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. These instruments are included in derivative financial instruments in the Consolidated Statement of Financial Position. Gains and losses arising from changes in fair value are included directly in the Consolidated Statement of Income and are reported as net gains on derivative financial instruments.

Financial liabilities classified as designated as fair value through net income have been designated as such by ATB upon initial recognition, on an instrument-by-instrument basis. Management may designate a financial instrument as fair value through net income upon initial recognition when one of the following conditions is met:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency.
- The liabilities are part of a group of financial liabilities or financial assets and liabilities that is managed and whose performance is evaluated on a fair value basis.
- The financial instrument contains one or more embedded derivatives that significantly modify the cash flows and that would otherwise be separated from their host contract.

Gains and losses arising from changes in the fair value of financial liabilities classified as fair value through net income are included in the Consolidated Statement of Income and are reported as net gains on financial instruments at fair value through net income. Interest expenses on financial liabilities held for trading are included in net interest income. As at March 31, 2014, ATB has no financial liabilities classified as fair value through net income.

Other Liabilities Measured at Amortized Cost

Financial liabilities not classified as fair value through net income fall into this category and are measured at amortized cost. Interest expense is recognized using the effective interest method in net interest expense. Financial liabilities measured at amortized cost include deposits, capital investment notes, wholesale borrowings, subordinated debentures, collateralized borrowings, and other liabilities.

c. Financial Instruments – Fair Value

Financial assets and financial liabilities can be measured at fair value or amortized cost, depending on their classification.

Estimated Fair Value

The fair value of a financial instrument is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

When financial instruments are subsequently remeasured, quoted market prices in an active market provide the best evidence of fair value, and when such prices are available, ATB uses them to measure financial instruments. A financial instrument is considered to be quoted in an active market when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, or pricing service and those prices reflect actual and regularly occurring market transactions on an arm's-length basis. The fair value of a financial asset traded in an active market generally reflects the bid price, and that of a financial liability traded in an active market generally reflects the ask price. If the market for a financial instrument is not active, ATB establishes fair value using a valuation technique that primarily makes use of observable market inputs. Such valuation techniques include the use of available information concerning recent market transactions, reference to the current fair value of a comparable financial instrument, discounted cash flow analysis, option

pricing models, and all other valuation techniques commonly used by market participants that provide reliable estimates.

In cases where the fair value is established using valuation models, ATB makes assumptions about the amount, the timing of estimated future cash flows, and the discount rates used. These assumptions are based primarily on observable market inputs such as interest rate yield curves, foreign-exchange rates, credit curves, and price and rate volatility factors. When one or more significant inputs are not observable in the markets, fair value is established primarily on the basis of internal estimates and data, taking into account the valuation policies in effect at ATB, the economic environment, the specific characteristics of the financial asset or liability, and other relevant factors.

The fair values are estimated at the balance sheet date using the valuation methods and assumptions described below.

Financial Instruments Whose Carrying Value Equals Fair Value

The estimated fair value of items that are short term in nature is considered to be equal to their carrying value. These items include cash, securities purchased under reverse repurchase agreements, other assets, and other liabilities.

Securities and Interest-Bearing Deposits With Financial Institutions

The fair values of securities and interest-bearing deposits with financial institutions are based on quoted market prices, if available. Where an active market does not exist, the fair value is estimated using a valuation technique that makes maximum use of observable market data.

Derivative Instruments

Fair value of over-the-counter and embedded derivative financial instruments is estimated using pricing models that take into account current market and contractual prices of the underlying instruments, and time value and yield curve or volatility factors underlying the positions.

Loans and Deposits

For floating-rate financial instruments, fair value is equal to carrying value as the interest rates reprice to market when market rates change. For fixed-rate loans, fair value is estimated by discounting the expected future cash flows at market rates. For fixed-rate deposits, fair value is estimated by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms. Due to the use of subjective assumptions and measurement uncertainty, the fair value amounts should not be interpreted as being realizable in an immediate settlement of these instruments.

Wholesale Borrowings, Collateralized Borrowings, Subordinated Debentures, and Capital Investment Notes

The fair values of wholesale borrowings, collateralized borrowings, subordinated debentures, and capital investment notes are estimated by discounting contractual cash flows using market reference rates currently offered for debt instruments with similar terms and credit risk ratings.

d. Impairment of Financial Assets

Financial Assets Carried at Amortized Cost

ATB assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events (a loss event) that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that ATB uses to determine that there is objective evidence of an impairment loss include:

a. Significant financial difficulty of the issuer or obligor
b. A breach of contract, such as a default or significant delinquency in interest or principal payments
c. The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider
d. An assessed probability that the borrower will enter bankruptcy or other financial reorganization
e. The disappearance of an active market for that financial asset because of financial difficulties
f. Observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
   i. Adverse changes in the payment status of borrowers in the portfolio
   ii. National or local economic conditions that correlate with defaults on the assets in the portfolio

For purposes of impairment assessments, two groups of assets are formed: individually significant and individually insignificant. For individually significant assets, ATB determines whether objective evidence of impairment exists and, if the asset is found to be impaired, an individual assessment of impairment loss is made. For all other assets, a collective assessment of impairment loss is made, which includes individually significant assets that are not impaired as well as all individually insignificant assets, whether impaired or not. As soon as objective evidence of impairment loss becomes available for individually significant assets, those assets are removed from the collective assessment group.

For loans and receivables, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognized using an allowance account, and the amount of the loss is included in the Consolidated Statement of Income as a provision for credit losses. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For a collective evaluation of impairment (including individually significant assets for which no objective evidence of impairment exists, and individually insignificant assets), financial assets are grouped by similar risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by indicating the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated by the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted by current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognized using the original effective rate of interest used to discount the future cash flows for measuring the impairment loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the Consolidated Statement of Income.

When a loan has been subjected to an individually assessed provision and there is no likelihood of recovery, the loan is written off against the related allowance. Subsequent recoveries of written-off amounts are recorded in the Consolidated Statement of Income as a reduction to the provision.

Assets Classified as Available for Sale

ATB assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If such evidence exists for available-for-sale financial assets, the cumulative loss—the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss—is removed from equity and recognized in the Consolidated Statement of Income. If the fair value of a debt instrument classified as available for sale subsequently increases, and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the Consolidated Statement of Income.

e. Securities Purchased Under Reverse Repurchase Agreements and Securities Sold Under Repurchase Agreements

Securities purchased under reverse repurchase agreements represent a purchase of Government of Canada securities by ATB with a simultaneous agreement to sell them back at a specified price on a future date. The difference between the cost of the purchase and the predetermined proceeds to be received based on the repurchase agreement is recorded as securities interest income. Securities purchased under reverse repurchase agreements are fully collateralized, minimizing credit risk, and have been classified and measured at amortized cost. No securities purchased under reverse repurchase agreements exist at the reporting date.

Securities sold under repurchase agreements represent a sale of Government of Canada securities by ATB with a simultaneous agreement to buy them back at a specified price on a future date. The difference between the proceeds of the sale and the predetermined cost to be paid based on the repurchase agreement is recorded as deposit interest expense. No securities sold under repurchase agreements exist at the reporting date.

f. Derivative Financial Instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying reference rate such as an interest rate, a currency exchange rate, the price of an equity or debt security, or an equity or commodity index.

ATB enters into various over-the-counter and exchange-traded derivatives in the normal course of business, including interest rate swaps, options and futures, equity and commodity options, and foreign-exchange and commodity forwards and futures. ATB uses such instruments for two purposes: for its risk management program and to meet the needs of ATB customers.

ATB's corporate derivative portfolio is not intended for speculative income generation but for asset/liability management purposes—that is, to manage ATB's interest-rate, foreign-exchange, and equity- and commodity-related exposures arising from its portfolio of investments and loan assets and deposit obligations.

ATB's client derivative portfolio is not used to generate trading income through active assumption of market risk, but rather is used to meet the risk management requirements of ATB customers. ATB accepts no net exposure to such derivative contracts (except for credit risk), as it either enters into offsetting contracts with other financial institution counterparties or incorporates them into its own risk management programs.

All derivative financial instruments, including embedded derivatives, are classified as held for trading and measured at fair value in the Consolidated Statement of Financial Position. Derivatives with positive fair value are presented as derivative assets, and those with negative fair value are presented as derivative liabilities. Changes in the fair value of derivative financial instruments are recorded in net income, unless the derivative qualifies for hedge accounting as a cash flow hedge, in which case the changes in fair value are reflected in other comprehensive income (OCI).

Hedge Accounting

For a derivative instrument to qualify for hedge accounting, the hedging relationship between the derivative (hedging) instrument and the hedged item(s) must be designated and formally documented at inception. ATB must also document an assessment of the effectiveness of the derivative instrument in offsetting changes in cash flows or fair value of the hedged item, both at inception of the hedging relationship and on an ongoing basis. When ATB designates a derivative as a hedge, it is classified as either a cash flow hedge or a fair value hedge.

ATB discontinues hedge accounting when one of the following occurs:

- It is determined that a derivative is not, or has ceased to be, highly effective as a hedge.
- The derivative expires, or is sold, terminated, or exercised.
- The hedged item matures or is sold or repaid.
- A forecast transaction is no longer deemed highly probable.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the hedged item is ultimately recognized in the Consolidated Statement of Income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss recognized in equity is immediately transferred to the Consolidated Statement of Income.

Cash Flow Hedge

ATB's derivative instruments in cash flow hedges are intended to generate cash flows that offset the variability in expected and/or anticipated cash flows from the hedged item. ATB uses various interest rate derivatives to manage risk relating to the variability of cash flows from certain loans. In a qualifying cash flow hedge relationship, the effective portion of the change in fair value of the hedging derivative instrument is recognized in OCI, and the ineffective portion in net income. Any such amounts recognized in OCI are reclassified from OCI into net income in the same period that the underlying hedged item affects net income.

Fair Value Hedge

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the Consolidated Statement of Income, together with changes in the fair value of the hedged asset or liability attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, it is discontinued. For fair value hedges of interest rate risk, the fair value adjustment to the hedged item is amortized to the Consolidated Statement of Income over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortized fair value adjustment is recognized immediately in the Consolidated Statement of Income. No fair value hedges exist at the reporting date.

Embedded Derivatives

Embedded derivatives are components within a financial instrument or other contract with features similar to a derivative. Embedded derivatives with economic characteristics and risks considered not closely related to the characteristics and risks of the host contract may need to be accounted for separately if a separate instrument with the same terms would qualify as a derivative and if the host contract is not already measured at fair value. ATB has identified embedded derivatives within certain extendible loan contracts and within all equity-linked and commodity-linked deposit contracts. Any such embedded derivatives are not considered closely related to the host contract and have been accounted for separately as derivative assets or liabilities.

g. Property and Equipment

Property and equipment are carried at cost less accumulated depreciation, except for land, which is carried at cost. Buildings, computer equipment, other equipment, and leasehold improvements are depreciated on a straight-line basis over their estimated useful lives. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of the assets' useful economic life. Property and equipment acquired under a finance lease are capitalized, and the depreciation period for a finance lease corresponds to the lesser of the useful life or lease term plus the first renewal option, if applicable. No depreciation is calculated on property and equipment under construction or development until the assets are available for use. The estimated useful life for each asset class is as follows:

- Buildings – Up to 20 years
- Buildings under finance lease – Up to 15 years
- Computer equipment – 3 years
- Other equipment – 5 years
- Leasehold improvements – Lease term plus first renewal period, if applicable

Depreciation rates, methods, and the residual values underlying the calculation of depreciation of items of property and equipment are kept under review to account for any change in circumstances. Gains and losses on the disposal of property and equipment are recorded in the Consolidated Statement of Income in the year of disposal.

h. Software and Other Intangibles

Software and other intangibles are carried at cost less accumulated amortization and are amortized on a straight-line basis over their estimated useful lives. No amortization is calculated on software under construction or development until the assets are available for use. The estimated useful life for software and other intangibles is 3 to 5 years, with certain software having a useful life of 15 years.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefits will flow to ATB and that the cost can be measured reliably. Eligible costs include external direct costs for materials and services, as well as payroll and payroll-related costs for employees directly associated with an internally developed software project.

i. Impairment of Property and Equipment and Software and Other Intangibles

The carrying amount of non-financial assets, which include property and equipment and software and other intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Software under development is tested annually for impairment. For the purposes of assessing impairment, assets are grouped at the lowest level where there are separately identifiable cash inflows (cash-generating units).

If there is any indication of impairment, the asset's recoverable amount is estimated. The recoverable amount is the greater of an asset's fair value less cost to sell and its value in use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Impairment losses are recognized in the Consolidated Statement of Income.

Impairment losses may be reversed if the circumstances leading to impairment are no longer present. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount net of depreciation or amortization that would have been determined if no impairment loss had been recognized. Impairment loss reversals are recognized in the Consolidated Statement of Income.

j. Finance and Operating Leases

Leases of assets where ATB has substantially all the risks and rewards incidental to ownership are classified as finance leases. Assets held under finance leases are initially recognized in the Consolidated Statement of Financial Position at an amount equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding liability to the lessor is included in other liabilities in the Consolidated Statement of Financial Position. The discount rate used in calculating the present value of the minimum lease payments is either the interest rate implicit in the lease, if it is practicable to determine, or the incremental borrowing rate. Contingent rentals are recognized as an expense in the periods in which they are incurred.

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Operating lease rentals payable are recognized as an expense on a straight-line basis over the lease term, which commences when the lessee controls the physical use of the

property. Lease incentives are treated as a reduction of rental expense and are also recognized over the lease term on a straight-line basis. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

k. Employee Benefits

ATB provides benefits to current and past employees through a combination of defined benefit (DB) and defined contribution (DC) plans.

ATB's current non-management employees participate in the Public Service Pension Plan (PSPP) with other Alberta public-sector employees. The PSPP is a DB pension plan that provides benefits based on members' years of service and earnings. ATB provides its management employees with a registered pension plan (the ATB Plan) with either DB or DC provisions. ATB also provides a non-registered DB supplemental retirement plan (SRP) and other post-employment benefits (OPEB) for designated management employees.

All expenses related to employee benefits are recorded in the Consolidated Statement of Income as salaries and employee benefits in non-interest expenses.

The cost of the DB plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates, and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Accounting for Defined Benefit Plans – Registered, Supplemental, and Other

The PSPP and the DB portion of the ATB Plan, SRP, and OPEB obligations provide employee benefits based on members' years of service and highest average salary. The liability recognized in the Consolidated Statement of Financial Position in respect of DB pension plans is the present value of the DB obligation at the date of the Consolidated Statement of Financial Position less the fair value of plan assets. The DB obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the DB obligation is determined by discounting the estimated future cash outflows. Actuarial gains and losses are recognized in OCI. Past-service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees' remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

Accounting for Defined Contribution Plans

Contributions are expensed as they become due and are recorded in salaries and employee benefits in the Consolidated Statement of Income.

Plan Valuations, Asset Allocation, and Funding

ATB annually measures its accrued benefit obligations and the fair values of plan assets for accounting purposes on March 31 for the PSPP, ATB Plan, SRP, and OPEB obligations. ATB makes regular funding contributions to the DB plan according to the most recent valuation for funding purposes. The SRP and OPEB obligations are not pre-funded, and such benefits are paid from ATB's assets as they become due. The most recent actuarial valuation of the DB provisions of the ATB Plan was performed on December 31, 2011. The DB plan's investment policy sets targets for an acceptable range for the allocation of plan assets between equity, debt, and other assets. (Refer to note 20.)

l. Provisions

Provisions are recognized when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events and for which a reliable estimate can be made of the amount of the obligation.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of ATB, or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed unless the probability of settlement is remote.

m. Financial Guarantees

Liabilities under financial guarantee contracts are initially recorded at their fair value, which is generally the fee received or receivable. Subsequently, the financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortization, and the best estimate of the expenditure required to settle the obligations.

n. Securitization

Securitization of residential mortgage loans guaranteed by the Canada Mortgage and Housing Corporation through the Canada Mortgage Bond program and securitization of credit card receivables provide ATB with additional sources of liquidity. As ATB retains substantially all the risks and rewards related to the assets, the credit card receivables and mortgage loans are not derecognized and remain in the Consolidated Statement of Financial Position, and are carried at amortized cost. The risks associated with credit card receivables and residential mortgage loans are credit and interest rate risks, with prepayment risks also impacting residential mortgage loans. ATB recognizes a liability for cash proceeds received from securitization. This liability is presented under collateralized borrowings in the Consolidated Statement of Financial Position.

o. Segmented Information

A segment is a distinguishable component of ATB engaged in providing products or services (business segment) that is subject to risks and returns that are different from those of other business segments. The Corporate Management Committee regularly reviews operating activity by business segments. All transactions between business segments are conducted on an arm's-length basis, with intra-segment revenue and costs being eliminated in strategic service units. Income and expenses directly associated with each segment are included in determining business segment performance.

p. Revenue Recognition

Interest Income and Expense

Interest income and expense for all interest-bearing financial instruments are recognized in the Consolidated Statement of Income using the effective interest method. The effective interest method calculates the amortized cost of a financial asset or a financial liability and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter

period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, ATB estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees and Commission Income and Expenses

Fees and commission income and expenses integral to the effective interest rate on a financial asset or liability are included when calculating the effective interest rate. Other fees and commission income, including account servicing fees, investment management fees, card fees, commitment fees, and placement fees, are recognized as the related services are performed. Where ATB is the lead in a syndication, loan syndication fees are recognized in fees and commission income, unless the yield on any loans retained is less than that of the other lenders involved in the financing, in which case an appropriate portion of the syndication fee is recorded as interest income over the term of the loan. Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

3. Summary of Accounting Policy Changes

Changes in Accounting Policies and Disclosures

IFRS 7 *Financial Instruments – Disclosures*

On April 1, 2013, ATB adopted the amendments to IFRS 7 *Financial Instruments – Disclosures*. These amendments enhance the requirements for disclosure about the effect or potential effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position.

The amendments to IFRS 7 have been applied retrospectively to all comparative periods. Although the amendments did not impact ATB's financial results, the additional disclosures required are presented in note 4.

IFRS 10 *Consolidated Financial Statements*

On April 1, 2013, ATB adopted IFRS 10 *Consolidated Financial Statements*. IFRS 10 defines the principles for presenting and preparing consolidated financial statements and establishes control as the basis for consolidation. IFRS 10 defines a new approach for determining consolidation of entities based on the concept of power, variability of returns, and their linkage. This differs from the previous approach, which emphasized legal control or exposure to risk and rewards.

Based on the new definition of control, ATB has reassessed its control in other entities and concluded that there is no change. Although the adoption of the new standard did not impact ATB's financial results, consolidation disclosures have been amended to reflect the new consolidation principles. These are presented in note 2.

IFRS 12 *Disclosure of Interests in Other Entities*

On April 1, 2013, ATB adopted IFRS 12 *Disclosure of Interests in Other Entities*. IFRS 12 establishes the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, and unconsolidated structured entities.

IFRS 12 has been applied prospectively as of the beginning of fiscal 2013–14. Since the new standard pertains to disclosure requirements only, there was no impact on ATB's financial results. New disclosure requirements are presented in note 7.

IFRS 13 *Fair Value Measurement*

On April 1, 2013, ATB adopted IFRS 13 *Fair Value Measurement*. IFRS 13 establishes a single framework for all fair value measurements when fair value is required or permitted by IFRS and enhances the fair value measurement disclosures.

IFRS 13 has been applied prospectively as of the beginning of fiscal 2013–14. There is no impact on ATB's financial results. The new disclosure requirements are presented in notes 2 and 4.

IAS 1 *Presentation of Financial Statements*

On April 1, 2013, ATB adopted amendments to IAS 1 *Presentation of Financial Statements*. The amendments require items presented in other comprehensive income not reclassified in a subsequent period to the Consolidated Statement of Income to be separately distinguished from those that will be.

The amendment has been applied retrospectively to all comparative periods. The new requirements of IAS 1 are presented in the Consolidated Statement of Comprehensive Income. There was no impact on ATB's financial results.

IAS 19 *Employee Benefits*

Effective April 1, 2013, the IASB made revisions to IAS 19 *Employee Future Benefits*. This revision is to be applied retrospectively. The impact to ATB is the replacement of the interest cost and expected return on plan assets by a finance cost component. The finance cost component is the net interest on the net defined benefit liability or asset determined by applying the same discount rate used to measure the defined benefit obligation to the net defined benefit liability or asset. The effect of this change would be to increase the pension expense and reduce other comprehensive income by the difference between the current expected return on plan assets and the return calculated by applying the relevant discount rate with no impact to the plan assets or liabilities.

ATB has applied this amended standard retrospectively. The Consolidated Statement of Comprehensive Income has been amended to reflect the requirements of IAS 19, and the impact of adopting the amendments is presented below. Enhanced disclosures are provided in note 20. The impact to the Consolidated Statement of Financial Position and Income of adopting these amendments is as follows:

As at March 31, 2013 *($ in thousands)*		
Retained earnings as previously reported	$	2,324,785
Change in accounting policy		(9,500)
Retained earnings as restated		2,315,285
Accumulated other comprehensive (loss) as previously reported		(69,324)
Change in accounting policy		9,500
Accumulated other comprehensive (loss) as restated		(59,824)

In addition, the prior-year salaries and employee benefits expense in the Consolidated Statement of Income; remeasurement of defined benefit plan liabilities in the Consolidated Statement of Comprehensive Income; and others, net balance in the Consolidated Statement of Cash Flows increased by $3,500.

Future Accounting Policy Changes

IAS 36 *Impairment of Assets*

On May 29, 2013, the IASB modified some of the disclosure requirements of IAS 36 *Impairment of Assets* by issuing the *Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)*. The amendments require disclosure of the recoverable amount of an asset or cash-generating unit (CGU) only when impairment has been recorded or reversed for that asset or CGU. The revision to IAS 36 also elaborates on the disclosure requirements whenever the recoverable amount is based on fair value less costs of disposal.

ATB is currently assessing the impact of the amendments, which must be applied retrospectively for annual periods beginning on or after January 1, 2014.

IAS 39 *Financial Instruments: Recognition and Measurement*

On June 27, 2013, the IASB issued *Novation of Derivatives and Continuation of Hedge Accounting*, which amends IAS 39 *Financial Instruments: Recognition and Measurement*. This amendment requires a continuation of the existing hedging relationship when the hedging instrument is novated to a central counterparty as a consequence of laws or regulations, or if specific conditions are met.

ATB is currently assessing the impact of the amendments, which must be applied retrospectively for annual periods beginning on or after January 1, 2014.

IAS 19 *Employee Benefits*

On November 21, 2013, the IASB published *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19 Employee Benefits)*. The amendments clarify the accounting requirements that relate to how contributions from employees (or third parties) that are linked to service should be attributed to periods of service.

ATB is currently assessing the impact of the amendments, which must be applied retrospectively for annual periods beginning on or after July 1, 2014.

IFRS 9 *Financial Instruments*

The IASB issued on November 12, 2009, and amended on October 28, 2010, the first phase of a project that will replace IAS 39 *Financial Instruments: Recognition and Measurement*. This standard defines a new way to classify and measure financial assets and liabilities. Financial assets will be classified in three categories (amortized cost, fair value through profit or loss, and fair value through equity) based on the entity's business model to manage its financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities will be classified in the same categories as those defined in IAS 39, but measurement of financial liabilities under the fair value option has been modified.

On December 16, 2011, the IASB issued amendments to IFRS 9 *Financial Instruments* that provide relief from the requirements to restate comparative financial statements to apply IFRS 9, although additional transitional disclosures will be required. Earlier application of the standard is permitted.

On November 19, 2013, the IASB published a new amendment to IFRS 9 as it concluded another phase of its project of replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The amendment incorporates a new general hedge accounting model whereby risk components of non-financial items may be designated as the hedge item, provided that the risk components are separately identifiable and reliably measurable. The new model also introduces a different way to account for the change in time value of an option when the intrinsic value is designated, resulting in less volatility in profit or loss.

The amendment to IFRS 9 proposes a change in the determination of hedge effectiveness whereby the quantitative measure is replaced by an objective-based test that focuses on the existence of an economic relationship between the hedged item and the hedging instrument. All of these amendments mean more extensive disclosures about risk management strategy, cash flows from hedging activities, and the impact of hedge accounting on the financial statements.

ATB is currently assessing the impact of the amendments, which are effective for annual periods beginning on or after January 1, 2018.

IAS 32 *Financial Instruments: Presentation*

In December 2011, the IASB issued amendments to IAS 32 *Financial Instruments: Presentation* to clarify the criteria for offsetting a financial asset and a financial liability.

ATB is currently assessing the impact of the amendments, which are effective for annual periods beginning on or after January 1, 2014.

4. Financial Instruments

Classification and Carrying Value

The following tables summarize ATB's financial instrument classifications and provide their carrying value as at March 31:

As at March 31, 2014
($ in thousands)

	Carrying value						
	Held-for-trading assets and liabilities measured at fair value	Designated at fair value through net income	Available-for-sale instruments measured at fair value	Loans and receivables measured at amortized cost	Financial liabilities measured at amortized cost	Derivatives designated for hedge accounting	Total carrying value
Financial assets							
Cash	$ -	$ -	$ -	$ 438,917	$ -	$ -	$ 438,917[1]
Interest-bearing deposits with financial institutions	-	1,143,128	-	-	-	-	1,143,128[1]
Securities	-	921,955	374	-	-	-	922,329[1]
Securities purchased under reverse repurchase agreements	-	-	-	-	-	-	-[1]
Loans							
Business	-	-	-	15,167,687	-	-	15,167,687
Residential mortgages	-	-	-	12,012,454	-	-	12,012,454
Personal	-	-	-	6,184,463	-	-	6,184,463
Credit card	-	-	-	651,931	-	-	651,931
Allowance for credit losses	-	-	-	(131,391)	-	-	(131,391)
	-	-	-	33,885,144	-	-	33,885,144[2]
Other							
Derivative financial instruments	330,033	-	-	-	-	62,498	392,531
Other assets	-	-	-	122,076	-	-	122,076
	330,033	-	-	122,076	-	62,498	514,607[1]
Financial liabilities							
Deposits							
Personal	-	-	-	-	11,840,449	-	11,840,449
Business and other	-	-	-	-	15,475,989	-	15,475,989
	-	-	-	-	27,316,438	-	27,316,438[3]
Other							
Wholesale borrowings	-	-	-	-	2,694,161	-	2,694,161[4]
Collateralized borrowings	-	-	-	-	3,411,352	-	3,411,352[5]
Derivative financial instruments	324,502	-	-	-	-	163	324,665[1]
Other liabilities	-	-	-	-	759,892	-	759,892[1]
	324,502	-	-	-	6,865,405	163	7,190,070
Capital investment notes	-	-	-	-	250,508	-	250,508[6]
Subordinated debentures	-	-	-	-	228,775	-	228,775[7]

[1] Fair value estimated to equal carrying value.
[2] Fair value of loans estimated to be $35,108,338.
[3] Fair value of deposits estimated to be $27,187,021.
[4] Fair value of wholesale borrowings estimated to be $2,704,044.
[5] Fair value of collateralized borrowings estimated to be $3,464,854.
[6] Fair value of capital investment notes estimated to be $254,136.
[7] Fair value of subordinated debentures estimated to be $241,111.

As at March 31, 2013
($ in thousands)

	Carrying value						
	Held-for-trading assets and liabilities measured at fair value	Designated at fair value through net income	Available-for-sale instruments measured at fair value	Loans and receivables measured at amortized cost	Financial liabilities measured at amortized cost	Derivatives designated for hedge accounting	Total carrying value
Financial assets							
Cash	$ -	$ -	$ -	$ 556,603	$ -	$ -	$ 556,603[1]
Interest-bearing deposits with financial institutions	-	803,072	-	-	-	-	803,072[1]
Securities	-	881,841	469	-	-	-	882,310[1]
Securities purchased under reverse repurchase agreements	-	-	-	100,007	-	-	100,007[1]
Loans							
Business	-	-	-	12,732,228	-	-	12,732,228
Residential mortgages	-	-	-	10,705,908	-	-	10,705,908
Personal	-	-	-	5,744,958	-	-	5,744,958
Credit card	-	-	-	598,256	-	-	598,256
Allowance for credit losses	-	-	-	(122,889)	-	-	(122,889)
	-	-	-	29,658,461	-	-	29,658,461[2]
Other							
Derivative financial instruments	219,068	-	-	-	-	67,440	286,508
Other assets	-	-	-	130,073	-	-	130,073
	219,068	-	-	130,073	-	67,440	416,581[1]
Financial liabilities							
Deposits							
Personal	-	-	-	-	11,100,357	-	11,100,357
Business and other	-	-	-	-	12,631,014	-	12,631,014
	-	-	-	-	23,731,371	-	23,731,371[3]
Other							
Wholesale borrowings	-	-	-	-	2,595,711	-	2,595,711[4]
Collateralized borrowings	-	-	-	-	3,103,492	-	3,103,492[5]
Derivative financial instruments	207,584	-	-	-	-	-	207,584[1]
Other liabilities	-	-	-	-	619,884	-	619,884[1]
	207,584	-	-	-	6,319,087	-	6,526,671
Capital investment notes	-	-	-	-	244,617	-	244,617[6]
Subordinated debentures	-	-	-	-	155,653	-	155,653[7]

[1] Fair value estimated to equal carrying value.
[2] Fair value of loans estimated to be $30,892,864.
[3] Fair value of deposits estimated to be $23,588,906.
[4] Fair value of wholesale borrowings estimated to be $2,610,268.
[5] Fair value of collateralized borrowings estimated to be $3,192,485.
[6] Fair value of capital investment notes estimated to be $255,067.
[7] Fair value of subordinated debentures estimated to be $169,173.

Fair Value Hierarchy

Financial instruments recorded at fair value in the Consolidated Statement of Financial Position are classified using a fair value hierarchy based on the quality and reliability of the information used to estimate the fair value. The fair value hierarchy has the following levels:

- Level 1 – Fair value based on quoted prices in active markets
- Level 2 – Fair value estimated using valuation techniques that use market-observable inputs other than quoted market prices
- Level 3 – Fair value estimated using inputs not based on observable market data

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified at the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The categories of financial instruments whose fair values are classified at Level 3 consist of the following:

- Securities designated at fair value through net income—investments in asset-backed commercial paper (ABCP). Valuation techniques are disclosed in note 7.
- Securities available for sale—investments in ABCP. Valuation techniques are disclosed in note 7.
- Embedded derivatives relating to interest rate options on certain residential mortgages. Valuation techniques are disclosed in note 2(c).

The following tables present the level within the fair value hierarchy of ATB's financial assets and liabilities measured at fair value:

As at March 31, 2014 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Designated at fair value through net income	$ -	$ 1,143,128	$ -	$ 1,143,128
Securities				
Designated at fair value through net income	193,871	-	728,084	921,955
Available for sale	-	-	374	374
Other assets				
Derivative financial instruments	-	392,531	-	392,531
Total financial assets	$ 193,871	$ 1,535,659	$ 728,458	$ 2,457,988
Financial liabilities				
Other liabilities				
Derivative financial instruments	143	324,522	-	324,665
Total financial liabilities	$ 143	$ 324,522	$ -	$ 324,665

As at March 31, 2013 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Designated at fair value through net income	$ -	$ 803,072	$ -	$ 803,072
Securities				
Designated at fair value through net income	108,791	-	773,050	881,841
Available for sale	-	-	469	469
Other assets				
Derivative financial instruments	-	286,508	-	286,508
Total financial assets	$ 108,791	$ 1,089,580	$ 773,519	$ 1,971,890
Financial liabilities				
Other liabilities				
Derivative financial instruments	-	207,584	-	207,584
Total financial liabilities	$ -	$ 207,584	$ -	$ 207,584

ATB performs a sensitivity analysis for fair value measurements classified at Level 3, substituting one or more reasonably possible alternative assumptions for the unobservable inputs. These sensitivity analyses are detailed in note 7 for the ABCP investments designated at fair value through net income. The sensitivity analysis for the available-for-sale ABCP resulted in an insignificant change in fair value.

The following tables present the changes in fair value of Level 3 financial instruments:

($ in thousands)	Securities available for sale	Securities designated at fair value through net income	Fair value of derivative financial liabilities
Fair value as at March 31, 2013	$ 469	$ 773,050	$ -
Total realized and unrealized gains included in net income	42	73,514	-
Total realized and unrealized gains included in other comprehensive income	(21)	-	-
Net purchases, sales, issuances, and settlements	(116)	(118,480)	-
Fair value as at March 31, 2014	$ 374	$ 728,084	$ -
Change in unrealized gains included in income with respect to financial instruments held as at March 31, 2014	$ -	$ 57,632	$ -

($ in thousands)	Securities available for sale	Securities designated at fair value through net income	Fair value of derivative financial liabilities
Fair value as at March 31, 2012	$ 2,200	$ 698,081	$ (101)
Total realized and unrealized gains included in net income	(9)	88,643	101
Total realized and unrealized gains included in other comprehensive income	21	-	-
Net purchases, sales, issuances, and settlements	(1,743)	(13,674)	-
Fair value as at March 31, 2013	$ 469	$ 773,050	$ -
Change in unrealized gains included in income with respect to financial instruments held as at March 31, 2013	$ -	$ 75,919	$ 101

The Consolidated Statement of Income line item net gains on financial instruments at fair value through net income includes realized and unrealized fair value movements on all financial instruments designated at fair value and realized gains on securities available for sale.

Offsetting Financial Assets and Financial Liabilities

A financial asset or liability must be offset in the Consolidated Statement of Financial Position when, and only when, there is a legally enforceable right to set off the amounts and an intention to settle on a net basis or realize the asset and settle the liability simultaneously. A legally enforceable right exists when the right is enforceable in the normal course of business or in the event of default, insolvency, or bankruptcy.

Related amounts not offset in the Consolidated Statement of Financial Position include transactions where the following conditions apply:

- The counterparty has an offsetting exposure with ATB and a master netting or similar arrangement in place.
- Financial collateral has been received or pledged against the transactions described below.

Securities purchased under reverse repurchase agreements subject to master netting arrangements or similar arrangements and derivative assets and liabilities subject to the master netting agreements of the International Swaps and Derivatives Association (ISDA) do not meet the criteria for offsetting in the Consolidated Statement of Financial Position as the ability to offset is only enforceable in the event of default, insolvency, or bankruptcy.

ATB receives and pledges collateral in the form of cash and marketable securities relating to its derivative assets and liabilities to manage credit risk in accordance with the terms and conditions of the ISDA credit support annex.

The following tables present information about financial assets and liabilities that are set off and not set off in the Consolidated Statement of Financial Position and are subject to a master netting agreement or similar arrangement:

As at March 31, 2014 ($ in thousands)	Gross recognized amounts	Set-off amounts	Net amounts recognized in the Consolidated Statement of Financial Position	Related amounts not offset in the Consolidated Statement of Financial Position: Financial instruments[1]	Financial collateral received/pledged	Net amount
Financial assets						
Securities borrowed or purchased under reverse purchase agreements	$ -	$ -	$ -	$ -	$ -	$ -
Derivative financial instruments	429,777	37,246	392,531	73,458	-	319,073
Amounts receivable from clients and financial institutions	487,888	-	487,888	487,888	-	-
	$ 917,665	$ 37,246	$ 880,419	$ 561,346	$ -	$ 319,073
Financial liabilities						
Derivative financial instruments	$ 324,665	$ -	$ 324,665	$ 73,458	$ 128,300	$ 122,907
Amounts payable to clients and financial institutions	487,888	-	487,888	487,888	-	-
	$ 812,553	$ -	$ 812,553	$ 561,346	$ 128,300	$ 122,907

As at March 31, 2013 ($ in thousands)	Gross recognized amounts	Set-off amounts	Net amounts recognized in the Consolidated Statement of Financial Position	Related amounts not offset in the Consolidated Statement of Financial Position: Financial instruments[1]	Financial collateral received/pledged	Net amount
Financial assets						
Securities borrowed or purchased under reverse purchase agreements	$ 100,007	$ -	$ 100,007	$ 100,007	$ -	$ -
Derivative financial instruments	347,212	60,704	286,508	-	81,430	205,078
Amounts receivable from clients and financial institutions	2,854	-	2,854	2,854	-	-
	$ 450,073	$ 60,704	$ 389,369	$ 102,861	$ 81,430	$ 205,078
Financial liabilities						
Derivative financial instruments	$ 207,584	$ -	$ 207,584	$ -	$ -	$ 207,584
Amounts payable to clients and financial institutions	2,854	-	2,854	2,854	-	-
	$ 210,438	$ -	$ 210,438	$ 2,854	$ -	$ 207,584

[1] Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar arrangement but that do not meet the offsetting criteria.

5. Financial Instruments – Risk Management

ATB has included certain disclosures required by IFRS 7 in shaded sections of the Management's Discussion and Analysis (MD&A). These shaded sections of the Risk Management section of the MD&A relating to credit, market, and liquidity risks are an integral part of the 2014 consolidated financial statements.

6. Cash Resources

Cash consists of cash on hand, bank notes and coins, non-interest-bearing deposits, and cash held at the Bank of Canada through the large value transfer system. Interest-bearing deposits with other financial institutions have been classified as designated at fair value through net income, and are recorded at fair value. Interest income on interest-bearing deposits is recorded on an accrual basis. Cash has been classified as loans and receivables for financial instruments purposes.

The carrying value as at March 31, 2014, of interest-bearing deposits with financial institutions consists of $1,143,128 (2013: $803,072) classified as designated at fair value through net income.

ATB has restricted cash that represents deposits held in trust in connection with ATB's securitization activities. These deposits include cash accounts that hold principal and interest payments collected from mortgages securitized through the mortgage-backed security program awaiting payment to their respective investors and deposits held in interest reinvestment accounts in connection with ATB's participation in the Canada Mortgage Bond program. The amount of restricted cash as at March 31, 2014, is $64,021 (2013: $40,854).

7. Securities

The carrying value of securities by remaining term to maturity and net of valuation provisions is as follows:

As at March 31, 2014 *($ in thousands)*	Within 1 year	1–5 years	Over 5 years	Total carrying value
Securities available for sale				
Commercial paper				
Third-party-sponsored ABCP	$ -	$ 374	$ -	$ 374
Total securities available for sale	-	374	-	374
Securities measured at fair value through net income				
Issued or guaranteed by the Canadian federal or provincial government	193,871	-	-	193,871
Commercial paper				
Third-party-sponsored ABCP	-	694,119	-	694,119
Bank-sponsored ABCP	-	33,965	-	33,965
Total securities measured at fair value through net income	193,871	728,084	-	921,955
Total securities	$ 193,871	$ 728,458	$ -	$ 922,329

As at March 31, 2013 *($ in thousands)*	Within 1 year	1–5 years	Over 5 years	Total carrying value
Securities available for sale				
Commercial paper				
Third-party-sponsored ABCP	$ -	$ 469	$ -	$ 469
Total securities available for sale	-	469	-	469
Securities measured at fair value through net income				
Issued or guaranteed by the Canadian federal or provincial government	108,791	-	-	108,791
Commercial paper				
Third-party-sponsored ABCP	-	713,046	2,992	716,038
Bank-sponsored ABCP	-	57,012	-	57,012
Total securities measured at fair value through net income	108,791	770,058	2,992	881,841
Total securities	$ 108,791	$ 770,527	$ 2,992	$ 882,310

The total carrying value of securities in the preceding schedule includes securities denominated in U.S. funds totalling $23,824 as at March 31, 2014 (2013: $25,898).

Gross unrealized gains (losses) on securities available for sale are presented in the following table:

As at March 31, 2014 *($ in thousands)*	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Securities available for sale				
Third-party-sponsored ABCP	$ 526	$ -	$ (152)	$ 374
Total securities available for sale	$ 526	$ -	$ (152)	$ 374

As at March 31, 2013 *($ in thousands)*	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Securities available for sale				
Third-party-sponsored ABCP	$ 642	$ -	$ (173)	$ 469
Total securities available for sale	$ 642	$ -	$ (173)	$ 469

Asset-Backed Commercial Paper (ABCP)

As at March 31, 2014, ATB held ABCP with a total face value of $880,526 (2013: $996,952). ABCP is considered an unconsolidated structured entity. During the year, ATB received principal payments of $118,596 (2013: $15,417) and interest payments of $13,243 (2013: $16,215) on these investments.

ATB's holdings can be divided into three general types:

- Third-party ABCP restructured under the Montreal Accord (Master Asset Vehicle notes, or MAV notes)
- Third-party ABCP restructured outside of the Montreal Accord
- Bank-sponsored ABCP restructured under separate agreements

All are debt instruments with underlying exposure to a range of financial instruments, including residential mortgages, commercial loans, and credit default swaps.

These investments were short term when first purchased by ATB, but as a result of the general credit crisis that occurred in fiscal 2007–08, they were restructured into longer-term floating-rate notes with maturity dates that more closely matches the maturities of the underlying assets, as detailed in the following table:

As at March 31, 2014 ($ in thousands)		Cost	Coupon	Expected principal repayment	Credit rating
Third-party ABCP					
MAV 1					
Class A-1	$	328,824	0.30%[1]	Dec 2016	AA (low)
Class A-2		384,808	0.30%[1]	Dec 2016	A
Class B		65,605	0.30%[1]	Dec 2016	BBB (low)
Class C		26,818	20.0%[1]	Dec 2016	None
Total MAV 1		**806,055**			
MAV 3					
Tracking notes for traditional assets		526	Floating[2]	Sept 2016	None
Total MAV 3		**526**			
Other		**34,770**	1.55%[1]	Dec 2016	BBB (low)
Total third-party ABCP		**841,351**			
Bank-sponsored ABCP		**39,175**	0%–0.35%[1]	Sept 2016	BBB–A
Total ABCP	**$**	**880,526**			

[1] Spread over bankers' acceptance rate.
[2] Coupon rate floats based on the yield of the underlying assets.

All the ABCP investments have been designated as fair value through net income, except for the MAV 3 notes, which have been classified as securities available for sale.

MAV Notes

The MAV 1 notes are supported in whole or in part by the originally pledged collateral and synthetic (or derivative-type) assets. These notes are subject to risk of loss and potential additional collateral calls relative to the leveraged super-senior trades included in the synthetic assets. The notes have different levels of subordination relative to potential losses and principal and interest payments. Specifically, C notes absorb the first realized losses, followed by B notes, A-2 notes, and A-1 notes. In addition, interest on C notes is cumulative and payable only when the principal and interest for the A-1, A-2, and B notes is settled in full. Interest on B notes is cumulative and payable only when the principal and interest for the A-1 and A-2 notes is settled in full. The structure is designed to ensure that the lowest-ranking notes, C and B, absorb the first losses, thereby reducing the risk of loss on the A-1 and A-2 notes.

MAV 1 note holders are required to provide a margin-funding facility (MFF) to cover possible collateral calls on the leveraged super-senior trades underlying the A-1, A-2, B, and C notes. Advances under this facility are expected to bear interest at a rate based on the bankers' acceptance rate. If ATB fails to fund any collateral under this facility, the notes held by ATB could be terminated or exchanged for subordinated notes. In order to continue to participate in
MAV 1 and self-fund the MFF, ATB will have to maintain a credit rating equivalent to AA (high) with at least two of four credit-rating agencies. If ATB does not maintain the required credit rating, it will be required to provide collateral or obtain the required commitment through another entity with a sufficiently high credit rating. ATB's share of the MFF credit commitment is $551,500, for which ATB will not receive a fee. To recognize the fair value of this commitment, $12,188 (2013: $16,628) has been recorded in other liabilities. As at March 31, 2014, no amount has been funded under the MFF.

The Montreal Accord restructuring included an 18-month post-closing moratorium period, during which time margin calls could not be made. The moratorium period expired in July 2010, and, as a result, ATB is now exposed to collateralization triggers.

In addition to the MFF, there was also a senior funding facility, supported by the governments of Canada, Quebec, Alberta, and Ontario, to cover possible shortfalls in the MFFs under MAV 1. This facility matured in August 2010. ATB and all other investors must continue to pay a fee to cover the cost of this facility until December 2016.

ATB's MAV 3 notes are supported exclusively by traditional assets, with interest and maturity directly linked to the return and maturities of the underlying assets.

Other Third-Party ABCP

ATB holds one non-MAV third-party note, White Knight, with exposure to leveraged super-senior trades. There are no potential collateral calls relative to this note, although if losses were to occur, the result would be significant based on the amount of leverage on the underlying exposure.

Bank-Sponsored ABCP

ATB holds two bank-sponsored notes: one issued by Apex Trust and one issued by Superior Trust. These notes have exposure to a combination of commercial mortgages and leveraged super-senior trades.

Establishing Fair Value

As at March 31, 2014, there is no observable market price for the various ABCP notes; accordingly, ATB has estimated the fair value of the various notes using a valuation technique. The table below provides a breakdown of the composition and fair value of ATB's ABCP holdings as at March 31, 2014 and 2013:

($ in thousands)	2013 cost	2013 estimated fair value	Note redemptions	Foreign-exchange impact[1]	2014 cost	2014 estimated fair value
MAV 1	$ 894,519	$ 689,863	$ (90,634)	$ 2,170	**$ 806,055**	**$ 666,096**
MAV 3	642	469	(116)	-	**526**	**374**
Other third-party-sponsored ABCP	34,770	26,175	-	-	**34,770**	**28,023**
Bank-sponsored ABCP	67,021	57,012	(27,846)	-	**39,175**	**33,965**
Total ABCP	$ 996,952	$ 773,519	$ (118,596)	$ 2,170	**$ 880,526**	**$ 728,458**

[1] MAV 1 includes securities with a carrying value of $23,824 (March 31, 2013: $25,898) denominated in U.S. funds.

MAV Notes – Fair Value

ATB has estimated the fair value of the MAV 1 A-1, A-2, B, and C notes using a discounted cash flow model. The key assumption in this model is the market discount rate. The market discount rate is based on the CDX.IG index tranches adjusted by a 2.70% premium, where an increase in this premium would result in a decrease in fair value on certain notes held, to reflect the lack of liquidity inherent in these notes. The coupon rates, term to maturity, and anticipated cash flows have been based on the expected terms of each note.

The value of the MAV 1 tracking notes for ineligible assets and the MAV 3 tracking notes for traditional assets has been estimated based on a review of the underlying assets.

ATB has recognized a $64,697 increase in fair value on the MAV 1 notes and a $21 increase in the value of the MAV 3 notes this year (2013: MAV 1 $77,736, MAV 3 $12).

Other Third-Party ABCP

ATB holds an investment of $34,770 in third-party-sponsored ABCP restructured outside the Montreal Accord. The Dominion Bond Rating Service (DBRS) currently rates this investment as BBB (low). This is an increase from the prior year, when the investment was rated as BB (high). ATB continues to estimate the fair value of this investment based on a review of the underlying assets in the trust.

The estimated fair value of the other third-party-sponsored ABCP notes increased by $1,848 (2013: $3,899). This valuation was based on a review of the underlying assets in the trust.

Bank-Sponsored ABCP

ATB also holds investments in certain bank-sponsored commercial paper that were restructured similarly to the Montreal Accord notes. The valuation of these notes was based on a review of the underlying assets in each of the trusts. The estimated fair value of these notes increased by $4,799 (2013: $6,378) during the year. This increase in value during the year was due to an improvement in the credit quality of the notes.

During the year, the Apex Trust notes, which were previously unrated by DBRS, received a rating of BBB.

Income Impact

Because of the measurement uncertainty, ATB recognizes interest income on B notes, C notes, and the tracking notes in MAV 1 and MAV 3 only as it is received—no accruals are recorded.

In addition to the $13,423 (2013: $16,215) in interest income recognized on its ABCP during the year, ATB also recognized $4,440 (2013: $4,380) in other income, representing the accretion of the MFF deferral. ATB recorded a $73,556 adjustment to the fair value of the ABCP portfolio, compared to the $88,634 recognized in 2013.

Measurement Uncertainty

There remains continued uncertainty regarding the amount and timing of cash flows and the value of the assets that underlie ATB's ABCP. Consequently, the ultimate fair value of these assets may vary significantly from current estimates, and the magnitude of any such difference could be material to ATB's financial results. The most significant input into the estimate of value is the market discount rate. A 1% increase in the discount rate will decrease the value of ATB's ABCP notes by approximately $19,457 (2013: $26,398).

8. Loans

Credit Quality

Loans consist of the following:

As at March 31, 2014 *($ in thousands)*	Gross loans	Allowances assessed Individually	Allowances assessed Collectively	Net carrying value
Business	$ 15,167,687	$ 39,291	$ 35,125	$ 15,093,271
Residential mortgages	12,012,454	4,580	12,104	11,995,770
Personal	6,184,463	14,055	14,829	6,155,579
Credit card	651,931	-	11,407	640,524
Total	**$ 34,016,535**	**$ 57,926**	**$ 73,465**	**$ 33,885,144**

As at March 31, 2013 *($ in thousands)*	Gross loans	Allowances assessed Individually	Allowances assessed Collectively	Net carrying value
Business	$ 12,732,228	$ 34,660	$ 31,318	$ 12,666,250
Residential mortgages	10,705,908	6,711	11,322	10,687,875
Personal	5,744,958	12,318	14,888	5,717,752
Credit card	598,256	-	11,672	586,584
Total	$ 29,781,350	$ 53,689	$ 69,200	$ 29,658,461

The total net carrying value of the above loans includes loans denominated in U.S. funds, totalling $783,050 as at March 31, 2014 (2013: $477,101). The amount of foreclosed assets held for resale as at March 31, 2014, is $6,054 (2013: $15,093).

Loans Past Due

The following are loans past due but not impaired because they are less than 90 days past due or because it is reasonable to expect timely collection of principal and interest:

As at March 31, 2014 *($ in thousands)*	Residential mortgages	Business	Personal	Credit card[1]	Total
Up to 1 month	$ 97,139	$ 40,853	$ 42,816	$ 28,687	$ 209,495
Over 1 month up to 2 months	24,902	33,567	16,251	6,190	80,910
Over 2 months up to 3 months	8,357	4,068	3,450	2,440	18,315
Over 3 months	1,242	6,919	2,481	3,339	13,981
Total past due but not impaired	**$ 131,640**	**$ 85,407**	**$ 64,998**	**$ 40,656**	**$ 322,701**

As at March 31, 2013 *($ in thousands)*	Residential mortgages	Business	Personal	Credit card[1]	Total
Up to 1 month	$ 192,657	$ 185,172	$ 43,324	$ 33,440	$ 454,593
Over 1 month up to 2 months	46,533	5,168	12,317	7,906	71,924
Over 2 months up to 3 months	5,077	3,833	7,306	2,532	18,748
Over 3 months	3,540	2,699	4,604	3,178	14,021
Total past due but not impaired	$ 247,807	$ 196,872	$ 67,551	$ 47,056	$ 559,286

[1] Consumer credit card loans are classified as impaired and written off when payments become 180 days past due. Business and agricultural credit card loans that become due for three consecutive billing cycles (or approximately 90 days) are removed from the credit card portfolio and transferred into the applicable impaired loan category

Impaired Loans

Impaired loans, including the related allowances, are as follows:

As at March 31, 2014 *($ in thousands)*	Gross impaired loans	Allowances individually assessed	Net carrying value
Business	$ 64,307	$ 39,291	$ 25,016
Residential mortgages	63,255	4,580	58,675

Personal	36,478	14,055	22,423
Total	**$ 164,040**	**$ 57,926**	**$ 106,114**

As at March 31, 2013 ($ in thousands)	Gross impaired loans	Allowances individually assessed	Net carrying value
Business	$ 77,817	$ 34,660	$ 43,157
Residential mortgages	86,122	6,711	79,411
Personal	37,126	12,318	24,808
Total	$ 201,065	$ 53,689	$ 147,376

Industry Concentration

ATB is inherently exposed to significant concentrations of credit risk as its customers all participate in the Alberta economy, which in the past has shown strong growth and occasional sharp declines. ATB manages its credit risk by diversifying its credit portfolio, limiting concentrations in single borrowers, industries, and geographic regions of Alberta. As at March 31, 2014, no single industry segment represents more than 23.2% (2013: 22.8%) of total gross business loans, and no single borrower represents more than 0.43% (2013: 0.28%) of the total gross loan portfolio.

9. Allowance for Credit Losses

The allowance for credit losses is maintained at a level management considers adequate to absorb credit-related losses for all items in its credit portfolio. (Refer to note 23.)

The continuity of the allowance for credit losses is as follows:

As at March 31 ($ in thousands)	**2014**	2013
Collectively assessed		
Balance at beginning of the year	**$ 69,200**	$ 67,472
Provision for credit losses	**4,265**	1,728
Balance at end of the year	**73,465**	69,200
Individually assessed		
Balance at beginning of the year	**$ 53,689**	$ 39,630
Writeoffs and recoveries	**(33,893)**	(30,136)
Provision for credit losses	**38,130**	44,195
Balance at end of the year	**57,926**	53,689
Total	**$ 131,391**	$ 122,889

10. Derivative Financial Instruments

The majority of ATB's derivative contracts are over-the-counter (OTC) transactions that are privately negotiated between ATB and the counterparty to the contract. The remainder are exchange-traded contracts transacted through organized and regulated exchanges and consist primarily of options and futures. ATB uses the following derivative financial instruments:

Swaps

Swaps are transactions in which two parties agree to exchange defined cash flows. ATB uses the following types of swap contracts:

- Interest rate swaps are OTC contracts in which ATB exchanges fixed- and floating-rate interest payments with a counterparty based on an agreed notional principal amount denominated in a single currency. These are used in the corporate and client derivative portfolio to manage exposure to interest rate fluctuations, primarily arising from the investment, loan, and deposit portfolios.
- Cross-currency swaps are foreign-exchange transactions in which ATB exchanges interest and principal payments in different currencies. These are used in the corporate and client portfolio to manage ATB's foreign-exchange risk.

Options

Options are OTC contractual agreements in which the party that writes an option contract charges the buyer a premium in exchange for the right, but not the obligation, to either buy or sell a specified amount of currency or financial instruments at a specified price on a future date or within a specified time period. ATB buys specialized forms of option contracts, such as interest rate caps, collars, and swap options, as well as equity- and commodity-linked options direct from counterparties in the OTC market (i.e., not purchased on market exchanges). These are used in the corporate derivative portfolio to manage exposure to interest rate and equity and commodity market fluctuations, primarily arising from the loan and deposit portfolios. ATB also buys and sells (or writes) similar option contracts relating to energy commodities in the client derivative portfolio.

Forwards and Futures

Foreign-exchange or commodity forwards are OTC transactions in which two parties agree to either buy or sell a specified amount of a currency or security at a specific price or within a specified time period. ATB uses foreign-exchange forward contracts in both its corporate and client derivative portfolios to manage currency exposure, either arising from its own foreign-currency-denominated loans and deposits, or for its customers. Commodity forward contracts are used only in the client derivative portfolio.

Futures are contractual obligations to buy or sell an interest-rate-sensitive financial instrument on a predetermined future date at a specified price. Futures contracts are transacted in standardized amounts on regulated exchanges that are subject to daily cash margining used only in the corporate derivative portfolio.

The fair value of derivative financial instruments, segregated between contracts in a favourable position (i.e., having positive fair value) and contracts in an unfavourable position (i.e., having negative fair value) consists of the following:

As at March 31 ($ in thousands)	2014 Favourable position	2014 Unfavourable position	2013 Favourable position	2013 Unfavourable position
Contracts ineligible for hedge accounting				
Interest rate contracts				
Swaps	$ 5,433	$ (9,925)	$ 3,482	$ (5,472)
Futures	-	(143)	-	-
Other	18,813	(18,830)	25,128	(26,290)
	24,246	(28,898)	28,610	(31,762)
Embedded derivatives				
Equity- and commodity-linked deposits	-	(38,220)	-	(74,580)
	-	(38,220)	-	(74,580)
Foreign-exchange contracts				
Forwards	5,855	(6,598)	3,034	(2,356)
Cross-currency swaps	12,701	(11,380)	4,894	(4,107)
Equity contracts				
Options	38,028	-	74,531	-
Forward contracts				
Commodities	249,203	(239,406)	107,999	(94,779)
Total fair value ineligible contracts	305,787	(257,384)	219,068	(207,584)
Contracts eligible for hedge accounting				
Interest rate contracts				
Swaps	62,498	(163)	67,440	-
Total fair value eligible contracts	62,498	(163)	67,440	-
Total fair value	$ 392,531	$ (324,665)	$ 286,508	$ (207,584)
Less impact of master netting agreements	(73,458)	73,458	-	-
Less impact of financial institution counterparty collateral held/posted	-	128,300	(81,430)	-
Residual credit exposure on derivatives to ATB	$ 319,073	$ (122,907)	$ 205,078	$ (207,584)

The residual credit exposure presented above includes contracts with financial institution and client counterparties. For the residual amounts above, $256,661 (2013: $61,678) of the derivative asset and $97,424 (2013: nil) of the derivative liability exposure relates to client counterparties.

The amount of other comprehensive income expected to be reclassified to the Consolidated Statement of Income over the next 12 months is $41,891 (2013: $27,883). This will be offset by gains and losses on assets and liabilities that were hedged. ATB has recognized in profit and loss during the year $802 (2013: $2,580) relating to ineffectiveness arising from its cash flow hedges.

The following table presents the expected maturity dates on which hedged cash flows will be recognized in the Consolidated Statement of Income:

As at March 31 ($ in thousands)	2014	2013
Within 1 year	$ 134,496	$ 78,385
1–2 years	155,077	64,110
2–3 years	185,121	45,397
3–4 years	218,634	24,847
4–5 years	148,299	18,205
Over 5 years	862,444	-
Total	$ 1,704,071	$ 230,944

The non-trading interest rate risk, which is hedged with interest rate swaps, has a maximum maturity of 10 years as at March 31, 2014 (March 31, 2013: 5 years).

Term to Maturity

The notional amounts of derivative instruments represent the underlying principal amount to which the specified rate or price is applied in order to calculate the amount of cash flows to be exchanged, and have varying maturity dates. Notional amounts do not represent assets or liabilities and are not recorded in the Consolidated Statement of Financial Position. The remaining contractual terms to maturity for the notional amounts of all derivative instruments are as follows:

			Residual term of contract				
As of March 31, 2014 ($ in thousands)	Ineligible for hedge accounting	Eligible for hedge accounting	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Over-the-counter contracts							
Interest rate contracts							
Swaps	$ 7,562,635	$ 4,496,000	$ 425,000	$ 2,430,603	$ 8,324,975	$ 878,057	$ 12,058,635
Other	967,120	-	15,293	115,064	633,946	202,817	967,120
Embedded derivatives							
Equity- and commodity-linked deposits	182,339	-	23,250	104,744	54,345	-	182,339
Foreign-exchange contracts							
Forwards	1,703,345	-	1,267,495	391,403	44,447	-	1,703,345
Cross-currency swaps	338,200	-	-	-	290,172	48,028	338,200
Equity contracts							
Options	181,265	-	23,202	104,054	54,009	-	181,265
Forward contracts							
Commodities	4,442,903	-	188,278	2,545,798	1,708,827	-	4,442,903
Exchange-traded contracts							
Interest rate contracts							
Futures	84,900	-	84,900	-	-	-	84,900
Total	$ 15,462,707	$ 4,496,000	$ 2,027,418	$ 5,691,666	$ 11,110,721	$ 1,128,902	$ 19,958,707

			Residual term of contract				
As of March 31, 2013 ($ in thousands)	Ineligible for hedge accounting	Eligible for hedge accounting	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Over-the-counter contracts							
Interest rate contracts							
Swaps	$ 4,762,824	$ 2,760,000	$ 1,590,000	$ 900,000	$ 5,032,824	$ -	$ 7,522,824
Other	724,326	-	-	39,704	684,622	-	724,326
Embedded derivatives							
Equity- and commodity-linked deposits	299,509	-	8,363	85,132	206,014	-	299,509
Foreign-exchange contracts							
Forwards	1,500,397	-	924,842	520,842	54,713	-	1,500,397
Cross-currency swaps	275,000	-	-	-	275,000	-	275,000
Equity contracts							
Options	298,630	-	8,293	85,343	204,994	-	298,630
Forward contracts							
Commodities	2,488,161	-	2,264	1,435,016	1,050,881	-	2,488,161
Exchange-traded contracts							
Interest rate contracts							
Futures	-	-	-	-	-	-	-
Total	$ 10,348,847	$ 2,760,000	$ 2,533,762	$ 3,066,037	$ 7,509,048	$ -	$ 13,108,847

In addition to the notional amounts of derivative instruments shown above, ATB has certain foreign-exchange spot deals that settle in one day. These deals had notional amounts of $444,720 as at March 31, 2014 (2013: $280,800).

Derivative-Related Credit Risk

Derivative financial instruments traded in the OTC market are subject to credit risk of a financial loss occurring if a counterparty defaults on its contractual obligation. ATB's maximum credit risk in respect of such derivatives is the fair value of all derivatives where ATB is in a favourable position. ATB endeavours to limit its credit risk by dealing only with counterparties believed to be creditworthy and manages the credit risk for derivatives using the same credit risk process applied to loans and other credit assets. Financial institution counterparties must have a minimum long-term public credit rating of A (low) /A3/A– or better. The exposure to credit risk on derivatives is also reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce ATB's net exposure in respect of favourable contracts with the same counterparty.

The current replacement cost represents the cost of replacing, at current markets rates, all contracts with a positive fair value to ATB. The credit equivalent amount is the sum of the current replacement cost and the potential future exposure, which is defined in a guideline authorized by the Minister, which was modelled after guidelines governing other Canadian deposit-taking institutions. The risk-weighted amount is determined by applying standard measures of counterparty credit risk to the credit equivalent amount. The derivative-related credit risks for derivative instruments are as follows:

	2014			2013		
As at March 31 ($ in thousands)	**Replacement cost**	**Credit equivalent amount**	**Risk-adjusted balance**	Replacement cost	Credit equivalent amount	Risk-adjusted balance
Contracts ineligible for hedge accounting						
Interest rate contracts						
Swaps	**$ 5,433**	**$ 36,014**	**$ 7,203**	$ 3,482	$ 16,346	$ 3,269
Other	**18,813**	**29,801**	**12,091**	25,128	32,551	14,010
Foreign-exchange contracts						
Forwards	**5,855**	**24,666**	**7,132**	3,034	20,227	5,582
Cross-currency swaps	**12,701**	**21,405**	**6,264**	4,894	11,769	5,884
Equity contracts						
Options	**38,028**	**49,984**	**9,997**	74,531	96,549	19,310
Forward contracts						
Commodities	**249,203**	**727,669**	**286,176**	107,999	377,832	132,390
Contracts eligible for hedge accounting						
Interest rate contracts						
Swaps	**62,498**	**86,716**	**17,343**	67,440	79,740	15,948
Total	**$ 392,531**	**$ 976,255**	**$ 346,206**	$ 286,508	$ 635,014	$ 196,393

11. Property and Equipment

($ in thousands)	Leasehold improvements	Computer equipment	Buildings	Other equipment	Leasehold improvements under construction	Computer equipment under development	Buildings under finance lease	Land	Total
Cost									
Balance as at April 1, 2012	$ 181,260	$ 90,519	$ 93,421	$ 51,830	$ 9,535	$ 6,210	$ 123,591	$ 7,470	$ 563,836
Acquisitions	23,501	4,717	2,471	8,381	10,800	19,972	48,745	-	118,587
Disposals	(4,732)	-	(1,313)	(950)	(9,334)	(10,481)	(15,807)	(90)	(42,707)
Balance as at March 31, 2013	$ 200,029	$ 95,236	$ 94,579	$ 59,261	$ 11,001	$ 15,701	$ 156,529	$ 7,380	$ 639,716
Balance as at April 1, 2013	**$ 200,029**	**$ 95,236**	**$ 94,579**	**$ 59,261**	**$ 11,001**	**$ 15,701**	**$ 156,529**	**$ 7,380**	**$ 639,716**
Acquisitions	**6,949**	**14,059**	**3,841**	**7,366**	**26,902**	**30,284**	**48,951**	**-**	**138,352**
Disposals	**(9,208)**	**(54)**	**(441)**	**(4,627)**	**(6,726)**	**(15,053)**	**(3,447)**	**(8)**	**(39,564)**
Balance as at March 31, 2014	**$ 197,770**	**$ 109,241**	**$ 97,979**	**$ 62,000**	**$ 31,177**	**$ 30,932**	**$ 202,033**	**$ 7,372**	**$ 738,504**
Depreciation									
Balance as at April 1, 2012	$ 111,386	$ 61,245	$ 63,749	$ 36,625	$ -	$ -	$ 35,030	$ -	$ 308,035
Depreciation for the period	12,372	15,373	2,555	5,962	-	-	11,955	-	48,217
Disposals	(2,260)	-	(1,198)	(921)	-	-	(2,952)	-	(7,331)
Balance as at March 31, 2013	$ 121,498	$ 76,618	$ 65,106	$ 41,666	$ -	$ -	$ 44,033	$ -	$ 348,921
Balance as at April 1, 2013	**$ 121,498**	**$ 76,618**	**$ 65,106**	**$ 41,666**	**$ -**	**$ -**	**$ 44,033**	**$ -**	**348,921**
Depreciation for the period	**11,816**	**12,814**	**2,314**	**6,693**	**-**	**-**	**11,859**	**-**	**45,496**
Disposals	**(8,673)**	**(54)**	**(225)**	**(3,831)**	**-**	**-**	**(3,030)**	**-**	**(15,813)**
Balance as at March 31, 2014	**$ 124,641**	**$ 89,378**	**$ 67,195**	**$ 44,528**	**$ -**	**$ -**	**$ 52,862**	**$ -**	**$ 378,604**
Carrying amounts									
Balance as at March 31, 2013	$ 78,531	$ 18,618	$ 29,473	$ 17,595	$ 11,001	$ 15,701	$ 112,496	$ 7,380	$ 290,795
Balance as at March 31, 2014	**$ 73,129**	**$ 19,863**	**$ 30,784**	**$ 17,472**	**$ 31,177**	**$ 30,932**	**$ 149,171**	**$ 7,372**	**$ 359,900**

Depreciation expense charged to the Consolidated Statement of Income for the year ended March 31, 2014, for premises and equipment was $45,496 (2013: $48,217). There was $1,555 (2013: $2,482) in impairment write-downs recognized during the year ended March 31, 2014. A loss of $1,010 (2013: $654) was recognized during the year for the disposal of capital assets.

12. Software and Other Intangibles

($ in thousands)	Purchased software	Software under development	Other intangibles	Total
Cost				
Balance as at April 1, 2012	$ 387,377	$ 8,122	$ 2,125	$ 397,624
Acquisitions	7,600	12,022	-	19,622
Disposals	(661)	(6,515)	-	(7,176)
Balance as at March 31, 2013	$ 394,316	$ 13,629	$ 2,125	$ 410,070
Balance as at April 1, 2013	**$ 394,316**	**$ 13,629**	**$ 2,125**	**$ 410,070**
Acquisitions	**16,443**	**14,697**	**-**	**31,140**
Disposals	**(684)**	**(11,999)**	**-**	**(12,683)**
Balance as at March 31, 2014	**$ 410,075**	**$ 16,327**	**$ 2,125**	**$ 428,527**
Amortization				
Balance as at April 1, 2012	$ 83,175	$ -	$ 1,582	$ 84,757
Amortization for the period	40,826	-	453	41,279
Disposals	(551)	-	-	(551)
Balance as at March 31, 2013	$ 123,450	$ -	$ 2,035	$ 125,485
Balance as at April 1, 2013	**$ 123,450**	**$ -**	**$ 2,035**	**$ 125,485**
Amortization for the period	**37,535**	**-**	**90**	**37,625**
Disposals	**(684)**	**-**	**-**	**(684)**
Balance as at March 31, 2014	**$ 160,301**	**$ -**	**$ 2,125**	**$ 162,426**
Carrying amounts				
Balance as at March 31, 2013	$ 270,866	$ 13,629	$ 90	$ 284,585
Balance as at March 31, 2014	**$ 249,774**	**$ 16,327**	**$ -**	**$ 266,101**

Amortization expense charged to the Consolidated Statement of Income for the year ended March 31, 2014, for software and intangibles was $37,625 (2013: $41,279). There were no (2013: $110) impairment write-downs recognized during the year ended March 31, 2014.

13. Other Assets

Other assets consist of the following:

As at March 31 *($ in thousands)*	**2014**	2013
Accrued interest receivable	**$ 97,457**	$ 114,449
Prepaid expenses and other receivables	**136,148**	86,768
Other	**25,574**	16,536
Total	**$ 259,179**	$ 217,753

14. Deposits

Deposit balances consist of the following:

As at March 31, 2014 ($ in thousands)	Payable on demand	Payable on a fixed date					Total
		Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	
Personal	$ 7,035,138	$ 2,544,982	$ 1,005,619	$ 1,012,673	$ 89,679	$ 152,358	$ 11,840,449
Business and other	9,472,974	5,597,985	135,626	229,336	17,493	22,575	15,475,989
Total	**$ 16,508,112**	**$ 8,142,967**	**$ 1,141,245**	**$ 1,242,009**	**$ 107,172**	**$ 174,933**	**$ 27,316,438**

As at March 31, 2013 ($ in thousands)	Payable on demand	Payable on a fixed date					Total
		Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	
Personal	$ 6,936,478	$ 2,559,173	$ 1,200,919	$ 186,946	$ 134,457	$ 82,384	$ 11,100,357
Business and other	9,006,080	3,444,361	121,060	23,408	25,213	10,892	12,631,014
Total	$ 15,942,558	$ 6,003,534	$ 1,321,979	$ 210,354	$ 159,670	$ 93,276	$ 23,731,371

The total deposits presented above include $756,120 (2013: $725,207) denominated in U.S. funds.

As at March 31, 2014, deposits by various departments and agencies of the Government of Alberta included in the preceding schedule total $261,381 (2013: $235,041).

The repayment of all deposits without limit, including accrued interest, is guaranteed by the Crown in right of Alberta in respect of which the Crown assesses an annual deposit guarantee fee payable by ATB. For the year ended March 31, 2014, the fee was $37,592 (2013: $29,036).

15. Collateralized Borrowings

Canada Mortgage Bond (CMB) Program

ATB periodically securitizes insured residential mortgage loans by participating in the CMB program. Through the program, ATB bundles residential mortgage loans guaranteed by the Canada Mortgage and Housing Corporation (CMHC) into mortgage-backed securities (MBSs) and transfers them to the Canada Housing Trust (CHT). CHT uses the proceeds of its bond issuance to finance the purchase of MBSs issued by ATB. As an issuer of the MBSs, ATB is responsible for advancing all scheduled principal and interest payments to CMHC, irrespective of whether or not the amounts have been collected on the underlying transferred mortgages. Amounts advanced but not recovered are ultimately recovered from the insurer. The sale of mortgage pools that comprise the MBSs do not qualify for derecognition as ATB retains the prepayment, credit, and interest rate risks associated with the mortgages, which represent substantially all of the risks and rewards. Also included in the collateralized borrowing liabilities are accrued interest, deferred transaction costs, and premium and discounts, representing the difference between cash proceeds and the notional amount of the liability issued. Accrued interest on the collateralized borrowing liability is based on the CMB coupon for each respective series. At the time of the CMB coupon settlement, any excess or shortfall between the CMB coupon payment and interest accumulated with swap counterparties is received or paid by ATB.

There are no expected credit losses on the securitized mortgage assets, as the mortgages are insured against default. Further, the investors and CMHC have no recourse to other assets of ATB in the event of failure of debtors to pay when due.

As part of a CMB transaction, ATB must enter into a total return swap with highly rated counterparties, exchanging cash flows of the CMB for those of the MBSs transferred to CHT. Any excess or shortfall in these cash flows is absorbed by ATB. These swaps are not recognized on ATB's Consolidated Statement of Financial Position, as the underlying cash flows of these derivatives are captured through the continued recognition of the mortgages and their associated CMB collateralized borrowing liabilities. Accordingly, these swaps are recognized on an accrual basis and are not fair valued through ATB's Consolidated Statement of Income. The notional amount of these swaps as at March 31, 2014, is $2,963,946 (2013: $2,655,990).

Collateralized borrowing liabilities are non-amortizing liabilities with fixed maturity dates. Principal payments collected from the mortgages underlying the MBSs sold to the CHT are transferred to the CHT monthly, where they are either reinvested in new MBSs or invested in eligible investments. To the extent that these eligible investments are not ATB's own issued MBSs, the investments are recorded on ATB's Consolidated Statement of Financial Position as securities measured at fair value through net income. The amount of investments as at March 31, 2014, is nil (2013: nil).

Credit Card Securitization

ATB entered into a program with another financial institution to securitize credit card receivables to obtain additional funding. This program allows ATB to borrow up to 85% of the amount of credit card receivables pledged. The secured credit card receivables remain on ATB's Consolidated Statement of Financial Position and have not been transferred as they do not qualify for derecognition. Should the amount securitized not adequately support the program, ATB will be responsible for funding this shortfall.

The following table presents the carrying amount of ATB's residential mortgage loans, credit card receivables, and assets pledged as collateral for the associated liability recognized in the Consolidated Statement of Financial Position:

As at March 31 ($ in thousands)		**2014**		2013
Principal value of mortgages pledged as collateral	**$**	**2,399,767**	$	1,583,120
ATB mortgage-backed securities pledged as collateral through repurchase agreements		**562,092**		1,070,049
Principal value of credit card receivables pledged as collateral		**537,858**		536,230
Total	**$**	**3,499,717**	$	3,189,399
Associated liabilities	**$**	**3,411,352**	$	3,103,492

16. Other Liabilities

Other liabilities consist of the following:

As at March 31 ($ in thousands)		**2014**		2013
Accounts payable and accrued liabilities	**$**	**513,278**	$	428,139
Accrued interest payable		**98,512**		67,898
Payment in lieu of tax payable (*note 21*)		**82,564**		73,122
Deposit guarantee fee payable		**37,592**		29,036
Due to clients, brokers, and dealers		**22,706**		27,422
Achievement Notes (*note 25*)		**37,466**		22,546
Accrued pension-benefit liability (*note 20*)		**65,278**		138,042
Total	**$**	**857,396**	$	786,205

17. Capital Investment Notes

Capital investment notes are five-year non-redeemable guaranteed notes issued to the general public that qualify under ATB's capital requirements as Tier 2 capital to a maximum of $500,000. As at March 31, 2014, $250,508 (2013: $244,617) of these notes were outstanding with a fixed rate of return of 4.25% and will mature in fiscal 2014–15.

18. Subordinated Debentures

ATB privately places debentures with the Crown in right of Alberta. These debentures are subordinated to deposits and other liabilities and are unsecured, non-convertible, non-redeemable, and non-transferable. They bear a fixed rate of interest payable semi-annually.

The outstanding subordinated debentures were issued with an original term of five years.

As detailed in note 21, since March 31, 2011, ATB has issued subordinated debentures annually to settle the outstanding liability for ATB's payment in lieu of tax for each fiscal year.

Subordinated debentures consist of the following:

As at March 31 ($ in thousands) Maturity date	Interest rate	2014	2013
June 30, 2015	3.6%	$ 38,075	$ 38,075
June 30, 2016	3.6%	59,298	59,298
June 30, 2017	3.3%	58,280	58,280
June 30, 2018	3.4%	73,122	-
Total		$ 228,775	$ 155,653

19. Salaries and Benefits

The following table discloses the amounts earned by board members and key senior executives in the year ended March 31, 2014:

	2014							2013
		Incentive plan						
($ in thousands)	Base salary[1]	Short-term[2]	Long-term[3]	Other cash benefits[4]	Retirement and other post-employment benefits	Other non-cash benefits[5]	Total	Total restated[6]
Chairman of the board	$ 67	$ -	$ -	$ -	$ -	$ -	$ 67	$ 57
Board members[7]	385	-	-	-	-	-	385	419
President and chief executive officer[8]	502	720	767	22	710	22	2,743	2,496
Chief risk officer	276	149	283	10	117	24	859	710
Chief financial officer	277	149	300	1	103	15	845	786
Chief people officer	276	186	329	33	25	24	873	700
Executive vice-president, Retail Financial Services	246	180	207	63	25	15	736	618
Executive vice-president, Corporate Financial Services	306	265	412	63	108	18	1,172	1,180
Executive vice-president, Business and Agriculture	261	279	371	34	25	21	991	890
President, ATB Investor Services	326	528	513	14	100	11	1,492	1,391
Chief strategy and operations officer	306	259	532	56	25	12	1,190	1,057
Senior vice-president, Reputation and Brand	256	140	287	16	25	11	735	650

[1] Base salary consists of all regular pensionable base pay earned.
[2] Short-term incentive plan pay is accrued based on goal attainment for the fiscal year but is paid after the fiscal year-end.
[3] Long-term incentive plan pay is earned in the year, though payment is deferred for up to 36 months and depends on the employee's continued employment with ATB. The actual amount each employee receives appreciates or depreciates from the amount reported above based on a specified methodology to reflect ATB's actual financial performance over the next three fiscal years.
[4] Other cash benefits consist of fees for attendance at meetings, retainers, honoraria, lump-sum payments, perquisite allowances, and other direct cash remuneration.
[5] Other non-cash benefits consist of ATB's share of all employee benefits and contributions or payments made on behalf of employees, including statutory contributions, health care, parking, group life insurance, accidental disability and dismemberment insurance, and long-term disability plans.
[6] The amounts included for the prior-year column have been restated to reflect a correction.
[7] The board consists of 11 members plus the chairman, whose remuneration is disclosed separately.
[8] The incumbent does not participate in either the registered pension plan or the supplemental retirement plan, but does receive other post-employment benefits.

Retirement and Other Post-Employment Benefits

Retirement and other post-employment benefits presented in the Salaries and Benefits table reflect the period expense for pension and other post-employment benefit (OPEB) rights to future compensation. Executive officers may receive such benefits through participation in either the defined benefit (DB) or defined contribution provisions of ATB's registered pension plan (the ATB Plan) together with participation in the non-registered DB supplemental retirement plan (SRP), or through other supplemental post-retirement benefit arrangements. (Refer to note 20.)

	2014				2013
($ in thousands)	Registered plan service cost	Supplemental and other post-employment benefit service costs[1]	Prior service and other costs	Total	Total
President and chief executive officer[2]	$ -	$ 564	$ 146	$ 710	$ 651
Chief risk officer	13	64	40	117	104
Chief financial officer	13	63	27	103	91
Chief people officer	25	-	-	25	10
Executive vice-president, Retail Financial Services	25	-	-	25	18
Executive vice-president, Corporate Financial Services	13	63	32	108	95
Executive vice-president, Business and Agriculture	25	-	-	25	24
President, ATB Investor Services	14	53	33	100	83
Chief strategy and operations officer	25	-	-	25	24
Senior vice-president, Reputation and Brand	25	-	-	25	22

[1] As the SRP and the OPEB provided are unfunded obligations and are paid from operating revenues as they come due, none of the SRP and OPEB costs represent cash payments in the period; they represent the period expense for rights to future payments. These benefit costs also represent the total estimated cost incurred in the year ended March 31, 2014, to provide annual pension income over an actuarially determined post-employment period.

[2] The incumbent does not participate in either the ATB Plan or the SRP, but does receive OPEB.

The accrued SRP and OPEB obligation for each executive is as follows:[1]

($ in thousands)	Accrued obligation March 31, 2013	Change in accrued obligation	Accrued obligation March 31, 2014[2]
President and chief executive officer[3]	$ 2,894	$ 562	$ 3,456
Chief risk officer	894	115	1,009
Chief financial officer	570	95	665
Executive vice-president, Corporate Financial Services	688	100	788
President, ATB Investor Services	744	64	808

[1] The executive vice-presidents of Business and Agriculture and Retail Financial Services, the chief people officer, and the chief strategy and operations officer do not participate in the SRP.

[2] The accrued obligation is the amount of funds that would need to be set aside today to meet the obligations in the future based on predetermined assumptions. The discount rate was increased from 4.2% on March 31, 2013, to 4.5% on March 31, 2014, because of changes in market interest rates. Consequently, there was a decrease in the accrued obligation on March 31, 2014.

[3] The incumbent does not participate in either the ATB Plan or the SRP, but does receive OPEB.

20. Employee Benefits

Public Service Pension Plan (PSPP)

The PSPP is a multi-employer pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies. The Minister is the legal trustee for the plan and, accordingly, Alberta Treasury Board and Finance is the manager of the plan. The plan is governed by the Public Service Pension Board.

The plan provides a pension of 1.4% for each year of pensionable service based on average salary of the highest five consecutive years up to the year's maximum pensionable earnings and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the *Income Tax Act*.

As a participant in this plan, ATB and its participating employees are responsible for making current service contributions sufficient to provide for the accruing service of members and the amortization of any unfunded liability. ATB's share of the current service contributions (employer and employee) is based on the current pensionable earnings of active ATB participants (prorated against the total current pensionable earnings of all active PSPP members). The employer and employee share the required contributions 50/50.

Although the PSPP pools all assets and liabilities of participating employers and there is no allocation of assets and liabilities to participating employers, in order to recognize an estimate of its current liability under this plan, ATB has applied defined benefit (DB) accounting. ATB has estimated its share of the fair value of assets, the DB obligation, and the net pension liability as at March 31, 2014, based on its pro rata share of contributions into the plan, adjusted for its pro rata contribution rate (split 50/50 between employer and employee). ATB reassesses and discloses the estimated value of this liability annually.

Registered Pension Plan – DB Provisions

ATB provides its management employees with a registered pension plan (the ATB Plan) with either DB or defined contribution (DC) provisions. The DB plan provides benefits based on members' years of service and earnings. The DC plan provides annual contributions based on members' earnings.

Effective July 15, 2006, ATB finalized arrangements with the Government of Alberta to assume pension obligations relating to current ATB employees who participated in the PSPP prior to joining the ATB Plan (the PSPP take-on). The arrangements formalized ATB's commitment to providing combined pensionable service (CPS) benefits for qualifying members whose CPS benefits were affected by the withdrawal of ATB from the Management Employees Pension Plan.

Following execution of the PSPP take-on agreements, certain assets and liabilities were transferred from the PSPP into the ATB Plan in respect of all employees promoted to management positions between January 1, 1994, and December 31, 2005, who were employed by ATB on July 15, 2006. In addition, there are ongoing annual transfers of obligations and assets in respect of employees promoted into management positions in the previous calendar year.

Non-Registered Plans

ATB also provides a non-registered DB supplemental retirement plan (SRP) and other post-employment benefits (OPEB) for designated management employees. The SRP provides benefits based on members' years of service and earnings in excess of the Canada Revenue Agency maximum pension limits.

Plan Risks

The DB plans expose ATB to actuarial risks such as longevity risk, currency risk, interest rate risk, and market risk. ATB, in conjunction with the Human Resources Committee and Retirement Committee, manages risk through the plans' Statement of Investment Policies and Procedures and Pension Investment Risk Management Policy, which:

- Establishes allowable and prohibited investment types
- Sets diversification requirements
- Limits portfolio mismatch risk through an asset allocation policy
- Limits market risks associated with the underlying fund assets

Breakdown of Defined Benefit Obligation

The breakdown of the DB obligations for each plan is as follows:

As at March 31	**2014**		
($ in thousands)	**Registered plan**	**Supplemental and other**	**ATB's share of PSPP**
Active	**$ 208,023**	**$ 10,089**	**$ 126,930**
Deferred	**24,661**	**920**	**31,774**
Pensioners and beneficiaries	**112,309**	**3,102**	**95,708**
Total defined benefit obligation	**$ 334,993**	**$ 14,111**	**$ 254,412**

As at March 31	2013		
($ in thousands)	Registered plan	Supplemental and other	ATB's share of PSPP
Active	$ 197,900	$ 10,455	$ 141,484
Deferred	23,483	1,064	37,040
Pensioners and beneficiaries	103,419	2,980	103,288
Total defined benefit obligation	$ 324,802	$ 14,499	$ 281,812

Breakdown of Plan Assets

A breakdown of plan assets for the ATB Plan is as follows:

	2014		2013	
As at March 31 *($ in thousands)*	**Non-quoted on an active market**	**Quoted on an active market**	Non-quoted on an active market	Quoted on an active market
Bonds				
Provinces, municipal corporations, and other public administrations	**$ -**	**$ 126**	$ -	$ 145
Other issuers	**-**	**217,485**	-	170,563
Shares	**-**	**140,072**	-	129,351
Cash and money market securities	**-**	**936**	-	2,521
Total fair value of plan assets	**$ -**	**$ 358,619**	$ -	$ 302,580

Asset/Liability Matching Strategy

The investment policy is reviewed each year. The current policy is to match those assets in respect of inactive members with a matching fixed-income portfolio. For active members with liabilities that have other variabilities such as salary growth, assets are not matched but an equity-centric portfolio is held (70% benchmark in equities). A more in-depth asset/liability study is conducted every three to five years, whereby the investment policy is reviewed in more detail.

Cash Payments

Total cash paid or payable for employee benefits for the year ended March 31, 2014—consisting of cash contributed by ATB in respect of the DB and DC provisions of the ATB Plan, cash payments made directly to beneficiaries for the unfunded SRP, and cash contributed to the PSPP—was $57,900 (2013: $97,094).

Contributions expected during the upcoming year are $15,957 (2013: $25,549) for the DB portion of the ATB plan, $201 (2013: $200) for the unfunded SRP and CPS, and $13,972 (2013: $14,417) for the PSPP.

Pension Plan Obligation Maturity Profile

For 2014, the weighted-average financial duration of the main group plans was approximately 17 years (2013: 17 years).

Net Accrued Benefit Liability

The funded status and net accrued pension-benefit liability for the DB provisions of the ATB Plan and the other pension obligations, which include the PSPP, SRP, obligations recognized in respect of the CPS benefit obligation to inactive plan members, and OPEB, consist of the following:

As at March 31 ($ in thousands)	2014	2013 restated
Registered plan		
Fair value of plan assets	$ 358,619	$ 302,580
Projected benefit obligation	(344,993)	(324,802)
Net pension-benefit liability[1]	$ 13,626	$ (22,222)
Supplemental and other		
Unfunded projected benefit obligation, representing the plan funding deficit	(14,111)	(14,499)
Net pension-benefit liability[1]	$ (14,111)	$ (14,499)
ATB's share of PSPP		
Fair value of plan assets	$ 189,619	$ 180,468
Projected benefit obligation	(254,412)	(281,812)
Net pension-benefit liability[1]	$ (64,793)	$ (101,344)
Total net pension-benefit liability[1, 2]	$ (65,278)	$ (138,065)

[1] Effect of asset limitation and IAS minimum funding requirements is nil.
[2] There are no unrecognized actuarial gains/losses and past-service costs.

The net accrued benefit liability is included in other liabilities in the Consolidated Statement of Financial Position as appropriate. (Refer to note 16.)

Other Comprehensive Income

	Registered plan		Supplemental and other		ATB's share of PSPP	
As at March 31 ($ in thousands)	2014	2013 restated	2014	2013 restated	2014	2013 restated
Actuarial (loss) gain on plan assets	$ (22,452)	$ (2,239)	$ -	$ -	$ 2,268	$ (13,251)
Effect of changes in demographic assumptions	20,801	-	504	-	-	-
Effect of changes in financial assumptions	(19,438)	30,364	(593)	1,061	(9,150)	18,933
Experience (gain) loss on plan liabilities	-	-	(1,347)	1,472	(32,084)	11,035
Amount recognized in other comprehensive income	$ (21,089)	$ 28,125	$ (1,436)	$ 2,533	$ (38,966)	$ 16,717
Beginning balance, accumulated other comprehensive income	77,927	49,802	4,117	1,584	33,512	16,795
Ending balance, accumulated other comprehensive income	$ 56,838	$ 77,927	$ 2,681	$ 4,117	$ (5,454)	$ 33,512

Change in Plan Assets and Benefit Obligations

Changes in the estimated financial position of the DB provisions of the ATB Plan, the PSPP, and the SRP and OPEB obligations consist of the following:

	Registered plan		Supplemental and other		ATB's share of PSPP	
As at March 31 ($ in thousands)	**2014**	2013 restated	**2014**	2013 restated	**2014**	2013 restated
Change in fair value of plan assets						
Fair value of plan assets at beginning of the year	**$ 302,580**	$ 217,166	**$ -**	$ -	**$ 180,468**	$ 157,216
Contributions from ATB	**25,660**	74,426	**621**	200	**13,664**	12,160
Contributions from employees	**1,188**	1,329	**-**	-	**-**	-
Interest income	**13,034**	12,978	**-**	-	**7,851**	7,855
Actuarial gain (loss) on plan assets	**22,452**	2,239	**-**	-	**(2,268)**	13,251
Benefits paid	**(8,651)**	(9,343)	**(621)**	(200)	**(10,096)**	(10,014)
Net transfer in – PSPP	**4,749**	4,925	**-**	-	**-**	-
Actual plan expenses	**(2,393)**	(1,140)	**-**	-	**-**	-
Fair value of plan assets at end of the year	**$ 358,619**	$ 302,580	**$ -**	$ -	**$ 189,619**	$ 180,468
Change in defined benefit obligation						
Projected benefit obligation at beginning of the year	**$ 324,802**	$ 277,916	**$ 14,499**	$ 10,620	**$ 281,812**	$ 240,374
Effect of changes in demographic assumptions	**20,801**	-	**504**	-	**-**	-
Effect of changes in financial assumptions	**(19,438)**	30,364	**(593)**	1,061	**(9,150)**	18,933
Experience (gain) loss on plan liabilities	**-**	-	**(1,347)**	1,472	**(32,084)**	11,035
Current-service cost	**4,234**	3,280	**1,123**	1,030	**12,032**	9,899
Expenses paid	**-**	-	**-**	-	**-**	-
Contributions from employees	**1,188**	1,329	**-**	-	**-**	-
Past-service costs	**3,863**	2,891	**-**	-	**-**	-
Net transfer in – PSPP	**4,749**	4,925	**-**	-	**-**	-
Interest expense	**13,445**	13,440	**546**	516	**11,898**	11,585
Benefits paid	**(8,651)**	(9,343)	**(621)**	(200)	**(10,096)**	(10,014)
Defined benefit obligation at end of the year	**$ 344,993**	$ 324,802	**$ 14,111**	$ 14,499	**$ 254,412**	$ 281,812
Net pension-benefit asset (liability)	**$ 13,626**	$ (22,222)	**$ (14,111)**	$ (14,499)	**$ (64,793)**	$ (101,344)

Defined Benefit Pension Expense

Benefit expense for the DB provisions of the ATB Plan and for the PSPP, SRP, and OPEB consists of the following:

	Registered plan		Supplemental and other		ATB's share of PSPP	
As at March 31 ($ in thousands)	**2014**	2013 restated	**2014**	2013 restated	**2014**	2013 restated
Current-service cost	**$ 4,234**	$ 3,280	**$ 1,123**	$ 1,030	**$ 12,032**	$ 9,899
Past-service costs	**3,863**	2,891	**-**	-	**-**	-
Interest expense	**13,445**	13,440	**546**	516	**11,898**	11,585
Interest income	**(13,034)**	(12,978)	**-**	-	**(7,851)**	(7,855)
Administrative expenses and taxes	**1,022**	1,140	**-**	-	**-**	-
Net pension-benefit expense recognized	**$ 9,530**	$ 7,773	**$ 1,669**	$ 1,546	**$ 16,079**	$ 13,629

Key Assumptions and Sensitivities

The significant assumptions used in the actuarial determination of projected benefit obligations and the related net benefit expense are, on a weighted-average basis, as follows:

	Registered plan		Supplemental and other		ATB's share of PSPP	
	2014	2013	**2014**	2013	**2014**	2013
Accrued benefit obligation as at March 31						
Discount rate at end of year	**4.5%**	4.2%	**4.5%**	4.2%	**4.5%**	4.3%
Rate of compensation increase[1]	**3.5%**	3.6%	**3.5%**	3.6%	**3.5%**	3.8%
Defined benefit expense for the year ended March 31						
Discount rate at beginning of year	**4.2%**	4.9%	**4.2%**	4.9%	**4.3%**	4.9%
Rate of compensation increase[1]	**3.5%**	3.9%	**3.5%**	3.9%	**3.8%**	3.8%
ATB's share of PSPP contributions	**-**	-	**-**	-	**4.2%**	4.7%

[1] The long-term weighted-average rate of compensation increase, including merit and promotion.

The following table outlines the possible impact of changes in certain key weighted-average economic assumptions used to measure the accrued pension-benefit obligations as at March 31, 2014, and the related expense for the year then ended:

	Registered plan		Supplemental and other		ATB's share of PSPP	
As at March 31, 2014 ($ in thousands)	Benefit obligation	Benefit expense	Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
Discount rate						
Impact of: 1.0% increase	$ (50,038)	$ (5,254)	$ (1,472)	$ (34)	$ (36,320)	$ (3,103)
1.0% decrease	64,540	5,950	1,827	37	36,320	2,298
Inflation rate						
Impact of: 1.0% increase	33,114	2,767	260	30	15,898	1,241
1.0% decrease	(29,027)	(2,366)	(255)	(29)	(15,898)	(1,241)
Rate of compensation increase						
Impact of: 0.25% increase	2,652	360	2	-	8,276	1,104
0.25% decrease	(2,592)	(348)	-	-	(8,276)	(1,104)
Expected long-term rate of return on plan assets						
Impact of: 1.0% increase	(3,987)	(1,329)	(138)	(12)	N/A[1]	N/A[1]
1.0% decrease	4,414	1,523	147	14	N/A[1]	N/A[1]

[1] Mortality sensitivity information for the PSPP is not available.

This sensitivity analysis should be used with caution as it is hypothetical and the effect of changes in each significant assumption may not be linear. Also, the sensitivities in each key variable have been calculated independently of changes in other key variables, and actual experience may result in simultaneous changes to a number of key assumptions. Changes in one factor could result in changes to another that may serve to amplify or reduce certain sensitivities.

21. Payment in Lieu of Tax

Pursuant to the *ATB Act*, the Government of Alberta may assess a charge to ATB as prescribed by the *ATB Regulation*. The *ATB Regulation* defines the charge to be an amount equal to 23% of ATB's consolidated net income as reported in its audited annual financial statements. The payment in lieu of tax is calculated as 23% of net income reported under IFRS.

As at March 31, 2014, ATB accrued a total of $82,564 (2013: $73,122) for payment in lieu of tax. The amount outstanding as at March 31, 2013, was settled on June 30, 2013, with ATB issuing a subordinated debenture to the Government of Alberta. (Refer to note 18.) The payment in lieu of tax will continue to be settled by issuing subordinated debentures until ATB's Tier 2 notional capital is eliminated. (Refer to note 26.)

22. Related-Party Transactions

In the ordinary course of business, ATB provides normal banking services to various departments and agencies of the Government of Alberta on terms similar to those offered to non-related parties. (Refer to note 14.) During the year, ATB leased certain premises from the Government of Alberta. For the year ended March 31, 2014, the total of these payments was $283 (2013: $733). ATB recognized a deposit guarantee fee payable to the Crown in right of Alberta in return for a guarantee on all customer deposits and a payment in lieu of tax. (Refer to notes 14 and 21.) ATB also has subordinated debt outstanding with the Crown in right of Alberta. (Refer to note 18.)

ATB entered into a wholesale borrowing agreement with the Minister on November 24, 2003 (amended November 9, 2007). Under this agreement, the Minister acts as fiscal agent of ATB under the *Financial*

Administration Act and is involved in raising wholesale deposits in the marketplace. As at March 31, 2014, wholesale borrowings include $2.7 billion (March 31, 2013: $2.2 billion) payable to the Minister.

Key management personnel are defined as those personnel having authority and responsibility for planning, directing, and controlling the activities of ATB, and are considered related parties. ATB provides loans to key management personnel, their close family members, and their related entities on market conditions, with the exception of banking products and services for key management personnel, which are subject to approved guidelines that govern all employees. As at March 31, 2014, there was $4,666 (2013: $4,531) in loans outstanding. Key management personnel have deposits provided at standard market rates. As at March 31, 2014, there was $482 (March 31, 2013: $233) in deposits outstanding. Key management personnel compensation is disclosed in note 19. No impairment losses were recorded against balances outstanding from key management personnel, and no specific allowances for impairment were recognized on balances with key management personnel and their close family members.

Key management personnel may also purchase Achievement Notes based on their role within ATB. As at March 31, 2014, there was $5,337 (March 31, 2013: $3,380) in Achievement Notes outstanding to this group. There were no termination payments (March 31, 2013: nil) made to key management personnel during the year.

23. Commitments, Guarantees, and Contingent Liabilities

Credit Instruments

In the normal course of business, ATB enters into various off-balance-sheet commitments to provide customers with sources of credit. These may include letters of credit, letters of guarantee and loan guarantees, and commitments to extend credit.

All of these credit arrangements are subject to ATB's normal credit standards, and collateral may be obtained where appropriate. The contract amounts represent the maximum credit risk exposure to ATB should the contracts be fully drawn and any collateral held prove to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements.

Letters of Credit

Standby letters of credit represent an irrevocable obligation to make payments to a third party if the customer cannot meet its financial or performance contractual obligations. In the event of a call on such commitments, ATB has recourse against the customer.

Documentary and commercial letters of credit require ATB to honour drafts presented by third parties upon completion of specific activities.

Guarantees

Guarantees also represent an irrevocable obligation to make payments to a third party in certain situations. Guarantees include contracts or indemnities that contingently require ATB to make payments (either in the form of some asset or in the form of services) to another party based on changes in an asset, liability, or equity the other party holds; failure of a third party to perform under an obligating agreement; or failure of a third party to pay its indebtedness when due. The term of these guarantees varies according to the contracts and normally does not exceed one year. In the event of a call on such commitments, ATB has recourse against the customer.

Commitments to Extend Credit

Commitments to extend credit represent undertakings by ATB to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions, and include recently authorized credit not yet drawn down and credit facilities available on a revolving basis.

The amounts presented in the current and comparative year for commitments to extend credit include demand facilities of $13,434,068 (2013: $11,857,202). For demand facilities, ATB considers the undrawn portion to represent a commitment to our customer; however, the terms of the commitment allow ATB to adjust the credit exposure if circumstances warrant doing so. Accordingly, these demand facilities are considered to represent a lesser exposure than facilities with extended commitment terms. Credit facilities are contracted for a limited period of usually less than one year and may expire or terminate without being drawn upon. The contractual amounts of all such credit instruments are outlined in the table below:

As at March 31 *($ in thousands)*		**2014**		2013
Loan guarantees and standby letters of credit	**$**	**550,659**	$	437,163
Commitments to extend credit		**13,869,959**		12,654,778
Total	**$**	**14,420,618**	$	13,091,941

Pledged Assets

In the ordinary course of business, ATB grants a security interest in certain collateral (including securities, interest-bearing deposits with financial institutions, and loans and accounts) to the Bank of Canada in order to participate in clearing and payment systems and to have access to its facilities. ATB also pledges securities to Clearing and Depository Services Inc. in order to participate in a settlement-agent credit ring.

As at March 31 *($ in thousands)*		**2014**		2013
Assets pledged to:				
Bank of Canada[1]	**$**	**401,274**	$	401,293
Clearing and Depository Services Inc.		**14,000**		14,000
Total	**$**	**415,274**	$	415,293

[1] Assets pledged to the Bank of Canada include encumbered amounts of $101,406 (2013: $78,041).

In addition to the amounts above, ATB has pledged assets relating to certain derivative contracts and collateralized borrowing. (Refer to notes 10 and 15.)

Indemnification Agreements

In the normal course of operations, ATB enters into various agreements that provide general indemnification to the other party. Examples of such agreements include service agreements, leasing agreements, clearing arrangements, and service contracts. These indemnifications may require ATB, in certain circumstances, to compensate the other party for costs incurred as a result of various contingencies. ATB also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their services to the company. The terms of these indemnifications vary based on the contract, the nature of which prevents ATB from making a reasonable estimate of the maximum potential amount it could be required to pay to other parties. Historically, any such amounts have not been significant. No amount has been accrued in the Consolidated Statement of Financial Position in respect of such indemnifications.

Contingent Liabilities

Various actions and legal proceedings arising from the normal course of business are pending against ATB. Management does not consider the aggregate liability, if any, of these actions and proceedings to be material.

Margin-Funding Facility

As a participant of MAV 1 under the Montreal Accord, ATB must provide a margin-funding facility (MFF) to cover any potential collateral calls associated with the leveraged super-senior trades underlying the Montreal Accord notes. ATB has the same rank as the other participants in the MFF. This credit commitment totals $551,500 and matures in July 2017. ATB does not receive any fee for providing this commitment. The advances that could be made under the MFF are expected to bear interest at the bankers' acceptance rate. All amounts advanced under the MFF will take precedence over amounts payable on the notes issued under MAV 1.

Contractual Obligations

ATB has various obligations under long-term non-cancellable contracts, which include service contracts and operating leases for buildings and equipment. The expected payments for such obligations for each of the next five fiscal years and thereafter are outlined as follows:

As at March 31 ($ in thousands)	**2014**	2013
2014	**$ -**	$ 158,398
2015	**132,623**	78,176
2016	**37,968**	29,468
2017	**13,603**	7,219
2018	**8,803**	4,508
2019	**3,096**	4,935
Thereafter	**7,020**	-
Total	**$ 203,113**	$ 282,704

The total expense for premises and equipment operating leases charged to the Consolidated Statement of Income for the year ended March 31, 2014, is $3,961 (2013: $11,323).

Finance Lease Commitments

The future minimum lease payments required under ATB's finance leases were as follows:

As at March 31 ($ in thousands)	**2014**	2013
Future minimum lease payments:		
Not later than 1 year	**$ 26,011**	$ 17,307
Later than 1 year but not later than 5 years	**99,214**	63,747
Later than 5 years	**183,186**	72,273
Total future minimum lease payments	**308,411**	153,327
Less: finance charges not yet due	**126,541**	47,498
Present value of finance lease commitments	**$ 181,870**	$ 105,829

24. Interest Rate Risk

Interest Rate Gap Analysis

Gap analysis involves the allocation of interest-rate-sensitive assets and interest-rate-sensitive liabilities into categories according to their maturity or repricing date. Gaps can change significantly within a short period of time. The impact of changes in interest rates on net interest income will depend upon the size and rate of change in interest rates, the size and maturity of the total gap position, and management of these positions over time. ATB actively manages its interest rate gap position to protect net interest income while minimizing risk. The following table shows ATB's interest rate gap position as at March 31:

($ in thousands)	Term to maturity/repricing								
	Fixed-rate within 3 months	Floating-rate within 3 months	Within 3 months	3–12 months	Total within 1 year	1–5 years	Over 5 years	Non-interest-rate-sensitive	Total
As at March 31, 2014									
Assets									
Cash resources and securities	$ 279,314	$ 1,823,208	$ 2,102,522	$ 7,071	$ 2,109,593	$ 339,018	$ -	$ 55,763	$ 2,504,374
Loans	5,100,814	14,905,332	20,006,146	3,313,597	23,319,743	9,932,200	303,792	329,409	33,885,144
Other assets	-	-	-	-	-	-	-	1,277,711	1,277,711
Derivative financial instruments[1]	-	-	4,250,881	975,000	5,225,881	5,292,780	430,884	-	10,949,545
Total	$ 5,380,128	$ 16,728,540	$ 26,359,549	$ 4,295,668	$ 30,655,217	$ 15,563,998	$ 734,676	$ 1,662,883	$ 48,616,774
Liabilities and equity									
Deposits	13,690,131	354,188	14,044,319	3,236,483	17,280,802	3,573,596	304	6,461,736	27,316,438
Wholesale borrowings	119,466	669,006	788,472	-	788,472	1,911,445	-	(5,756)	2,694,161
Collateralized borrowings	297,636	447,374	745,010	869,135	1,614,145	1,493,806	304,840	(1,439)	3,411,352
Other liabilities	34,225	-	34,225	-	34,225	-	-	1,147,836	1,182,061
Capital investment notes	-	-	-	250,498	250,498	-	-	10	250,508
Subordinated debentures	-	-	-	-	-	228,775	-	-	228,775
Equity	-	-	-	-	-	-	-	2,583,934	2,583,934
Derivative financial instruments[1]	-	-	7,123,665	750,000	7,873,665	2,883,824	192,056	-	10,949,545
Total	$ 14,141,458	$ 1,470,568	$ 22,735,691	$ 5,106,116	$ 27,841,807	$ 10,091,446	$ 497,200	$ 10,186,321	$ 48,616,774
Interest-rate-sensitive gap	$ (8,761,330)	$ 15,257,972	$ 3,623,858	$ (810,448)	$ 2,813,410	$ 5,472,552	$ 237,476	$ (8,523,438)	
As percentage of assets	(18.0%)	31.4%	7.5%	(1.7%)	5.8%	11.3%	0.5%	(17.5%)	

[1] Derivative financial instruments are included in this table at the notional amount.

($ in thousands)	Term to maturity/repricing								
	Fixed-rate within 3 months	Floating-rate within 3 months	Within 3 months	3–12 months	Total within 1 year	1–5 years	Over 5 years	Non-interest-rate-sensitive	Total
As at March 31, 2013									
Assets									
Cash resources and securities	$ 592,240	$ 1,607,709	$ 2,199,949	$ 39,875	$ 2,239,824	$ -	$ -	$ 102,168	$ 2,341,992
Loans	4,443,417	13,729,696	18,173,113	2,486,910	20,660,023	8,996,532	72,614	(70,708)	29,658,461
Other assets	-	-	-	-	-	-	-	1,079,641	1,079,641
Derivative financial instruments[1]	-	-	4,092,000	400,000	4,492,000	3,125,000	325,000	-	7,942,000
Total	$ 5,035,657	$ 15,337,405	$ 24,465,062	$ 2,926,785	$ 27,391,847	$ 12,121,532	$ 397,614	$ 1,111,101	$ 41,022,094
Liabilities and equity									
Deposits	11,986,140	315,766	12,301,906	3,010,480	15,312,386	2,662,716	175	5,756,094	23,731,371
Wholesale borrowings	96,296	674,064	770,360	385,180	1,155,540	1,444,424	-	(4,253)	2,595,711
Collateralized borrowings	-	315,284	315,284	740,872	1,056,156	2,050,430	-	(3,094)	3,103,492
Other liabilities	104,192	-	104,192	-	104,192	-	-	889,597	993,789
Capital investment notes	-	-	-	59	59	244,086	-	472	244,617
Subordinated debentures	-	-	-	-	-	155,653	-	-	155,653
Equity	-	-	-	-	-	-	-	2,255,461	2,255,461
Derivative financial instruments[1]	-	-	6,762,000	-	6,762,000	1,180,000	-	-	7,942,000
Total	$ 12,186,628	$ 1,305,114	$ 20,253,742	$ 4,136,590	$ 24,390,333	$ 7,737,310	$ 175	$ 8,894,277	$ 41,022,094
Interest-rate-sensitive gap	$ (7,150,971)	$ 14,032,291	$ 4,211,320	$ (1,209,806)	$ 3,001,514	$ 4,384,223	$ 397,439	$ (7,783,176)	
As percentage of assets	(17.4%)	34.2%	10.2%	(2.9%)	7.3%	10.6%	1.0%	(18.8%)	

[1] Derivative financial instruments are included in this table at the notional amount.

The effective yield represents the weighted-average effective yield based on the earlier of contractual repricing and maturity dates. The weighted-average effective yield for each class of financial asset and liability is shown below:

(%)	**Within 3 months**	**3–12 months**	**Total within 1 year**	**1–5 years**	**Over 5 years**	**Total**
As at March 31, 2014						
Total assets	**3.1%**	**3.4%**	**3.2%**	**3.1%**	**3.6%**	**3.2%**
Total liabilities and equity	**1.0%**	**1.5%**	**1.1%**	**1.3%**	**2.9%**	**1.2%**
Interest-rate-sensitive gap	**2.1%**	**1.9%**	**2.1%**	**1.8%**	**0.7%**	**2.0%**

(%)	Within 3 months	3–12 months	Total within 1 year	1–5 years	Over 5 years	Total
As at March 31, 2013						
Total assets	3.2%	3.9%	3.3%	3.6%	2.3%	3.3%
Total liabilities and equity	1.0%	1.6%	1.1%	1.3%	0.9%	1.2%
Interest-rate-sensitive gap	2.2%	2.3%	2.2%	2.3%	1.4%	2.2%

Interest Rate Sensitivity

The following table provides the potential impact of an immediate and sustained 100-basis-point and 200-basis-point increase and decrease in interest rates on ATB's net income:

As at March 31 ($ in thousands)	**2014**	2013
Impact on net earnings in succeeding year from:		
Increase in interest rates of:		
100 basis points	**$ 19,795**	$ 27,561
200 basis points	**37,772**	53,752
Decrease in interest rates of:		
100 basis points	**(39,133)**	(40,307)
200 basis points	**(51,485)**	(44,292)

25. Achievement Notes

ATB sold Principal at Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB Financial that provide, or will in the future provide, services under the ATB Investor Services brand name. Under this plan, eligible employees could purchase a 25-year note with a rate of return linked to the value of certain ATB subsidiaries. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

Each note holder is entitled to:

- A cash payment at maturity, representing the original invested amount adjusted for a proportionate share in the change in fair value of certain ATB subsidiaries
- Cash distributions, if any, based on the net positive dividends paid by certain ATB subsidiaries to ATB

There is no public market for these notes; thus the valuation is based on a model prepared by an external consultant using market data where available. This valuation model was used to establish the initial purchase price of the notes and the changes in fair value period to period until the notes mature.

The notes are not redeemable at the option of the note holder, or ATB, prior to maturity, subject to the occurrence of an extraordinary event for ATB (i.e., winding up, dissolution, or liquidation of ATB) or a catastrophic event for the note holder. The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the valuation of the ATB subsidiaries reduces, that the note holder will lose some or all of the original investment.

During the year, ATB issued $2,298 (2013: $2,667) of these notes, which are recorded in other liabilities in the Consolidated Statement of Financial Position. During the current year $314 (2013: $826) of the notes have been redeemed. An expense of $12,936 (2013: $4,801) was recognized during the year to reflect the increase in the fair value of the notes based on their valuation as at March 31, 2014. As at March 31, 2014, the liability for these notes was $37,466 (2013: $22,546).

26. Capital Management

ATB measures and reports capital adequacy to ensure it meets the minimum levels set out by its regulator, Alberta Treasury Board and Finance, while supporting the continued growth of its business.

As a Crown corporation, ATB and its subsidiaries operate under a regulatory framework established pursuant to the *Alberta Treasury Branches Act* and associated regulations and guidelines. The capital adequacy requirements for ATB are defined in a guideline authorized by the President of Treasury Board and Minister of Finance (the Minister), which was modelled after guidelines governing other Canadian deposit-taking institutions. ATB's minimum Tier 1 capital requirement is 7%, and the total capital requirement is the greater of 10% of risk-weighted assets or 5% of total assets. Risk weights are established for various on-balance-sheet and off-balance-sheet assets according to the degree of credit risk. Tier 1 capital consists of retained earnings, and Tier 2 capital consists of notional capital and eligible portions of the collective allowance for credit losses, subordinated debentures, and capital investment notes (to a maximum of $500,000). Effective March 30, 2009, $600,000 of notional (or deemed) capital was made available to ATB. This amount reduces by 25% of net income each quarter.

As at March 31, 2014, ATB has exceeded both the total capital requirements and the Tier 1 capital requirement of the Capital Adequacy Guideline.

As at March 31 *($ in thousands)*		**2014**		2013 restated (*note 3*)
Tier 1 capital				
Retained earnings	**$**	**2,591,694**	$	2,315,285
Tier 2 capital				
Eligible portions of:				
Subordinated debentures		**124,800**		97,433
Capital investment notes		**-**		48,923
Collective allowance for credit losses		**73,465**		69,200
Notional capital		**364,515**		433,617
		562,780		649,173
Total regulatory capital	**$**	**3,154,474**	$	2,964,458
Total risk-weighted assets	**$**	**27,355,286**	$	24,335,887
Risk-weighted capital ratios:				
Tier 1 capital ratio		**9.5%**		9.5%
Total regulatory capital ratio		**11.5%**		12.2%

27. Segmented Information

ATB has organized its operations and activities around the following four business segments or areas of expertise:

- **Retail Financial Services** comprises the branch, agency, and ABM networks and provides financial services to individuals.
- **Business and Agriculture** provides financial services to independent business and agricultural customers.
- **Corporate Financial Services** provides financial services to mid-sized and large corporate borrowers.
- **Investor Services** provides wealth management solutions, including retail brokerage, mutual funds, portfolio management, and investment advice.

The four identified segments differ in products and services offered, but are all within the same geographic region, as virtually all of ATB's operations are limited to customers in the Province of Alberta.

Basis of Presentation

Results presented in the following schedule are based on ATB's internal financial reporting systems. The accounting policies used in preparing the schedules are consistent with those followed in preparing the consolidated financial statements, as is disclosed in the notes to the statements. Since these areas of expertise are based on ATB's internal management structure, they may not be directly comparable to those of other financial institutions.

Net interest income is attributed to each area of expertise according to ATB's internal funds transfer pricing (FTP) system, whereby assets earn net interest income to the extent that external revenues exceed internal FTP expense, and liabilities earn net interest income to the extent that internal FTP revenues exceed external interest expense. Individually assessed provisions for credit losses are allocated based on the individual underlying impaired loan balances, and collectively assessed provisions are allocated pro rata based on total performing loan balances.

Direct expenses are attributed between areas of expertise as incurred. Certain indirect expenses are allocated between Investor Services and the other areas on the basis of interline service agreements. Certain other costs are allocated between the reporting segments using refined allocation methods incorporating activity-based estimates of indirect cost allocation. Indirect expenses that are not allocated and direct expenses of a corporate or support nature are reported under strategic service units.

($ in thousands)	Retail Financial Services	Business and Agriculture	Corporate Financial Services	Investor Services	Strategic service units[1]	Total
March 31, 2014						
Net interest income	$ 374,781	$ 225,416	$ 245,187	$ 4,100	$ 116,528	$ 966,012
Other income	86,777	72,766	96,448	101,247	27,209	384,447
Total operating revenue	461,558	298,182	341,635	105,347	143,737	1,350,459
Provision for credit losses	12,662	8,454	20,423	-	856	42,395
Non-interest expenses	370,706	162,915	76,934	87,802	250,734	949,091
Income (loss) before payment in lieu of tax	78,190	126,813	244,278	17,545	(107,853)	358,973
Payment in lieu of tax	-	-	-	-	82,564	82,564
Net income (loss)	$ 78,190	$ 126,813	$ 244,278	$ 17,545	$ (190,417)	$ 276,409
Total assets	$ 18,483,339	$ 5,712,616	$ 9,735,770	$ 136,640	$ 3,598,900	$ 37,667,229
Total liabilities	$ 11,325,690	$ 8,005,506	$ 7,364,220	$ 97,454	$ 8,290,425	$ 35,083,295
March 31, 2013[2]						
Net interest income	$ 376,755	$ 208,119	$ 213,785	$ 4,480	$ 75,013	$ 878,152
Other income	86,934	66,753	80,008	76,096	41,794	351,585
Total operating revenue	463,689	274,872	293,793	80,576	116,807	1,229,737
Provision for (recovery of) credit losses	26,025	(404)	17,051	-	3,251	45,923
Non-interest expenses	365,648	150,260	63,844	73,797	215,843	869,392
Income (loss) before payment in lieu of tax	72,016	125,016	212,898	6,779	(102,287)	314,422
Payment in lieu of tax	-	-	-	-	73,122	73,122
Net income (loss)	$ 72,016	$ 125,016	$ 212,898	$ 6,779	$ (175,409)	$ 241,300
Total assets	$ 16,684,902	$ 4,808,883	$ 8,151,100	$ 136,376	$ 3,298,833	$ 33,080,094
Total liabilities	$ 10,548,810	$ 7,113,886	$ 5,553,768	$ 105,623	$ 7,502,546	$ 30,824,633

[1] Composed of business units of a corporate nature, such as investment, risk management, asset/liability management, and treasury operations, as well as expenses, collective allowances, and recoveries for credit losses not expressly attributed to any area of expertise.
[2] Prior-period results have been restated based on a change in corporate allocation methodology and accounting policy.

28. Comparative Amounts

Certain comparative amounts have been reclassified to conform to the current period's presentation.

ATB INSURANCE ADVISORS INC.

Financial Statements

Year Ended March 31, 2014

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of ATB Financial, which comprise the consolidated statement of financial position as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ATB Financial as at March 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General
May 29, 2014
Edmonton, Alberta

ATB Insurance Advisors Inc.
Statement of Financial Position

As at March 31, 2014 ($ thousands)

	March 31, 2014	March 31, 2013
ASSETS	**$**	$
Current assets		
Cash	**84**	84
Accounts receivable	**15**	5
Prepaid expenses	**-**	2
Due from affiliates (*note 5*)	**1,085**	1,478
	1,184	1,569
LIABILITIES		
Current liabilities		
Accrued liabilities	**73**	45
Variable compensation payable	**39**	27
Due to ATB (*note 6.i*)	**6,353**	6,761
Current portion of unearned revenue	**35**	33
Current portion of long-term incentive plan (*note 10*)	**1**	-
	6,501	6,866
Long term liabilities		
Accrued liabilities	**10**	-
Unearned revenue	**10**	34
Long-term incentive plan (*note 10*)	**3**	1
Due to ATB (*note 6.ii*)	**-**	226
	6,524	7,127
SHAREHOLDER'S EQUITY		
Share capital (*note 7*)	**5**	5
Deficit	**(5,345)**	(5,563)
	(5,340)	(5,558)
	1,184	1,569

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

[Original signed by]
Sheldon Dyck
Director

[Original signed by]
Ursula Holmsten
Chief Financial Officer

ATB Insurance Advisors Inc.
Statement of Changes in Equity

For the year ended March 31, 2014 ($ thousands, except for shares)

	Class A Common Shares	Share Capital $	Deficit $	Shareholder's Equity $
Balance at March 31, 2012	100	5	(5,614)	(5,609)
Share based payment	-	-	(92)	(92)
Net income and comprehensive income	-	-	143	143
Balance at March 31, 2013	100	5	(5,563)	(5,558)
Balance at March 31, 2013	100	5	(5,563)	(5,558)
Share based payment *(note 6.ii)*	-	-	226	226
Net (loss) and comprehensive (loss)	-	-	(8)	(8)
Balance at March 31, 2014	100	5	(5,345)	(5,340)

The accompanying notes are an integral part of these financial statements.

ATB Insurance Advisors Inc.
Statement of Operations and Comprehensive Income

For the year ended March 31, 2014 ($ thousands)

	March 31, 2014 $	March 31, 2013 $
Revenue		
Insurance commissions	**764**	855
	764	855
Administration and Selling expenses (*note 9*)		
Salaries and employee benefits (*note 10*)	**172**	212
Variable compensation expense	**93**	23
Office and administration	**230**	174
Professional fees	**49**	39
Referral fees paid to affiliates	**55**	93
Interest expense	**173**	171
	772	712
Net (loss) income and comprehensive (loss) income for the year	**(8)**	143

The accompanying notes are an integral part of these financial statements.

ATB Insurance Advisors Inc.
Statement of Cash Flows

For the year ended March 31, 2014 ($ thousands)

	March 31, 2014	March 31, 2013
Cash provided from (used in)	**$**	$
Operating activities		
Net (loss) income and comprehensive (loss) income for the year	**(8)**	143
Net change in non-cash working capital items		
Accounts receivable	**(10)**	73
Prepaid expenses	**2**	61
Due from affiliates	**393**	(682)
Accrued liabilities	**38**	(74)
Variable compensation payable	**12**	(35)
Unearned revenue	**(20)**	(6)
Long-term incentive plan	**3**	(62)
	418	(725)
Net cash from (used in) operating activities	**410**	(582)
Financing activities		
Equity settled share based payment	**-**	(1)
Due to ATB	**(410)**	574
Net cash (used in) from financing activities	**(410)**	573
Net change in cash	**-**	(9)
Cash – Beginning of year	**84**	93
Cash – End of year	**84**	84
Supplementary information		
Interest paid	**173**	171

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended March 31, 2014 ($ in thousands)

1. Nature of Operations and Economic Dependence

ATB Insurance Advisors Inc. ("ATBIA" or the "Company") is a wholly owned subsidiary of ATB Financial ("ATB") established to provide personal insurance products including but not limited to life insurance, disability insurance, critical illness insurance and annuities. As a provincial Crown corporation, ATBIA is exempt from income tax.

The continuing operations of ATBIA remain dependent upon ATB's ongoing financial support.

The address of the Company's registered office is:
2100 10020 - 100 Street
Edmonton, Alberta T5J 0N3

These financial statements have been approved for use by the Board of Directors on June 3, 2014.

2. Significant Accounting Policies

a. Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies adopted are consistent with those of the previous financial year. The policies applied in these financial statements are based on IFRS, issued and outstanding as of March 31, 2014.

ATBIA's financial statements are presented in Canadian dollars, ATBIA's primary operating currency. All references to $ are in Canadian dollars and references to US$ are to United States dollars.

These financial statements have been prepared under the historical cost conversion, except for the revaluation of certain assets and liabilities at fair value through income or equity.

b. Critical Accounting Judgements and Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of statement of financial position assets and liabilities and the disclosure of contingent assets and liabilities as at the statement of financial position date, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The following discussion outlines ATBIA's critical accounting estimates under IFRS:

i Provision for lapse of insurance policiess

Insurance policies that have been in force for less than two years are typically subject to a chargeback by the insurer when a policy lapses. The provision for lapses is estimated using a combination of historical internal lapse rates and observable industry lapse rates. Management exercises its judgement in determining whether historical rates are effective predictors of future lapse and may substitute industry rates where appropriate.

During the year ended March 31, 2014, management provided an allowance for lapsed insurance policies of $45 (March 31, 2013 - $67) representing 1% to 5.89% (depending on the policy) of total insurance commissions earned during the year (March 31, 2013 – 3.5% to 8%). This provision was posted as a reduction

to insurance commission revenue and is recorded as unearned revenue in the statement of financial position. The current portion of unearned revenue represents the provision for chargebacks expected to expire in the next fiscal year.

c. Cash

Cash consists of cash on deposit held with ATB.

d. Provisions and Contingencies

Provisions are recognized when it is more likely than not that an outflow of economic resources will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of ATBIA; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed, where significant, unless the probability of settlement is remote.

e. Revenue Recognition

ATBIA earns insurance commissions from selling insurance products to customers. Insurance commissions are recorded as revenue at the time the customer enters into a policy contract with an insurance provider represented by ATBIA. Commission agreements with insurance providers may include a chargeback clause which provides a right for the insurance provider to chargeback a proportion of commission received by ATBIA if the policy lapses within a specified period. The chargeback period generally expires in two years. As such, a portion of insurance commission revenue is deferred until the chargeback period expires. The deferred amount is estimated with reference to industry information available for similar contracts and will be revised over time to reflect ATBIA's actual lapsing experience. The provision for chargebacks is recorded as unearned revenue in the statement of financial position. The current portion of unearned revenue represents the provision for chargebacks expected to expire within 1 year.

f. Foreign Exchange

Transactions denominated in foreign currencies are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Financial assets and liabilities denominated in foreign currencies are translated into and presented in Canadian dollars at the rates in effect at the date of the statement of financial position. Revenues and expenses are translated at the rates prevailing at the respective transaction dates. Realized and unrealized gains and losses arising from these translations are included in the statement of operations and comprehensive loss.

g. Employee Future Benefits

ATBIA provides future benefits to current and past employees through the following plans:

i Accounting for Defined Contribution Plans

ATBIA provides its management employees with a registered pension plan. Contributions to the plan are expensed as they become due and are recorded in salaries and employee benefits in the statement of operations and comprehensive loss. Contributions payable at year-end are recorded in accrued liabilities.

ii Short Term Employee Benefits

Short term employee benefits, such as salaries, paid absences, and other benefits including any related payroll taxes are accounted for on an accrual basis over the period in which the employees provide the related services.

Certain employees of the Company are eligible to participate in a variable pay plan that allows them to share directly in the success of the Company. On an annual basis, employees may receive a lump sum payment that is based on the Company's achievement of its goals and performance targets.

All expenses related to employee benefits are recorded in the statement of operations and comprehensive loss as salaries and employee benefits or variable compensation expense.

iii Long Term Employee Benefits

ATBIA has an executive long term incentive plan (LTIP) for certain eligible employees of the Company. The plan provides an incentive for achieving success in execution of strategic objectives that create value and long term sustainability of the Company. Certain employees of the Company receive LTIP grants approved by the Board of Directors. The amounts are subject to annual appreciation and depreciation factors and are payable three years from the effective date of grant. Following the guidance in IAS 19 (revised) – the liability for LTIP is recorded at the present value of the grants that have vested as of the year-end date less an allowance for early termination. The liability for LTIP vests over three years from the date of the grant. Related expense is included in compensation expense.

h. Share Based Payments

Certain eligible employees of the Company have the opportunity to participate in a share-based

compensation plan of ATB. Under this plan, the Company receives services from employees as consideration for Achievement Notes issued by ATB (note 6(ii)). The obligation to settle the notes with employees is with ATB. This is a group plan where the awards are considered cash-settled by ATB and equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date. No compensation expense is recorded by the Company related to the awards when granted since the notes are issued to employees at fair value on the grant date.

Prior to December 31, 2013, the Company was charged by ATB for their share of subsequent changes in the fair value of the notes relating to employees providing a service to the Company as the awards vest to the employees. These charges were recorded as a payable to ATB (note 6(ii)) with a corresponding entry to deficit, similar to a distribution. By mutual agreement between the Company and ATB, effective December 31, 2013, the Company was absolved of this obligation and the unpaid liability accrued to that date was derecognized. This change was an operational decision, and not a change in accounting policy, and therefore enacted on a prospective basis. Any payments made up to December 31, 2013 were not reversed.

i. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition.

All financial assets and financial liabilities are initially recognized on the trade date. This is the date that ATBIA becomes a party to the contractual provisions of the instrument.

ATBIA derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

ATBIA derecognizes a financial liability when its contractual obligations are discharged or is cancelled or expires.

Classification

All financial instruments are initially recorded at fair value and are subsequently accounted for based on one of five classifications:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity;
- investments and available for sale financial assets; and
- other financial liabilities.

Management determines the classification of financial assets and liabilities at initial recognition.

Financial Assets

i Financial assets at fair value through profit or loss

Financial assets at fair value through profit and loss are financial assets held for trading.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to earnings. Gains and losses arising from changes in fair value are included directly in the statement of operations and are reported as other revenue or other expenses. Interest income and expense on financial assets held for trading are included in interest revenue or interest expense.

ATBIA has no financial instruments classified as held for trading at March 31, 2014.

ii Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. ATBIA has classified cash, accounts receivable and due from affiliates as loans and receivables. Loans and receivables are initially measured at fair value and subsequently recorded at amortized cost using the effective interest rate method.

iii Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that ATBIA's management has the intention and ability to hold to maturity.
They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently valued at amortized cost, using the effective interest method where applicable. ATBIA has no financial instruments classified as held-to maturity at March 31, 2014.

iv Investments and available for sale financial assets

Available for sale assets are non-derivative financial assets that are designated as available for sale and are not categorized into any of the other categories described above. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently recognized at fair value. Gains and losses arising from changes in fair value are included as a separate component of equity until sale, when the cumulative gain or loss is transferred to the statement of operations and comprehensive loss. Interest is determined using the effective interest method, and impairment losses and translation differences on monetary items are recognized in the statement of operations and comprehensive loss. ATBIA has no financial instruments classified as available for sale at March 31, 2014.

Impairment

ATBIA assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the statement of operations and comprehensive loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For practical reasons, ATBIA may measure impairment on the basis of an instrument's fair value using an observable market price.

Financial Liabilities

v Other liabilities measured at amortized cost

Other financial liabilities are measured at amortized cost. Accrued liabilities, variable compensation payable, due to ATB and long-term incentive plan are classified as other financial liabilities measured at amortized cost. These are measured initially at fair value and subsequently recorded at amortized cost using the effective interest rate method with any gains and losses in the realization of other financial liabilities included in income.

j. Financial Instruments – Estimated Fair Value

The fair value of a financial instrument is the the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence

of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

All of ATBIA's financial instruments except the long-term incentive plan are short-term in nature and their fair values are considered to be equal to their carrying values. These items include cash, accounts receivable, due from affiliates, accrued liabilities, variable compensation payable and due to ATB (note 6(i)). The fair value of the long-term incentive plan (note 10) is determined by discounting the face value of the obligation using an internal hurdle rate of 10% per annum.

3. Financial Instruments

i Fair Value Hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy based on the quality and reliability of the information used to estimate the fair value. The fair value hierarchy has the following levels:

- Level 1 – fair value based on quoted prices in active markets.
- Level 2 – fair value estimated using valuation techniques that use market-observable inputs other than quoted market prices.
- Level 3 – fair value estimated using inputs that are not based on observable market data.

Financial instruments recorded at fair value include the Company's long-term incentive plan (note 10). The fair value is determined by discounting the face value of the obligation using an internal hurdle rate of 10% per annum. The long-term incentive plan obligation has been classified as level 2 under the fair value hierarchy. There have been no transfers between levels during the year.

ii Financial risk management

ATBIA's financial instruments consist of cash, accounts receivable, due from affiliates, accrued liabilities, variable compensation payable, long-term incentive plan and due to ATB.

ATBIA's financial instruments are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. ATBIA's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on ATBIA's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

Market Risk

Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. There are three types of market risk: currency risk, interest rate risk and price risk.

Currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. Risk exists that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ATBIA does not hold significant financial instruments denominated in foreign currencies and therefore is not exposed to currency risk.

Interest rate risk

ATBIA is subject to interest rate cash flow risk as its amount due to ATB (note 6(i)) is subject to interest rate fluctuations and the degree of volatility in these rates. ATBIA does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant.

Price risk

ATBIA is not exposed to financial market pricing risk as no financial instruments held by the Company will fluctuate as a result of changes in market prices.

Credit Risk

Credit risk is the risk that the counter party to a financial asset will default resulting in a financial loss to ATBIA. ATBIA is exposed to credit risk primarily through its cash, accounts receivable and due from affiliates balances.

Cash is on deposit with ATB, an Alberta Crown Agent from which management believes the risk of loss is remote.

Accounts receivable are primarily composed of insurance commissions receivable from large and reputable insurance companies from whom the risk of loss is deemed to be insignificant. Management has not provided an allowance for doubtful accounts on accounts receivable as the Company has historically no collection losses on amounts owing from insurance companies and believes collectability is reasonably assured.

The inherent risk on due from affiliates is effectively mitigated by the fact management is involved in the operations of those entities from which the Company is owed.

The Company's maximum credit exposure is $1,184 which is the sum of cash, accounts receivable and due from affiliates.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by closely monitoring the level of cash available to meet its operating obligations and whether additional funding is required through its parent company, ATB. The Company's financial liabilities giving rise to liquidity risk, which are considered short term (due on demand or within 30 days), include accrued liabilities, variable compensation payable, current portion of long term incentive plan and due to ATB (note 6(i)).

4. Accounting Changes

New and amended accounting standards adopted by the Company

The following standards have been adopted by the Company effective April 1, 2013:

Amendment to IAS 1, Financial statement presentation
Amendment to IFRS 7, Financial instruments: Disclosures
IAS 19, *Employee benefits (amended)*
IFRS 10, *Consolidated financial statements*
IFRS 11, *Joint arrangements*

IFRS 12, *Disclosure of interests in other entities*
IFRS 13, *Fair value measurement*

The adoption of these new standards and amendments to existing standards did not impact the financial statements other than certain note disclosures.

New accounting standards and interpretations not yet adopted

IFRS 9, *Financial Instruments*
Financial instruments amends the classification and measurement criteria for financial instruments included within the scope of IAS 39, Financial Instruments: Recognition and Measurements. IFRS 9 will be published in three phases, of which only the first phase has been published. The first phase addresses the accounting for financial assets and financial liabilities. The second phase will address the impairment of financial instruments, and the third phase will address hedge accounting. For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Although the classification criteria for financial liabilities will not change under IFRS 9, the approach to the fair value option for financial liabilities may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with different transitional arrangements depending on the date of initial application. ATBIA is currently evaluating the impact of adopting IFRS 9 on its financial statements.

IAS 32, *Financial Instruments – Presentation*
IAS 32 was amended to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. This amendment is effective for annual periods beginning on or after January 1, 2014.

IAS 36, *Impairment of Assets*
These amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. IAS 36 is effective for annual periods beginning on or after January 1, 2014.

IFRIC 21, *Levies*
IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. These amendments are effective for annual periods beginning on or after January 1, 2014.

Annual improvements
These amendments include changes from the 2010-12 cycle of the annual improvements project that affect the following standards:

IFRS 2, *Share-based payment*
IFRS 3, *Business Combinations*
IFRS 8, *Operating segments*
IFRS 13, *Fair value measurement*
IAS 16, *Property, plant and equipment*
IAS 40, *Investment property*.

These amendments are effective for annual periods beginning on or after January 1, 2014.

ATBIA has evaluated the aforementioned accounting standards which are effective for annual periods beginning on or after January 1, 2014 and with the exception of some minor changes to the Company's note disclosures there is no significant impact to the Company's financial statements.

5. Due from Affiliates

In the normal course of operations ATBIA pays referral fees to ATB Securities Inc. ("ATBSI"). Alternatively, ATBIA may pay for certain expenses on behalf of ATB Investment Management Inc. ("ATBIM") and ATBSI. These amounts are duly recorded as payables in each of ATBIM's and ATBSI's accounts. The amounts due from affiliates arising from these transactions are generally settled in the following month and are not subject to interest charges.

The amounts due from affiliates are as follows:

	March 31, 2014 $	March 31, 2013 $
Due from ATBSI	**818**	1,170
Due from ATBIM	**267**	308
	1,085	1,478

6. Due to ATB

i Amounts Due to ATB and Incurred in the Normal Course of Operations

In the normal course of operations, ATB pays certain expenses on behalf of ATBIA. The amounts due to ATB arising from these transactions are as follows:

	March 31, 2014 $	March 31, 2013 $
Due to ATB	**6,353**	6,761

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2014 was 3.00% (March 31, 2013 – 3.00%).

ii Amounts Due to ATB relating to Achievement Notes

ATB sells Principal at Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Investor Services brand name. Under this plan, eligible employees are provided an opportunity to purchase a 25-year note with a rate of return linked to the value of ATB Investor Services, including ATBIA. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

Each note holder is entitled to:

- A cash payment at maturity representing the original invested amount adjusted for a proportionate share in the change in fair value of ATB Investor Services.
- Cash distributions, if any, based on the net positive dividends paid by ATB Investor Services to ATB.

There is no public market for these notes; thus the valuation is based on a model prepared annually by an external consultant using market data where available. This valuation model was used to establish the initial purchase price of the notes and the changes in fair value period to period until the notes mature.

The notes are not redeemable at the option of the note holder, or ATB, prior to maturity, subject to the occurrence of an extraordinary event for ATB (i.e., winding up, dissolution, or liquidation of ATB) or a catastrophic event for the note holder. The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the valuation of the ATB Investor Services reduces, that the note holder will lose some or all of the original investment.

To the extent that notes were redeemed at fair market value, prior to December 31, 2013, the Company has reimbursed ATB, through equity distributions, for payments made to employees of the Company in excess of the original subscription amount. However, by mutual agreement between the Company and ATB, effective December 31, 2013 the Company is absolved of any future obligation to make equity distributions to ATB related to the achievement note program and as a result the liability was forgiven with a corresponding increase to the Company's equity.

A reconciliation of the amounts due to ATB arising from the issuance of the Achievement Notes are as follows:

	March 31, 2014 $	March 31, 2013 $
Opening	**226**	135
Redemption of achievement notes	-	(1)
Appreciation of achievement notes (share based payment)	-	92
Reversal of achievement notes liability through equity	**(226)**	-
	-	226

As at March 31, 2014 the liability recorded by ATB with regards to ATBIA achievement notes is $536. The change in the liability from the prior year balance of $338 is a result of $198 due to appreciation of the achievement

notes. These amounts differ from those recorded by ATBIA as the initial achievement note subscription did not create a liability on the Company's financial statements.

7. Share Capital (shares not in thousands)

Authorized:

Unlimited number of Class A voting, common shares without nominal or par value

Unlimited number of Class B non-voting, common shares without nominal or par value

Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share

Issued and outstanding:

Amortization expense charged to the statement of operations and comprehensive income for the year ended March 31, 2013 was $nil (March 31, 2012 – $83).

Class A common shares	March 31, 2014	March 31, 2013
Shares #	100	100
Amount	$5	$5

8. Capital Disclosure

ATBIA's objectives in managing its capital, which is defined as shareholder's equity, are:

- to safeguard ATBIA's ability to operate as a going concern; and
- to provide financial capacity and flexibility to meet its strategic objectives.

The capital structure of ATBIA is managed and adjusted to reflect changes in economic conditions. In order to maintain or adjust the capital structure, adjustments may be made to the number of new common shares issued. In support thereof, management reviews the financial position of ATBIA on a monthly and cumulative basis. ATBIA works towards managing its capital objectives to the extent possible while facing the challenges of market conditions. ATBIA's capital management objectives have not changed over the periods presented.

9. Related-Party Transactions

In the normal course of operations, ATBIA pays referral fees to ATBSI. ATB also charges ATBIA for various administrative and selling services, as well as charging interest on amounts owing to ATB (note 6(i)).

A summary of these transactions are as follows:

Related Party	Transactions	Recorded as	March 31, 2014 $	March 31, 2013 $
	Administration and Selling Expenses			
ATBSI	Referral fees	Referral fees paid to affiliates	**54**	93
ATB	Administrative services	Office and administration	**2**	2
ATB	IT and rent	Office and administration	**141**	90
			197	185
	Interest Expense			
ATB	Interest expense	Interest expense	**173**	171

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Compensation of Key Management Personnel

Under IFRS key management personnel are defined as 'those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity'.

Key management personnel compensation comprises:

	March 31, 2013 $	March 31, 2012 $
Short term employee benefits	**13**	153
Deferred compensation	**3**	1
Retirement and post employment benefits	**1**	14
	17	168

10. Employee Future Benefits

ATBIA provides future benefits to current and past employees through defined contribution plans. Funding contributions are expensed as they become due and are recorded in salaries and employee benefits in the statement of operations and comprehensive loss. For the year ended March 31, 2014, expenses related to the defined contribution plan provision were $15 (March 31, 2013 – $14).

As at March 31, 2014, the total obligation for LTIP was $12 of which $5 has vested. The present value of the grants that have vested amounts to $4 which is recorded on the statement of financial position. Once the LTIP grants have fully vested, $1 will become payable in June 2014, $2 will become payable in June 2015, and the remaining $9 will become payable in June 2016. The related expense is recorded in variable compensation expense.

11. Restructuring

In May 2013, ATBIA entered into an agreement with PPI Partners and PPI Solutions Inc. (together as PPI) to provide sales management services. These services include but are not limited to: recruitment, handling insurance company queries, assisting with chargeback recovery, contract support, and reporting. Under this agreement, commissions generated will be split between the insurance advisor, PPI and ATBIA.

There were no direct costs associated with the aforementioned restructuring and there is no financial commitment owed to PPI as part of the arrangement.

12. Comparative Figures

Certain comparative figures have been reclassified to conform to current year's presentation.

ATB INVESTMENT MANAGEMENT INC.

Financial Statements

Year Ended March 31, 2014

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of ATB Financial, which comprise the consolidated statement of financial position as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ATB Financial as at March 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General
May 29, 2014
Edmonton, Alberta

ATB Investment Management Inc.
Statement of Financial Position

As at March 31, 2014 ($ thousands)

	March 31, 2014	March 31, 2013
ASSETS	**$**	$
Current assets		
Cash	**1,713**	3,923
Accounts receivable	**10,527**	7,632
Prepaid expenses	**285**	270
	12,525	11,825
Non-curent assets (*note 7*)		
Software	**697**	1,139
	697	1,139
	13,222	12,964
LIABILITIES		
Current liabilities		
Accrued liabilities	**4,053**	3,154
Variable compensation payable	**1,338**	943
Due to affiliates (*note 5*)	**545**	690
Due to ATB (*note 6.i*)	**1,726**	1,968
Current portion of long-term incentive plan (*note 11*)	**66**	-
	7,728	6,755
Long term liabilities		
Long-term incentive plan (*note 11*)	**126**	69
Due to ATB (*note 6.ii*)	**-**	2,446
	7,854	9,270
SHAREHOLDER'S EQUITY		
Share capital (*note 8*)	**5**	5
Retained earnings	**5,363**	3,689
	5,368	3,694
	13,222	12,964

Capital restrictions (*note 9*)

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

[Original signed by]
Sheldon Dyck
Director

[Original signed by]
Ursula Holmsten
Chief Financial Officer

ATB Investment Management Inc.
Statement of Changes in Equity

For the year ended March 31, 2014 ($ thousands, except for shares)

	Class A Common Shares	Share Capital $	Retained Earnings $	Shareholder's Equity $
Balance at March 31, 2012	100	5	4,045	4,050
Dividends paid	-	-	(9,000)	(9,000)
Share based payment	-	-	(965)	(965)
Net income and comprehensive income	-	-	9,609	9,609
Balance at March 31, 2013	100	5	3,689	3,694
Balance at March 31, 2013	100	5	3,689	3,694
Dividends paid	-	-	(18,000)	(18,000)
Share based payment (*note 6.ii*)	-	-	2,445	2,445
Net income and comprehensive income	-	-	17,229	17,229
Balance at March 31, 2014	100	5	5,363	5,368

The accompanying notes are an integral part of these financial statements.

ATB Investment Management Inc.
Statement of Operations and Comprehensive Income

For the year ended March 31, 2014 ($ thousands)

	March 31, 2014 $	March 31, 2013 $
Revenue (*note 10*)		
Investment management fees	**71,862**	48,903
Managed account fees	**8,576**	7,061
Interest revenue	**94**	75
Securities commissions	**89**	-
Other revenue	**21**	33
	80,642	56,072
Administration and Selling expenses (*note 10*)		
Trailing commission	**38,520**	27,648
Fund management & Professional fees	**13,678**	10,603
Salaries and employee benefits (*note 11*)	**4,904**	3,532
Variable compensation expense (*note 11*)	**3,123**	2,084
Other expenses	**2,454**	1,896
Amortization expense (*note 7*)	**730**	693
Interest expense	**4**	7
	63,413	46,463
Net income and comprehensive income for the year	**17,229**	9,609

The accompanying notes are an integral part of these financial statements.

ATB Investment Management Inc.
Statement of Cash Flows (unaudited)

For the year ended March 31, 2014 ($ thousands)

	March 31, 2014	March 31, 2013
Cash provided from (used in)	**$**	$
Operating activities		
Net income and comprehensive income for the year	**17,229**	9,609
Items not affecting cash		
Amortization of equipment	**-**	2
Amortization of software and other intangibles	**730**	691
	17,959	10,302
Net change in non-cash working capital items		
Accounts receivable	**(2,896)**	(1,740)
Prepaid expenses	**(15)**	(43)
Accrued liabilities	**899**	1,313
Variable compensation payable	**395**	283
Due to affiliates	**(145)**	344
Long-term incentive plan	**122**	(130)
	(1,640)	27
Net cash from operating activities	**16,319**	10,329
Investing activities		
Securities held for trading	**-**	65
Purchase of software	**(288)**	(243)
Net cash (used in) investing activities	**(288)**	(178)
Financing activities		
Due to ATB	**(241)**	417
Dividends paid	**(18,000)**	(9,000)
Equity settled share based payments	**-**	(69)
Net cash (used in) financing activities	**(18,241)**	(8,652)
Net change in cash	**(2,210)**	1,499
Cash – Beginning of year	**3,923**	2,424
Cash – End of year	**1,713**	3,923
Supplementary information		
Interest paid	**4**	7
Interest received	**94**	75

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended March 31, 2013 ($ in thousands)

1. Nature of Operations

ATB Investment Management Inc. ("ATBIM" or the "Company") is a wholly owned subsidiary of ATB Financial ("ATB") established to facilitate managing a family of ATB ("Compass") mutual fund portfolios and providing portfolio management services to high net worth clientele. As a provincial Crown corporation, ATBIM is exempt from income tax. ATBIM is registered as a Portfolio Manager and Investment Fund Manager with the Alberta Securities Commission ("ASC").

The address of the Company's registered office is:
2100 10020 - 100 Street
Edmonton, Alberta T5J 0N3

These financial statements have been approved for use by the Board of Directors on June 3, 2014.

2. Significant Accounting Policies

a. Basis of Preparation

These financial statements are prepared in accordance with the financial reporting framework specified in subsection 3.2(3)(a) of National Instrument 52-107, Acceptable Accounting Principles and Auditing Standards for financial statements delivered by registrants (the "Framework"). The Framework requires the financial statements to be prepared in accordance with Canadian generally accepted accounting principles applicable to publicly accountable enterprises, as set out in the CPA Canada Handbook, except that any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27.

Accordingly, readers are cautioned that these financial statements may not be appropriate for other purposes. In 2010, the CPA Canada Handbook was revised to incorporate International Financial Reporting Standards, and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011.

ATBIM's financial statements are presented in Canadian dollars, ATBIM's primary operating currency. All references to $ are in Canadian dollars and references to US$ are to United States dollars.

These financial statements have been prepared under the historical cost conversion, except for the revaluation of certain assets and liabilities at fair value through income or equity.

b. Critical Accounting Judgements and Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of statement of financial position assets and liabilities and the disclosure of contingent assets and liabilities as at the statement of financial position date, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The following discussion outlines ATBIM's critical accounting estimates under the Framework:

i Depreciation and amortization methods

Computer equipment and software are depreciated and amortized over their estimated useful lives. Useful lives are determined based on current facts and past experience and take into consideration the anticipated physical life of the asset, existing long-term agreements and contracts, current and forecasted demand and the potential for technological obsolescence. While these useful life estimates are reviewed on a regular basis and depreciation calculations are revised accordingly, actual lives may differ from the estimates.

c. Cash

Cash consists of cash on deposit held with ATB.

d. Computer Equipment

Computer equipment is carried at cost less accumulated depreciation and provisions for impairment, if any, and is depreciated on a straight-line basis over its estimated useful life. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its useful economic life. No depreciation is calculated on assets under construction or development until the assets are available for use. The estimated useful life for computer equipment ranges from 3 to 5 years.

Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of computer equipment are kept under review to take account of any change in circumstances. Gains and losses on the disposal of computer equipment are recorded in the statement of operations and comprehensive income in the year of disposal.

e. Software

Software is carried at cost less accumulated amortization and provisions for impairment, if any, with cost amortized on a straight-line basis over estimated useful lives. No amortization is calculated on software under construction or development until the assets are available for use. The estimated useful life for software is 3 to 5 years.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefits will flow to ATBIM, and the cost can be measured reliably. Eligible costs include external direct costs for materials and services, as well as payroll and payroll related costs for employees directly associated with an internally developed software project.

f. Impairment of Computer Equipment and Software

Computer equipment and software in use are subject to impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Software not ready for use is tested for impairment annually. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

g. Provisions and Contingencies

Provisions are recognized when it is more likely than not that an outflow of economic resources will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the

time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of ATBIM; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed, where significant, unless the probability of settlement is remote.

h. Revenue Recognition

Investment management fees are based on net asset values of the Compass mutual fund portfolios and are recognized on an accrual basis. Managed account revenue includes fees earned from clients for management of their investment assets and is recorded on an accrual basis. Interest revenue includes interest earned on cash deposits with ATB and is recorded on as it is received. Security commissions and other revenue are recognized as they are received.

i. Foreign Exchange

Transactions denominated in foreign currencies are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Financial assets and liabilities denominated in foreign currencies are translated into and presented in Canadian dollars at the rates in effect at the date of the statement of financial position. Revenues and expenses are translated at the rates prevailing at the respective transaction dates. Realized and unrealized gains and losses arising from these translations are included in the statement of operations and comprehensive income.

j. Employee Future Benefits

ATBIM provides future benefits to current and past employees through the following plans:

i Accounting for Defined Contribution Plans

ATBIM provides its management employees with a registered pension plan. Contributions to the plan are expensed as they become due and are recorded in salaries and employee benefits in the statement of operations and comprehensive income. Contributions payable at year-end are recorded in accrued liabilities.

ii Short Term Employee Benefits

Short term employee benefits, such as salaries, paid absences, and other benefits including any related payroll taxes are accounted for on an accrual basis over the period in which the employees provide the related services.

Certain employees of the Company are eligible to participate in a variable pay plan that allows them to share directly in the success of the Company. On an annual basis, employees may receive a lump sum payment that is based on the Company's achievement of its goals and performance targets.

All expenses related to employee benefits are recorded in the statement of operations and comprehensive income as salaries and employee benefits or variable compensation expense.

iii Long Term Employee Benefits

ATBIM has an executive long term incentive plan (LTIP) for certain eligible employees of the Company. The plan provides an incentive for achieving success in execution of strategic objectives that create value and long term sustainability of the Company. Certain employees of the Company receive LTIP grants approved by the Board of Directors. The amounts are subject to annual appreciation and depreciation factors and are payable three years from the effective date of grant. Following the guidance in IAS 19 (revised) – Employee Benefits, the liability for LTIP is recorded at the present value of the grants that have vested as of the year-end date less an allowance for early termination. The liability for LTIP vests over three years from the date of the grant. Related expense is included in compensation expense.

k. Share Based Payments

Certain eligible employees of the Company have the opportunity to participate in a share-based

compensation plan of ATB. Under this plan, the Company receives services from employees as consideration for Achievement Notes issued by ATB (note 6.ii). The obligation to settle the notes with employees is with ATB. This is a group plan where the awards are considered cash-settled by ATB and equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date. No compensation expense is recorded by the Company related to the awards when granted since the notes are issued to employees at fair value on the grant date.

Prior to December 31, 2013 the Company was charged by ATB for their share of subsequent changes in the fair value of the notes relating to employees providing a service to the Company as the awards vest to the employees. These charges were recorded as a payable to ATB (note 6.ii) with a corresponding entry to retained earnings, similar to a distribution. By mutual agreement between the Company and ATB, effective December 31, 2013, the Company was absolved of this obligation and the unpaid liability accrued to that date was derecognized. This change was an operational decision, and not a change in accounting policy, and therefore enacted on a prospective basis. Any payments made up to December 31, 2013 were not reversed.

l. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition.

All financial assets and financial liabilities are initially recognized on the trade date. This is the date that ATBIM becomes a party to the contractual provisions of the instrument.

ATBIM derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

ATBIM derecognizes a financial liability when its contractual obligations are discharged or is cancelled or expires.

Classification

All financial instruments are initially recorded at fair value and are subsequently accounted for based on one of five classifications:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity;
- investments and available for sale financial assets; and
- other financial liabilities.

Management determines the classification of financial assets and liabilities at initial recognition.

Financial Assets

i Financial assets at fair value through profit or loss

Financial assets at fair value through profit and loss are financial assets held for trading.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to earnings. Gains and losses arising from changes in fair value are included directly in the statement of operations and are reported as other revenue or other expenses. Interest income and expense on financial assets held for trading are included in interest revenue or interest expense.

At March 31, 2014 ATBIM has no financial assets classified as held for trading.

ii Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. ATBIM has classified cash and accounts receivable as loans and receivables. Loans and receivables are initially measured at fair value and subsequently recorded at amortized cost using the effective interest rate method.

iii Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that ATBIM's management has the intention and ability to hold to maturity.
They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently valued at amortized cost, using the effective interest method where applicable. ATBIM has no financial instruments classified as held-to maturity at March 31, 2014.

iv Investments and available for sale financial assets

Available for sale assets are non-derivative financial assets that are designated as available for sale and are not categorized into any of the other categories described above. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently recognized at fair value. Gains and losses arising from changes in fair value are included as a separate component of equity until sale, when the cumulative gain or loss is transferred to the statement of operations and comprehensive income. Interest is determined using the effective interest method, and impairment losses and translation differences on

monetary items are recognized in the statement of operations and comprehensive income. ATBIM has no financial instruments classified as available for sale at March 31, 2014.

Impairment

ATBIM assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the statement of operations and comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For practical reasons, ATBIM may measure impairment on the basis of an instrument's fair value using an observable market price.

Financial Liabilities

v Other liabilities measured at amortized cost

Other financial liabilities are measured at amortized cost. Accrued liabilities, variable compensation payable, due to ATB and affiliates and long-term incentive plan are classified as other financial liabilities measured at amortized cost. These are measured initially at fair value and subsequently recorded at amortized cost using the effective interest rate method with any gains and losses in the realization of other financial liabilities included in income.

m. Financial Instruments – Estimated Fair Value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

All of ATBIM's financial instruments, except the long term incentive plan, are short-term in nature and their fair values are considered to be equal to their carrying values. These items include cash, accounts receivable, accrued liabilities, variable compensation payable, due to ATB (note 6.i) and due to affiliates. The fair value of the long-term incentive plan (note 11) is determined by discounting the face value of the obligation using an internal hurdle rate of 10% per annum.

3. Financial Instruments

i Fair Value Hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy based on the quality and reliability of the information used to estimate the fair value. The fair value hierarchy has the following levels:

- Level 1 – fair value based on quoted prices in active markets.
- Level 2 – fair value estimated using valuation techniques that use market-observable inputs other than quoted market prices.
- Level 3 – fair value estimated using inputs that are not based on observable market data.

Financial instruments recorded at fair value include the Company's long-term incentive plan (note 11). The fair value is determined by discounting the face value of the obligation using an internal hurdle rate of 10% per annum. The long-term incentive plan obligation has been classified as level 2 under the fair value hierarchy. There have been no transfers between levels during the year.

ii Financial Risk Management

ATBIM's financial instruments consist of cash, accounts receivable, accrued liabilities, variable compensation payable, long-term incentive plan, due to ATB and due to affiliates.

ATBIM's financial instruments are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. ATBIM's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on ATBIM's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

Market Risk

Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. There are three types of market risk: currency risk, interest rate risk and price risk.

Currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. Risk exists that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ATBIM does not hold significant amounts of financial instruments denominated in foreign currencies and therefore is not exposed to currency risk.

Interest rate risk

ATBIM is subject to interest rate cash flow risk as its amount due to ATB (note 6.i) is subject to interest rate fluctuations and the degree of volatility in these rates. ATBIM does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant.

As at March 31, 2014, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB (note 6.i) would be approximately $17 (March 31, 2013 - $20).

Price risk

ATBIM is not exposed to financial market pricing risk since there are no financial instruments held by the Company, which will fluctuate as a result of changes in market prices.

Credit Risk

Credit risk is the risk that the counter party to a financial asset will default resulting in a financial loss to ATBIM. ATBIM is exposed to credit risk through its cash and accounts receivable balances.

The Company has deposited cash with its parent company, ATB, an Alberta Crown Agent, from which management believes the risk of loss is remote.

The Company's exposure to credit risk is limited to the compass mutual fund portfolios and customer accounts. At March 31, 2014 ATBIM recorded $7,516 (March 31, 2013 - $5,271) receivable from the Compass mutual fund portfolios from which management believes the risk of loss to be insignificant. The risk inherent on ATBIM's remaining accounts receivable balance of $3,011 (March 31, 2013 - $2,361) is effectively mitigated by the Company's diverse customer base. Management deems the risk from customer accounts to be insignificant as fees from clients are received directly from client portfolios and historically ATBIM has not had credit losses on these balances. Management has not provided an allowance for doubtful accounts on these balances as it believes collectability is reasonably assured.

The Company's maximum credit exposure is $12,240 as at March 31, 2014, which is the sum of its cash and accounts receivable balances.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by closely monitoring the level of cash available to meet its operating obligations and whether additional funding is required through its parent company, ATB.

The Company's financial liabilities giving rise to liquidity risk, which are considered short term (due on demand or within 30 days), include accrued liabilities, variable compensation payable, due to ATB (note 6.i), due to affiliates and the current portion of the long term incentive plan obligation.

4. Future Accounting Changes

New and amended accounting standards adopted by the Company

The following standards have been adopted by the Company effective April 1, 2013:

Amendment to IAS 1, *Financial statement presentation*
Amendment to IFRS 7, *Financial instruments: Disclosures*
IAS 19, *Employee benefits (amended)*
IFRS 10, *Consolidated financial statements*
IFRS 11, *Joint arrangements*
IFRS 12, *Disclosure of interests in other entities*
IFRS 13, *Fair value measurement*

The adoption of these new standards and amendments to existing standards did not impact the financial statements other than certain note disclosures.

New accounting standards and interpretations not yet adopted

IFRS 9, *Financial Instruments*

Financial instruments amends the classification and measurement criteria for financial instruments included within the scope of IAS 39, Financial Instruments: Recognition and Measurements. IFRS 9 will be published in three phases, of which only the first phase has been published. The first phase addresses the accounting for

financial assets and financial liabilities. The second phase will address the impairment of financial instruments, and the third phase will address hedge accounting. For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Although the classification criteria for financial liabilities will not change under IFRS 9, the approach to the fair value option for financial liabilities may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with different transitional arrangements depending on the date of initial application. ATBIM is evaluating the impact of adopting IFRS 9 on its financial statements.

IAS 32, *Financial Instruments – Presentation*
IAS 32 was amended to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. This amendment is effective for annual periods beginning on or after January 1, 2014.

IAS 36, *Impairment of Assets*
These amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. IAS 36 is effective for annual periods beginning on or after January 1, 2014.

IFRIC 21, *Levies*
IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. These amendments are effective for annual periods beginning on or after January 1, 2014.

Annual improvements
These amendments include changes from the 2010-12 cycle of the annual improvements project that affect the following standards:

IFRS 2, *Share-based payment*
IFRS 3, *Business Combinations*
IFRS 8, *Operating segments*
IFRS 13, *Fair value measurement*
IAS 16, *Property, plant and equipment*
IAS 40, *Investment property*.

These amendments are effective for annual periods beginning on or after January 1, 2014.

ATBIM has evaluated the aforementioned accounting standards which are effective for annual periods beginning on or after January 1, 2014 and with the exception of some minor changes to the Company's note disclosures there is no significant impact to the financial statements.

5. Due to Affiliates

In the normal course of operations, ATBIM pays trailing commissions to ATB Securities Inc. ("ATBSI"). ATBSI collects client fees on behalf of ATBIM. ATBSI and ATB Insurance Advisors Inc. ("ATBIA") may pay for certain expenses on behalf of ATBIM. Alternatively, ATBIM may pay for certain expenses on behalf of ATBSI and ATBIA. The amounts due to ATBSI and ATBIA are generally settled in the following month and are not subject to interest charges.

The amounts due to affiliates are as follows:

	March 31, 2014 $	March 31, 2013 $
Due to ATBSI	**278**	382
Due to ATBIA	**267**	308
	545	690

6. Due to ATB

i Amounts Due to ATB and Incurred in the Normal Course of Operations

In the normal course of operations, ATB pays certain expenses and collects certain revenues on behalf of ATBIM. The amounts due to ATB are generally settled in the following month.

The amounts due to ATB arising from these transactions are as follows:

	March 31, 2014 $	March 31, 2013 $
Due to ATB	**1,726**	1,968

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2014 was 3.00% (March 31, 2013 – 3.00%).

ii Amounts Due to ATB relating to Achievement Notes

ATB sells Principal at Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Investor Services brand name. Under this plan, eligible employees are provided an opportunity to purchase a 25-year note with a rate of return linked to the value of ATB Investor Services, including ATBIM. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

Each note holder is entitled to:

- A cash payment at maturity representing the original invested amount adjusted for a proportionate share in the change in fair value of ATB Investor Services.
- Cash distributions, if any, based on the net positive dividends paid by ATB Investor Services to ATB.

There is no public market for these notes; thus the valuation is based on a model prepared annually by an external consultant using market data where available. This valuation model was used to establish the initial purchase price of the notes and the changes in fair value period to period until the notes mature.

The notes are not redeemable at the option of the note holder, or ATB, prior to maturity, subject to the occurrence of an extraordinary event for ATB (i.e., winding up, dissolution, or liquidation of ATB) or a catastrophic event for the note holder. The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the valuation of ATB Investor Services reduces, that the note holder will lose some or all of the original investment.

To the extent that notes were redeemed at fair market value, prior to December 31, 2013, the Company has reimbursed ATB, through equity distributions, for payments made to employees of the Company in excess of the original subscription amount. However, by mutual agreement between the Company and ATB, effective December 31, 2013, the Company is absolved of any future obligation to make equity distributions to ATB related to the achievement note program and as a result the liability was forgiven with a corresponding increase of the Company's equity.

A reconciliation of the amounts due to ATB arising from the issuance of the Achievement Notes are as follows:

	2014 **$**	2013 $
Opening	**2,446**	1,550
Redemption of achievement notes	**(1)**	(69)
Appreciation of achievement notes (share based payment)	**-**	965
Reversal of achievement notes liability through equity	**(2,445)**	-
	-	2,446

As at March 31, 2014 the liability recorded by ATB with regards to ATBIM achievement notes is $6,225. The change in the liability from the prior year balance of $3,741 is a result of $257 in new subscriptions, $3 in achievement notes redeemed during the year and a corresponding increase of $2,230 due to appreciation of the achievement notes. These amounts differ from those recorded by ATBIM as the initial achievement note subscription did not create a liability on the Company's financial statements.

7. Property and Equipment and Intangibles

	Computer Equipment $	Software $	Computer Equipment under development $	Software under development $	Total $
Cost					
Balance at March 31, 2012	27	3,906	-	-	3,933
Additions	-	-	-	243	243
Balance at March 31, 2013	27	3,906	-	243	4,176
Balance at March 31, 2013	27	3,906	-	243	4,176
Additions	-	463	-	288	751
Transfer to completed asset	-	-	-	(463)	(463)
Disposals	(27)	(135)	-	-	(162)
Balance at March 31, 2014	-	4,234	-	68	4,302
Depreciation					
Balance at March 31, 2012	25	2,319	-	-	2,344
Amortization for the year	2	691	-	-	693
Balance at March 31, 2013	27	3,010	-	-	3,037
Balance at March 31, 2013	27	3,010	-	-	3,037
Amortization for the year	-	730	-	-	730
Disposals	(27)	(135)	-	-	(162)
Balance at March 31, 2014	-	3,605	-	-	3,605
Carrying Amounts					
Balance at March 31, 2013	-	896	-	243	1,139
Balance at March 31, 2014	-	629	-	68	697

Amortization expense charged to the statement of operations and comprehensive income for the year ended March 31, 2014 was $730 (March 31, 2013 – $693). There were no impairments recognized during the year ended March 31, 2014 (March 31, 2013 – $nil).

8. Share Capital (shares not in thousands)

Authorized:

Unlimited number of Class A voting, common shares without nominal or par value

Unlimited number of Class B non-voting, common shares without nominal or par value

Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share

Class A common shares	**March 31, 2014**	March 31, 2013
Shares issued and outstanding	**100**	100
Amount	**$5**	$5

9. Capital Disclosure

ATBIM's objectives in managing its capital, which is defined as shareholder's equity, are:

- to safeguard ATBIM's ability to operate as a going concern;
- to provide financial capacity and flexibility to meet its strategic objectives; and
- to maintain at all times working capital sufficient in size to satisfy the ASC's minimum excess working capital requirements.

The Company has met the ASC's minimum excess working capital requirement throughout the year.

The capital structure of ATBIM is managed and adjusted to reflect changes in economic conditions. In order to maintain or adjust the capital structure, adjustments may be made to the number of new common shares issued. In support thereof, management reviews the financial position of ATBIM on a monthly and cumulative basis. ATBIM works towards managing its capital objectives to the extent possible while facing the challenges of market conditions. ATBIM's capital management objectives have not changed over the periods presented.

10. Related-Party Transactions

In the normal course of operations, ATB charges ATBIM for various administrative and selling services, as well as charging interest on amounts owing to ATB (note 6 (i)). In addition, ATBSI charges ATBIM for client referral fees and for costs incurred related to transaction processing for ATBIM clients. ATBSI charges trailing commission fees to ATBIM on the sale of mutual funds. Where determinable, ATB allocates costs for employees of ATB providing services to ATBIM.

A summary of these transactions are as follows:

Related Party	Transactions	Recorded as	March 31, 2014 $	March 31, 2015 $
	Revenue			
Compass	Management fees	Investment management fees	**69,231**	47,063
ATB	Interest income	Interest revenue	**94**	75
			69,325	47,138
	Administrative and selling expenses			
ATBSI	Trailer fees	Trailing commission	**38,493**	27,632
ATB	Professional Services	Professional fees	**128**	114
ATB	Information technology and rent	Other expenses	**681**	568
ATB	Marketing	Other expenses	**101**	101
ATBSI	Client referral fees	Professional fees	**1,650**	1,641
ATBSI	Transaction fees	Other expenses	**-**	503
			41,053	30,559
	Interest expense			
ATB	Other interest expense	Interest expense	**4**	7

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Compensation of Key Management Personnel

Under the Framework key management personnel are defined as 'those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity'.

Key management personnel compensation comprises:

	March 31, 2014 $	March 31, 2013 $
Short term employee benefits	**1,567**	1,513
Deferred compensation	**116**	49
Retirement and post employment benefits	**95**	92
	1,778	1,654

11. Employee Future Benefits

ATBIM provides future benefits to current and past employees through defined contribution plans. Funding contributions are expensed as they become due and are recorded in salaries and employee benefits in the statement of operations and comprehensive income. For the year ended March 31, 2014, expenses related to the defined contribution plan provision were $566 (March 31, 2013 – $331).

As at March 31, 2014, the total obligation for LTIP was $416 of which $222 has vested. The present value of the grants that have vested amounts to $192 which is recorded on the statement of financial position. Once the LTIP grants have fully vested, $70 will become payable in June 2014, $111 will become payable in June 2015, and the remaining $235 will become payable in June 2016. The related expense is recorded in variable compensation expense.

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ATB SECURITIES INC.

Financial Statements

Year Ended March 31, 2014

Independent Auditor's Report

AUDITOR GENERAL Alberta

To the President of Treasury Board and Minister of Finance

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of ATB Financial, which comprise the consolidated statement of financial position as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ATB Financial as at March 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General
May 29, 2014
Edmonton, Alberta

ATB Securities Inc.
Statement of Financial Position

As at March 31, 2014 ($ thousands)

	March 31, 2014	March 31, 2013
ASSETS	**$**	$
Current assets		
Cash	**5,506**	3,123
Short term investments (*note 3*)	**52,949**	55,942
Clients' cash held in trust	**22,652**	26,796
Due from clients	**11,493**	11,133
Due from brokers and dealers	**15,290**	11,305
Client fees receivable	**2,407**	2,202
Trailer fees receivable	**647**	1,037
Loans to ATB advisors	**170**	163
Due from affiliates (*note 5*)	**279**	382
Prepaid expenses	**627**	550
	112,020	112,633
Non-current assets		
Loans to ATB Advisors	**987**	592
Computer equipment (*note 7*)	**843**	1,041
Software (*note 7*)	**9,712**	9,438
	11,542	11,071
	123,562	123,704
LIABILITIES		
Current liabilities		
Due to clients	**44,841**	43,222
Due to brokers and dealers	**21,998**	27,288
Accrued liabilities	**4,770**	3,796
Variable compensation payable	**6,684**	5,070
Long-term incentive plan	**306**	-
Due to affiliates (*note 5*)	**818**	1,170
Due to ATB (*note 6.i*)	**4,614**	3,969
	84,031	84,515
Long term liabilities		
Long-term incentive plan	**409**	295
Due to ATB (*note 6.ii*)	**-**	6,277
	84,440	91,087
SHAREHOLDER'S EQUITY		
Share capital (*note 8*)	**132,745**	132,745
Deficit	**(93,623)**	(100,128)
	39,122	32,617
	123,562	123,704

Capital restrictions and commitments (*notes 9 and 10*)

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

[Original signed by]
Sheldon Dyck
Director

[Original signed by]
Ursula Holmsten
Chief Financial Officer

ATB Securities Inc.
Statement of Changes in Equity

For the year ended March 31, 2014 ($ thousands)

	Class A Common Shares	Share Capital $	Deficit $	Shareholder's Equity $
Balance at March 31, 2012	74,995	128,745	(94,401)	34,344
Shares issued	4,000	4,000	-	4,000
Share based payment	-	-	(2,753)	(2,753)
Net loss and comprehensive loss	-	-	(2,974)	(2,974)
Balance at March 31, 2013	78,995	132,745	(100,128)	32,617
Balance at March 31, 2013	78,995	132,745	(100,128)	32,617
Share based payment *(note 6.ii)*	-	-	6,181	6,181
Net income and comprehensive income	-	-	324	324
Balance at March 31, 2014	78,995	132,745	(93,623)	39,122

The accompanying notes are an integral part of these financial statements.

ATB Securities Inc.
Statement of Operations and Comprehensive Loss

For the year ended March 31, 2014 ($ thousands)

	March 31, 2014 $	March 31, 2013 $
Revenue (*note 11*)		
Mutual fund commissions	**46,152**	35,509
Fee based accounts	**9,035**	7,949
Other commissions	**3,261**	3,726
Account fees	**2,615**	2,780
Client referral fees	**1,705**	2,237
Interest income	**739**	678
Securities commissions	**511**	495
Other revenue	**121**	144
	64,139	53,518
Administration and Selling expenses (*note 11*)		
Variable compensation expense	**28,531**	21,457
Salaries and employee benefits (*note 12*)	**17,904**	18,404
Other expenses	**10,161**	10,746
Professional fees	**5,019**	3,782
Amortization expense (*note 7*)	**2,133**	2,068
Interest expense	**67**	35
	63,815	56,492
Net income (loss) and comprehensive income (loss) for the year	**324**	(2,974)

The accompanying notes are an integral part of these financial statements.

ATB Securities Inc.
Statement of Cash Flows

For the year ended March 31, 2014 ($ thousands)

	March 31, 2014	March 31, 2013
Cash provided from (used in)	**$**	$
Operating activities		
Net income (loss) and comprehensive income (loss) for the year	**324**	(2,974)
Items not affecting cash		
Amortization of computer equipment	**198**	193
Amortization of software	**1,935**	1,875
	2,457	(906)
Net change in non-cash working capital items		
Cash (paid to) received from clients and brokers/dealers	**(3,871)**	7,747
Client fees receivable	**(206)**	(581)
Trailer fees receivable	**390**	(340)
Loans to ATB advisors	**(401)**	(755)
Other receivables	**-**	14
Prepaid expenses	**(78)**	(286)
Accrued liabilities	**974**	235
Net change in due to/(from) affiliates	**(249)**	340
Variable compensation payable	**1,614**	1,660
Long-term incentive plan	**420**	(423)
	(1,407)	7,611
Net cash from operating activities	**1,050**	6,705
Investing activities		
Net change in short term investments	**2,993**	(8,970)
Purchase of computer equipment and software	**(2,209)**	(1,377)
Net cash from (used in) investing activities	**784**	(10,347)
Financing activities		
Issuance of share capital	**-**	4,000
Equity settled share based payment	**(96)**	(433)
Due to ATB	**645**	1,663
Net cash from financing activities	**549**	5,230
Net change in cash	**2,383**	1,588
Cash – Beginning of year	**3,123**	1,535
Cash – End of year	**5,506**	3,123
Supplementary information		
Interest paid	**67**	35
Interest received	**739**	678

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended March 31, 2014 ($ in thousands)

1. Nature of Operations and Economic Dependence

ATB Securities Inc. ("ATBSI" or the "Company") is a wholly owned subsidiary of ATB Financial ("ATB") established to facilitate client wealth management services. As a provincial Crown corporation, ATBSI is exempt from income tax. ATBSI is a full service broker dealer and is a member of the Investment Industry Regulatory Organization of Canada ("IIROC") and the Canadian Investors Protection Fund ("CIPF").

The address of the Company's registered office is:
2100 10020 – 100 Street
Edmonton, Alberta T5J 0N3

These financial statements have been approved by the Board of Directors on June 3, 2014.

2. Significant Accounting Policies

a. Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies adopted are consistent with those of the previous financial year. The policies applied in these financial statements are based on IFRS, issued and outstanding as of March 31, 2014.

ATBSI's financial statements are presented in Canadian dollars, ATBSI's primary operating currency. All references to $ are in Canadian dollars and references to US$ are to United States dollars.

These financial statements have been prepared under the historical cost conversion, except for the revaluation of certain assets at fair value through income.

b. Critical Accounting Judgements and Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of statement of financial position assets and liabilities and the disclosure of contingent assets and liabilities as at the statement of financial position date, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The following discussion outlines ATBSI's critical accounting estimates under IFRS:

i Depreciation and amortization methods

Computer equipment and software are depreciated and amortized over their estimated useful lives. Useful lives are determined based on current facts and past experience and take into consideration the anticipated physical life of the asset, existing long-term agreements and contracts, current and forecasted demand and the potential for technological obsolescence. While these useful life estimates are reviewed on a regular basis and depreciation calculations are revised accordingly, actual lives may differ from the estimates.

c. Cash

Cash consists of cash on deposit held with ATB.

d. Short Term Investments

Short term investments consist of Canadian Treasury Bills with maturity dates of less than one year.

e. Clients' Cash Held in Trust

Included in clients' cash held in trust are amounts with respect to Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs), Registered Education Savings Plans (RESPs) and Tax Free Savings Accounts (TFSAs) segregated in trust accounts with Canadian Western Trust. Corresponding liabilities are included in due to clients. Client balances are reported on a trade date basis. Cash held in trust is restricted from use by ATBSI.

f. Computer Equipment

Computer equipment is carried at cost less accumulated depreciation and provision for impairment, if any, and is depreciated on a straight-line basis over its estimated useful life. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its useful economic life. No depreciation is calculated on assets under construction or development until the assets are available for use. The estimated useful life for computer equipment ranges from 3 to 5 years with certain equipment having a useful life of 10 years.

Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of computer equipment are kept under review to take account of any change in circumstances. Gains and losses on the disposal of computer equipment are recorded in the statement of operations and comprehensive income in the year of disposal.

g. Software

Software is carried at cost less accumulated amortization and provisions for impairment, if any, with cost amortized on a straight-line basis over their estimated useful lives. No amortization is calculated on software under construction or development until the assets are available for use. The estimated useful life for software is 3 to 5 years, with certain software having a useful life of 10 years.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefits will flow to ATBSI, and the cost can be measured reliably. Eligible costs include external direct costs for materials and services, as well as payroll and payroll related costs for employees directly associated with an internally developed software project.

h. Impairment of Computer Equipment and Software

Computer equipment and software in use are subject to impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Software not ready for use is tested for impairment annually. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

i. Due (To) From Clients and Due (To) From Brokers and Dealers

Due (to) clients represents credit positions in client accounts. These amounts are due on demand.

Due from clients are debit positions in client accounts. The majority of the amounts relate to margin balances and pending trades.

Due (to) from brokers and dealers represents amounts related to trades which have been initiated but not settled.

Due (to) from clients and due (to) from brokers and dealers amounts are both recorded on a trade date basis.

j. Provisions and Contingencies

Provisions are recognized when it is more likely than not that an outflow of economic resources will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of ATBSI; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed, where significant, unless the probability of settlement is remote.

k. Foreign exchange

Transactions denominated in foreign currencies are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Financial assets and liabilities denominated in foreign currencies are translated into and presented in Canadian dollars at the rates in effect at the date of the statement of financial position. Revenues and expenses are translated at the rates prevailing at the respective transaction dates. Realized and unrealized gains and losses arising from these translations are included in the statement of operations and comprehensive income.

l. Revenue Recognition

ATBSI earns commission revenue from third party mutual funds and affiliates (note 11). Commission revenue earned on mutual fund sales and securities transactions is recognized on a trade-date basis. Trailer fee revenues are recognized on an accrual basis as they are earned.

Account fees are recorded on an accrual basis and include client fees, and Registered Retirement Savings Plan (RRSP) administration fees. Transfer fees and deregistration fees are collected when transfers and deregistrations occur. ATBSI also receives commissions from Guaranteed Investment Certificate (GIC) referral revenue, insurance referral fees, and client referral income. A 25 bps GIC referral fee is paid by ATB to ATBSI based on the average amount of GIC's held by the Company.

Insurance referral fees are paid by ATB Insurance Advisors Inc. ("ATBIA"), an affiliate, to ATBSI based on revenues generated by the insurance product sales. Client referral fees are paid by ATB Investment Management Inc. ("ATBIM"), an affiliate, to ATBSI based on actual commissions paid to ATBSI sales staff.

Management provides a 2% provision on total client fees receivable at year-end with respect to an estimate for refunded or waived commissions.

m. Employee Future Benefits

ATBSI provides future benefits to current and past employees through the following plans:

i Accounting for Defined Contribution Plans

ATBSI provides its management employees with a registered pension plan. Contributions to the plan are expensed as they become due and are recorded in salaries and employee benefits in the statement of operations and comprehensive income. Contributions payable at year end are recorded in accrued liabilities.

ii Short Term Employee Benefits

Short term employee benefits, such as salaries, paid absences, and other benefits including any related payroll taxes are accounted for on an accrual basis over the period in which the employees provide the related services.

Certain employees of the Company are eligible to participate in a variable pay plan that allows them to share directly in the success of the Company. On an annual basis, employees may receive a lump sum payment that is based on the Company's achievement of its goals and performance targets.

All expenses related to employee benefits are recorded in the statement of operations and comprehensive income as salaries and employee benefits or variable compensation expense.

iii Long Term Employee Benefits

ATBSI has an executive long term incentive plan (LTIP) for certain eligible employees of the Company. The plan provides an incentive for achieving success in execution of strategic objectives that create value and long term sustainability of the Company. Certain employees of the Company receive LTIP grants approved by the Board of Directors. The amounts are subject to annual appreciation and depreciation factors and are payable three years from the effective date of grant. Following the guidance in IAS 19 (revised)– Employee Benefits, the liability for LTIP is recorded at the present value of the grants that have vested as of the year-end date less an allowance for early termination. The liability for LTIP vests over three years from the date of the grant. Related expense is included in compensation expense.

n. Share Based Payments

Certain eligible employees of the Company have the opportunity to participate in a share-based compensation plan of ATB. Under this plan, the Company receives services from employees as consideration for Achievement Notes issued by ATB (note 6(ii)). The obligation to settle the notes with employees is with ATB. This is a group plan where the awards are considered cash-settled by ATB and equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date. No compensation expense is recorded by the Company related to the awards when granted since the notes are issued to employees at fair value on the grant date.

Prior to December 31, 2013, the Company was charged by ATB for their share of subsequent changes in the fair value of the notes relating to employees providing a service to the Company as the awards vest to the employees. These charges were recorded as a payable to ATB (note 6(ii)) with a corresponding entry to retained deficit, similar to a distribution. By mutual agreement between the Company and ATB, effective December 31, 2013, the Company was absolved of this obligation and the unpaid liability accrued to that

date was derecognized. This change was an operational decision, and not a change in accounting policy, and therefore enacted on a prospective basis. Any payments made up to December 31, 2013 were not reversed.

o. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition.

All financial assets and financial liabilities are initially recognized on the trade date. This is the date that ATBSI becomes a party to the contractual provisions of the instrument.

ATBSI derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

ATBSI derecognizes a financial liability when its contractual obligations are discharged or is cancelled or expires.

Classification

All financial instruments are initially recorded at fair value and are subsequently accounted for based on one of five classifications:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity;
- investments and available for sale financial assets; and
- other financial liabilities.

Management determines the classification of financial assets and liabilities at initial recognition.

Financial Assets

i Financial assets at fair value through profit or loss

Financial assets at fair value through profit and loss are financial assets held for trading.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to earnings. Gains and losses arising from changes in fair value are included directly in the statement of operations and are reported as other revenue or other expenses. Interest income and expense on financial assets held for trading are included in interest revenue or interest expense.

Financial assets held for trading consist of short term investments held by ATBSI.

ii Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. ATBSI has classified cash, client's cash held in trust, due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable, loans to ATB advisors and due from affiliates as loans and receivables. Loans and receivables are initially measured at fair value and subsequently recorded at amortized cost using effective interest rate method.

iii Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that ATBSI's management has the intention and ability to hold to maturity.
They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently valued at amortized cost, using the effective interest method where applicable. ATBSI has no financial instruments classified as held-to maturity at March 31, 2014.

iv Investments and available for sale financial assets

Available for sale assets are non-derivative financial assets that are designated as available for sale and are not categorized into any of the other categories described above. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently recognized at fair value. Gains and losses arising from changes in fair value are included as a separate component of equity until sale, when the cumulative gain or loss is transferred to the statement of operations and comprehensive income. Interest is determined using the effective interest method, and impairment losses and translation differences on monetary items are recognized in the statement of operations and comprehensive income. ATBSI has no financial instruments classified as available for sale at March 31, 2014.

Impairment

ATBSI assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the statement of operations and comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For practical reasons, ATBSI may measure impairment on the basis of an instrument's fair value using an observable market price.

Financial Liabilities

v Other liabilities measured at amortized cost

Other financial liabilities are measured at amortized cost. Due to clients, due to brokers and dealers, accrued liabilities, variable compensation payable, due to ATB and affiliates and long-term incentive plan are classified as other financial liabilities measured at amortized cost. These are measured initially at fair value and subsequently recorded at amortized cost using the effective rate method with any gains and losses in the realization of other financial liabilities included in income.

p. Financial Instruments – Estimated Fair Value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

The loans to ATB advisors bear an interest rate of 1% per annum. The fair value of these loans is determined by discounting the face value of the loans using market rates of interest for similar loans (9% per annum). The loan balance outstanding is $1,425, including a current amount of $170. Of the current amount $89 is interest bearing and $81 is non-interest bearing. The non-interest bearing portion relates to expenses that are paid on behalf of the advisors by ATBIS and will be recovered within 12 months of occurrence. At March 31, 2014 the fair value of these loans is $1,157 which is recorded on the statement of financial position. The difference between the fair value and the carrying value is $349 which is recorded in prepaid expenses and will be amortized over the life of the loans to salaries and employee benefits. The repayment period for these term loans is between four and nine years.

The estimated fair value of items that are short-term in nature is considered to be equal to their carrying value. These items include clients' cash held in trust, due (to) from clients, due (to) from brokers and dealers, client fee receivable, trailer fees receivable, due (to) from affiliates and ATB, accrued liabilities and variable compensation payable.

The fair values of securities and interest-bearing deposits with financial institutions are based on quoted market prices, if available. Where an active market does not exist, the fair value is estimated using a valuation technique that makes maximum use of observable market data. The fair value of the long-term incentive plan (note 12) is determined by discounting the face value of the obligation using an internal hurdle rate of 10% per annum.

3. Financial Instruments

i Fair Value Hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy based on the quality and reliability of the information used to estimate the fair value. The fair value hierarchy has the following levels:

- Level 1 – fair value based on quoted prices in active markets.
- Level 2 – fair value estimated using valuation techniques that use market-observable inputs other than quoted market prices.
- Level 3 – fair value estimated using inputs that are not based on observable market data.

Financial instruments recorded at fair value, subsequent to their initial recognition, include the Company's holdings in short-term investments and the Company's long-term incentive plan (note 12).

- Short term investments are composed entirely of Canadian Treasury Bills ("T-Bills") held as part of ATBSI's liquidity management program. The market values of T-Bills are provided to ATBSI by a third party. Prices are estimated based on recent activity in an active over the counter market. These short term investments amounting to $52,949 (March 31, 2013 – $55,942) are classified as level 2 under the fair value hierarchy.

- The fair value of the Company's long-term incentive plan amounting to $715 (March 31, 2013 – $584) is determined by discounting the face value of the obligation using an internal hurdle rate of 10% per annum. The long-term incentive plan obligation has been classified as level 2 under the fair value hierarchy.

There have been no transfers between levels during the year.

ii Financial risk management

ATBSI's financial instruments consist of cash, short term investments, clients' cash held in trust, due (to) from clients, due (to) from brokers and dealers, client fees receivable, loans to ATB advisors, trailer fees receivable, due (to) from affiliates, accrued liabilities, variable compensation payable, long-term incentive plan and due to ATB.

ATBSI's financial instruments are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. ATBSI's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on ATBSI's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

Market Risk

Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. There are three types of market risk: currency risk, interest rate risk and price risk.

Currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. ATBSI can have material amounts of financial instruments denominated in foreign currencies. Risk exists that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ATBSI does not use derivative instruments to reduce exposure to foreign exchange risk.

As at March 31, 2014 US Dollar denominated balances amounted to:

	US$ 2014	US$ 2013
Cash	**880**	339
Due from clients	**40**	1,063
Due from brokers and dealers	**41**	147
Accrued liabilities	**-**	(44)
Due to clients	**(451)**	(504)
Due to brokers and dealers	**(2)**	(682)
Total	**508**	319

A 5% change in US exchange rates would result in a foreign exchange gain or loss of approximately $25 (March 31, 2013 – $15).

Interest rate risk

ATBSI is subject to interest rate cash flow risk as its amount due to ATB (note 6.i) and short term investments are subject to interest rate fluctuations and the degree of volatility in these rates. ATBSI does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant.

As at March 31, 2014, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB (note 6.i) would be approximately $46 (March 31, 2013 – $40).

As at March 31, 2014, ATBSI held $52,949 (March 31, 2013 – $55,942) in highly liquid treasury bills. At March 31, 2014 the two series of treasury bills held were earning yields of 89bps until they mature on April 24, 2014 and May 22, 2014 respectively. As at March 31, 2014, if interest rates were to change by 25bps, the change in interest income would be approximately $132 (March 31, 2013 – $140).

Price risk

ATBSI is not exposed to financial market pricing risk as no financial instruments held by the Company, will fluctuate as a result of changes in market prices.

Credit Risk

Credit risk is the risk that the counter party to a financial asset will default resulting in a financial loss to ATBSI. ATBSI is exposed to credit risk primarily through its cash, short term investments, clients' cash held in trust, due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable, loans to ATB advisors and due from affiliates.

Cash is on deposit with ATB, an Alberta Crown Agent and client's cash held in trust is on deposit with a reputable financial institution from which management believes the risk of loss is remote.

Short term investments consisting of Canadian Treasury Bills are on deposit with a reputable securities depository from which management believes the risk of loss is remote.

The credit risk inherent in due from clients, due from brokers and dealers, client fees receivable and trailer fees receivable is effectively mitigated by ATBSI's diverse customer and trading counterparty base, and the creditworthiness of the counterparties. Management believes credit risk on these balances is low based on low historical credit losses on these balances. The risk is also mitigated by the fact these balances are on average collected within 60 days of becoming due. Management has not provided an allowance for doubtful accounts on these balances as it believes collectability is reasonably assured.

The credit risk inherent on the loans to ATB advisors is effectively mitigated as any amounts past due may be offset against compensation owed to these advisors.

The inherent risk on due from affiliates is effectively mitigated by the fact management is involved in the operations of these entities from which the Company is owned.

The Company's maximum credit exposure is $112,380 which is the sum of cash, short term

investments, clients' cash held in trust, due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable, loans to ATB advisors and due from affiliates.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by closely monitoring the level of cash available to meet its obligations and whether additional funding is required through its credit facilities (note 13) or its parent company, ATB.

The Company's financial liabilities giving rise to liquidity risk which are considered short term (due on demand or within 30 days) include due to clients, due to brokers and dealers, accrued liabilities, variable compensation payable, due to ATB and due to affiliates.

4. Accounting Changes

New and amended accounting standards adopted by the Company

The following standards have been adopted by the Company effective April 1, 2013:

Amendment to IAS 1, *Financial statement presentation*
Amendment to IFRS 7, *Financial instruments: Disclosures*
IAS 19, *Employee benefits (amended)*
IFRS 10, *Consolidated financial statements*
IFRS 11, *Joint arrangements*
IFRS 12, *Disclosure of interests in other entities*
IFRS 13, *Fair value measurement*

The adoption of these new standards and amendments to existing standards did not impact the financial statements other than certain note disclosures.

New accounting standards and interpretations not yet adopted

IFRS 9, *Financial Instruments*

Financial instruments amends the classification and measurement criteria for financial instruments included within the scope of IAS 39, Financial Instruments: Recognition and Measurements. IFRS 9 will be published in three phases, of which only the first phase has been published. The first phase addresses the accounting for financial assets and financial liabilities. The second phase will address the impairment of financial instruments, and the third phase will address hedge accounting. For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Although the classification criteria for financial liabilities will not change under IFRS 9, the approach to the fair value option for financial liabilities may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with different transitional arrangements depending on the date of initial application. ATBSI is currently evaluating the impact of adopting the above accounting standard on its financial statements.

IAS 32, *Financial Instruments - Presentation*

IAS 32 was amended to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. This amendment is effective for annual periods beginning on or after January 1, 2014.

IAS 36, *Impairment of Assets*

These amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. IAS 36 is effective for annual periods beginning on or after January 1, 2014.

IFRIC 21, *Levies*

IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation

that triggers the payment of the levy. These amendments are effective for annual periods beginning on or after January 1, 2014.

Annual improvements

These amendments include changes from the 2010-12 cycle of the annual improvements project that affect the following standards:

IFRS 2, *Share-based payment*
IFRS 3, *Business Combinations*
IFRS 8, *Operating segments*
IFRS 13, *Fair value measurement*
IAS 16, *Property, plant and equipment*
IAS 40, *Investment property*.

These amendments are effective for annual periods beginning on or after January 1, 2014.

ATBSI has evaluated the aforementioned accounting standards which are effective for annual periods beginning on or after January 1, 2014 and with the exception of some minor changes to the Company's note disclosures there is no significant impact to the Company's financial statements.

5. Due (To) From Affiliates

In the normal course of operations, ATBSI receives trailing commissions and collects client management fees on behalf of ATB Investment Management Inc. ("ATBIM"), and receives referral fees from ATB Insurance Advisors Inc. ("ATBIA"). ATBIM and ATBIA may pay for certain expenses on behalf of ATBSI. Alternatively, ATBSI may pay for certain expenses on behalf of ATBIM and ATBIA. These amounts are duly recorded as payables and receivables in each of ATBSI's, ATBIM's, and ATBIA's accounts. The amounts due (to) from affiliates arising from these transactions are generally settled by the following month and are not subject to interest charges.

The amounts due (to) from affiliates are as follows:

	March 31 2014	March 31 2013
	$	$
Due from ATBIM	**279**	382
Due (to) ATBIA	**(818)**	(1,170)
	(539)	(788)

6. Due to ATB

i Amounts Due to ATB and Incurred in the Normal Course of Operations

In the normal course of operations, ATB pays certain expenses and collects certain revenues on behalf of ATBSI. The amounts due to ATB are generally settled in the following month. The amounts due to ATB arising from these transactions are as follows:

	March 31 2014	March 31 2013
	$	$
Due to ATB	**4,614**	3,969

The amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2014 was 3.00% (March 31, 2013 – 3.00%).

ii Amounts Due to ATB relating to Achievement Notes

ATB sells Principal at Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Investor Services brand name. Under this plan, eligible employees were provided an opportunity to purchase a 25-year note with a rate of return linked to the value of certain ATB subsidiaries, including ATBSI. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

Each note holder is entitled to:

- A cash payment at maturity representing the original invested amount adjusted for a proportionate share in the change in fair value of ATB Investor Services.
- Cash distributions, if any, based on the net positive dividends paid by ATB Investor Services to ATB.

There is no public market for these notes; thus the valuation is based on a model prepared annually by an external consultant using market data where available. This valuation model was used to establish the initial purchase price of the notes and the changes in fair value period to period until the notes mature.

The notes are not redeemable at the option of the note holder, or ATB, prior to maturity, subject to the occurrence of an extraordinary event for ATB (i.e., winding up, dissolution, or liquidation of ATB) or a catastrophic event for the note holder. The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the valuation of ATB Investor Services reduces, that the note holder will lose some or all of the original investment.

To the extent that notes were redeemed at fair market value, prior to December 31, 2013, the Company has reimbursed ATB, through equity distributions, for payments made to employees of the Company in excess of the original subscription amount. However, by mutual agreement between the Company and ATB, effective December 31, 2013, the Company is absolved of any future obligation to make equity distributions to ATB related to the achievement note program and as a result the liability was forgiven with a corresponding increase to the Company's equity.

A reconciliation of the amounts due to ATB arising from the issuance of the Achievement Notes are as follows:

	2014 **$**	2013 $
Opening	**6,277**	3,957
Redemption of achievement notes	**96**	(433)
Appreciation of achievement notes (share based payment)	**-**	2,753
Reversal of achievement notes liability through equity	**(6,181)**	-
	-	6,277

As at March 31, 2014 the liability recorded by ATB with regards to ATBSI achievement notes is $17,667. The change in the liability from the prior year balance of $10,370 is a result of $1,290 in new subscriptions, $188 in achievement notes redeemed during the year and a corresponding increase of $6,195 due to appreciation of the achievement notes. These amounts differ from those recorded by ATBSI as the inital achievement note subscription did not create a liability on the Company's financial statements.

7. Property and equipment and intangibles

	Computer Equipment $	Software $	Computer Equipment under development $	Software under development $	Total $
Cost					
Balance at March 31, 2012	1,518	15,163	-	625	17,306
Additions	-	259	37	1,340	1,636
Transfer to completed asset	-	-	-	(259)	(259)
Balance at March 31, 2013	1,518	15,422	37	1,706	18,683
Balance at March 31, 2013	1,518	15,422	37	1,706	18,683
Additions	37	3,827	-	2,209	6,073
Transfer to completed asset	-	-	(37)	(3,827)	(3,864)
Disposal	(27)	(549)	-	-	(576)
Balance at March 31, 2014	1,528	18,700	-	88	20,315
Depreciation					
Balance at March 31, 2012	321	5,815	-	-	6,136
Amortization for the year	193	1,875	-	-	2,068
Disposals	-	-	-	-	-
Balance at March 31, 2013	514	7,690	-	-	8,204
Balance at March 31, 2013	514	7,690	-	-	8,204
Amortization for the year	198	1,935	-	-	2,133
Disposals	(27)	(549)			(576)
Balance at March 31, 2014	685	9,076	-	-	9,761
Carrying Amounts					
Balance at March 31,2013	1,004	7,733	37	1,706	10,479
Balance at March 31,2014	843	9,624	-	88	10,555

Amortization expense charged to the statement of operations and comprehensive income for the year ended March 31, 2014 was $2,133 (March 31, 2013 – $2,068). There were no impairments recognized during the year ended March 31, 2014 (March 31, 2013 – $nil).

8. Share Capital

Authorized:

Unlimited number of Class A voting, common shares without nominal or par value

Unlimited number of Class B non-voting, common shares without nominal or par value

Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share

Issued and outstanding:

	March 31, 2014	March 31, 2013
Class A common shares #	**78,995,100**	78,995,100
Amount	**$132,745**	$132,745

9. Capital Risk Management and Restrictions

ATBSI's objectives in managing its capital, which is defined as shareholder's equity, are:

- To safeguard ATBSI's ability to operate as a going concern;
- to provide financial capacity and flexibility to meet its strategic objectives; and
- to maintain adequate risk adjusted capital as required by the Investment Industry Regulatory Organization of Canada (IIROC).

The capital structure of ATBSI is managed and adjusted to reflect changes in economic conditions. In order to maintain or adjust the capital structure, adjustments may be made to the number of new common shares issued. In support thereof, management reviews the financial position of ATBSI on a monthly and cumulative basis. ATBSI works towards managing its capital objectives to the extent possible while facing the challenges of market conditions. ATBSI's capital management objectives have not changed over the periods presented.

Regulatory Capital

IIROC sets and monitors capital requirements for the Company to protect its clients and counterparties. The Company is required to maintain a prescribed minimum level of risk adjusted capital ("RAC") in order to be able to meet its liabilities and pass early warning tests. RAC is calculated in accordance with requirements as IIROC may from time to time prescribe. RAC is monitored daily and calculated weekly by ATBSI to ensure compliance with IIROC requirements.

There were no changes to IIROC rules that significantly impacted the Company's calculation of RAC during the year.

As at March 31, 2014, ATBSI had RAC of $22,993 which exceeded regulatory requirements set out by IIROC.

ATBSI also met all the early warning tests as prescribed by IIROC.

10. Commitments – Contractual Obligations

ATBSI is committed to payments under service agreements for data processing services and software licenses, including support and maintenance services for various projects. The future minimum payments for such obligations are outlined as follows:

Year	$
2015	640
2016	419
	1,059

11. Related-Party Transactions

In the normal course of operations, ATBSI earns income in the form of trailer fees, interest revenue and other income from ATB, ATBIA and ATBIM. ATB also charges ATBSI for various administrative and selling services, as well as charging interest on amounts owing to ATB (note 6.i).

A summary of these transactions are as follows:

Related Party	Transactions	Recorded as	March 31, 2014 $	March 31, 2013 $
	Revenue			
ATBIM	ATBIM Trailer fees	Mutual fund commissions	**38,493**	27,632
ATBIM	ATBIM Referral fees	Client referral fees	**1,651**	1,641
ATBIM	ATBIM Transaction fees	Client referral fees	**-**	503
ATBIA	ATBIA Insurance referrals	Client referral fees	**54**	93
ATB	HISA Trailer fees	Mutual fund commissions	**967**	15
ATB	ATB GIC Referral fees	Other commissions	**3,261**	3,726
ATB	ATB Interest income	Interest revenue	**39**	63
			44,465	33,673
	Administration and Selling Expenses			
ATB	IT and Rent	Other expenses	**4,802**	5,346
ATB	Marketing	Other expenses	**304**	304
ATB	Professional services	Professional fees	**373**	383
			5,479	6,033
	Interest Expense and Standby fees			
ATB	Interest expense and standby fees	Interest expense	**67**	35

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Compensation of Key Management Personnel

Under IFRS key management personnel are defined as 'those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity'.

Key management personnel compensation comprises:

	March 31 2014 $	March 31 2013 $
Short term employee benefits	**2,795**	2,564
Deferred compensation	**196**	156
Retirement and post employment benefits	**390**	157
	3,381	2,877

12. Employee Future Benefits

ATBSI provides future benefits to current and past employees through defined contribution plans. Funding contributions are expensed as they become due and are recorded in salaries and employee benefits in the statement of operations and comprehensive income. For the year ended March 31, 2014, expenses related to the defined contribution plan provision were $3,684 (March 31, 2013 - $2,583).

As at March 31, 2014, the total obligation for LTIP was $1,382 of which $815 has vested. The present value of the grants that have vested amounts to $715 which is recorded on the statement of financial position. Once the LTIP grants have fully vested, $322 will become payable in June 2014, $418 will become payable in June

2015, and the remaining $642 will become payable in June 2016. The related expense is recorded in variable compensation expense.

13. Credit Facility

ATBSI has access to a $15,000 unsecured Operating Loan Facility with ATB. Interest on the facility is calculated based on prime less 0.25%, which is 2.75% at March 31, 2014. No amounts have been drawn on the facility at March 31, 2014 (March 31, 2013 – $nil) and a standby fee of $48 (March 31, 2013 – $37) was paid during the year on the undrawn portion.

14. Provisions

In conjunction with a pending legal action, ATBSI has filed a claim with their insurance agents and expects the extent of the Company's liability, with respect to this matter, to be equal to the amount of the deductible under the professional liability insurance policy. A provision has been recorded in the financial statements for the insurance deductible amounting to $100 and a provision for legal fees of $25. Management does not expect its final resolution will have a material impact to the Company's financial statements.

15. Comparative Figures

Certain comparative figures have been reclassified to conform to current year's presentation.

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CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Financial Statements

Years Ended December 31, 2013

These Credit Union Deposit Guarantee Corporation (CUDGC) Financial Statements are a copy from the CUDGC 2013 Annual Report. A complete copy of the CUDGC Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the CUDGC website at www.cudgc.ab.ca.

Independent Auditor's Report

To the Directors of the Credit Union Deposit Guarantee Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of the Credit Union Deposit Guarantee Corporation, which comprise the statements of financial position as at December 31, 2013, and the statements of net income and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Credit Union Deposit Guarantee Corporation as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

March 5, 2014

Edmonton, Alberta

STATEMENTS OF FINANCIAL POSITION

As at December 31

(thousands of dollars)	Notes	2013	2012
ASSETS			
Current Assets			
Cash and cash equivalents	4	$ 7,509	$ 8,519
Accrued interest receivable		1,078	1,063
Assessments receivable	6	4,600	4,274
Prepaid expenses		35	59
Tax receivable		-	141
Total Current Assets		**13,222**	**14,056**
Non Current Assets			
Investments	5	216,446	194,062
Property and equipment	8	412	581
Intangible assets	8	171	116
Total Non Current Assets		**217,029**	**194,759**
TOTAL ASSETS		**$ 230,251**	**$ 208,815**
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	9	$ 690	$ 884
Provision for financial assistance	11	-	238
Tax liability		155	-
Deferred lease inducements	10	100	100
Total Current Liabilities		**945**	**1,222**
Non Current Liabilities			
Long-term unclaimed credit union balances		1,361	998
Deferred tax liability		312	1,606
Deferred lease inducements	10	166	265
Total Non Current Liabilities		**1,839**	**2,869**
TOTAL LIABILITIES		**$ 2,784**	**$ 4,091**
Commitments	12		
EQUITY			
Deposit guarantee fund		$ 226,267	$ 198,665
Accumulated other comprehensive income		1,200	6,059
TOTAL EQUITY		**$ 227,467**	**$ 204,724**
TOTAL LIABILITIES AND EQUITY		**$ 230,251**	**$ 208,815**

The accompanying notes are part of these financial statements.

Approved by the Board: March 5, 2014

Original signed by
Herb Der, Director

Original signed by
Loraine Oxley, Director

STATEMENTS OF NET INCOME AND OTHER COMPREHENSIVE INCOME

For the Years Ended December 31

(thousands of dollars)	Notes	2013	2012
NET INCOME			
Revenues:			
Assessment revenue	14	$ 27,043	$ 26,706
Investment income	5	7,230	7,006
Net gain on disposal of investments	5	444	400
		34,717	**34,112**
Expenses:			
Recovery of financial assistance	11	(10)	(11)
Administration expenses	18	6,952	7,653
		6,942	**7,642**
Income before income taxes		27,775	26,470
Income taxes (recovery)	13	173	(32)
NET INCOME		**27,602**	**26,502**
OTHER COMPREHENSIVE LOSS			
Items that will be reclassified subsequently to net income			
Net unrealized loss on available-for-sale financial instruments			
Other comprehensive loss, net of tax of $1,198 [2012: $25]		(4,508)	(86)
Reclassification of net gain on available-for-sale financial instruments, net of tax of $93 [2012: $84]		(351)	(316)
OTHER COMPREHENSIVE LOSS, NET OF TAX		**(4,859)**	**(402)**
COMPREHENSIVE INCOME		**$ 22,743**	**$ 26,100**

The accompanying notes are part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31

(thousands of dollars)	Accumulated Other Comprehensive Income	Deposit Guarantee Fund	Total Equity
Balance as at December 31, 2011	**$ 6,461**	**$ 172,163**	**$ 178,624**
Net income	-	26,502	26,502
Other comprehensive loss, net of tax	(402)	-	(402)
Balance as at December 31, 2012	**6,059**	**198,665**	**204,724**
Net income	-	27,602	27,602
Other comprehensive loss, net of tax	(4,859)	-	(4,859)
Balance as at December 31, 2013	**$ 1,200**	**$ 226,267**	**$ 227,467**

The accompanying notes are part of these financial statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31

(thousands of dollars)	2013	2012
Operating activities:		
Assessments received	$ 26,717	$ 26,734
Investment income received	6,670	5,966
Financial assistance paid	(228)	(720)
Interest and bank charges paid	(2)	(1)
Income taxes recovered (paid)	120	(59)
Paid to suppliers and employees	(6,649)	(7,505)
Net cash flows from operating activities	**26,628**	**24,415**
Investing activities:		
Purchase of investments, net	(27,547)	(29,556)
Purchase of property and equipment	(23)	(42)
Purchase of intangible assets, net	(68)	(2)
Net cash flows used in investing activities	**(27,638)**	**(29,600)**
Decrease in cash	(1,010)	(5,185)
Cash and cash equivalents at beginning of year	8,519	13,704
Cash and cash equivalents at end of year	**$ 7,509**	**$ 8,519**

The accompanying notes are part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
(Thousands of dollars)

NOTE 1 NATURE OF ORGANIZATION

The Credit Union Deposit Guarantee Corporation ("Corporation") operates under the authority of the *Credit Union Act,* Chapter C-32, revised Statutes of Alberta, 2000. The primary purpose of the Corporation is to focus all of its operational activities on achieving its legislated objectives including:

- Provide a 100% guarantee of deposits held with Alberta credit unions.
- Regulate credit unions and enforce the *Credit Union Act*.
- Review, advise and direct on credit union sound business practices.
- Monitor credit union performance and implement appropriate actions to improve performance and reduce risks.
- Establish individual credit union loan approval limits and provide an appropriate adjudication process for loans exceeding these limits.

The *Credit Union Act* provides that the Government of Alberta ("Province") will ensure that this obligation of the Corporation is carried out. As at December 31, 2013, credit unions in Alberta held deposits, including accrued interest, totaling $19.9 billion (2012: $18.3 billion).

To meet its primary purposes, the Corporation undertakes functions set out in the *Credit Union Act* and maintains the Deposit Guarantee Fund. The Corporation assesses credit unions to support the Deposit Guarantee Fund.

The amount, timing and form of financial assistance that may be required for credit unions are dependent on future events and outcomes. Outcomes that may require financial assistance are stabilization, amalgamation, arrangements, liquidation or dissolution. Supervised credit unions receive assistance, support and direction in planning, policy and operational matters from the Corporation.

NOTE 2 BASIS OF PRESENTATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved by the Board of Directors on March 5, 2014.

The historical cost basis of measurement, except for available-for-sale financial assets that are measured at fair value in the Statements of Financial Position, has been used in preparation of the financial statements. Statements and notes are in Canadian dollars and rounded to the nearest thousand.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The Corporation's financial statements include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas requiring the use of estimates are the provision for (recovery of) financial assistance (Note 11: Provision for Financial Assistance), assessment revenue (Note 6: Assessments Receivable), and the fair value of investments (Note 5: Investments). Actual results may differ from these estimates depending upon certain future events and uncertainties.

Financial Instruments

The Corporation's investments are non-derivative financial assets and are classified, based on management's intentions, as available-for-sale. Investments are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. Subsequent to initial recognition, they are measured at fair value. Changes, other than impairment losses, are recognized in other comprehensive income and presented within equity. When an investment is derecognized/sold, the cumulative gain or loss in other comprehensive income is transferred to net income.

Property and Equipment and Intangible Assets

Property and equipment and intangible assets are stated in the Statements of Financial Position at historical cost, less accumulated depreciation, amortization and impairment losses.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Intangible Assets (Continued)

Cost includes the expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property and equipment have materially different useful lives, they are accounted for as separate items (major components) of property and equipment. Assets which are fully depreciated are maintained on the books at original cost less accumulated depreciation and show zero net book value.

The useful life has been revised for software (included in intangible assets). The amortization was modified from one year straight line to three years straight line for software purchased without a maintenance agreement and to five years straight line for software purchased with a maintenance agreement. Management determined that the expected life of software should be increased because in recent years, software has been utilized for several years before being replaced. Software purchased with a maintenance agreement, based on experience, have an extended life due to the upgrades facilitated by the regular maintenance. This change is reflected as a change in accounting estimate and is accounted for prospectively. There was no material impact on the financial results of the Corporation and it is not expected to have a material effect in subsequent periods.

Depreciation, amortization and impairment losses are recognized in net income. Depreciation and amortization have been calculated on the following basis:

Furniture and equipment	Five year straight line
Computer equipment	Three year straight line
Leasehold improvements	Straight line over lease term
Intangible assets[1]	
Software without maintenance agreement	Three year straight line
Software with maintenance agreement	Five year straight line

[1] Intangible assets include the purchase of computer software

Gains and losses on disposal of property and equipment and intangible assets are determined by comparing the proceeds from disposal with the carrying amount of the property and equipment and intangible assets, and are recognized net of depreciation and amortization as part of administration expenses.

Income Taxes

The Corporation records income taxes based on the tax liability method which is the amount expected to be paid to or recovered from the taxation authorities.

Current Tax

The current tax liability is based on taxable income for the year. Taxable income differs from net income as reported in the Statements of Net Income and Other Comprehensive Income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Corporation's current tax liability is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Tax (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis.

Provision for Financial Assistance

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that the outflow of economic benefits will be required to settle the obligation. To meet the obligation for financial assistance described in Note 1: Nature of Organization, the Corporation provides for a provision for financial assistance based on three main components, as follows:

1. Where the need for financial assistance becomes likely and the amount for specific credit unions can reasonably be estimated.
2. Where the amount can be reasonably estimated and arises from an indemnity agreement that has been entered into with a credit union due to outcomes described in Note 1: Nature of Organization.
3. Where the Corporation has determined there is the potential for financial assistance based on an analysis of the inherent risk in the credit union system.

Revenue Recognition

Assessment Revenue

Credit union deposit guarantee assessments and special assessments are classified as revenue and are recognized when:

- The amount of revenue can be measured reliably; and
- It is probable that the economic benefit will flow to the Corporation.

Credit union deposit guarantee assessments are recognized when earned. These regular assessments are determined quarterly, and accrued monthly. Credit union payments are received four times per year.

Special assessments are recognized when earned. Special assessments would be charged only if, in the opinion of the Corporation's Board, the deposit guarantee fund is, or is about to be, significantly below the target level. Special assessments require Ministerial approval prior to being charged.

Investment and Dividend Income

Investment and dividend income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Investment income is accrued on a time basis, by reference to principal outstanding at the applicable effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. Dividend income is recognized when it is known that a dividend has been declared or upon receipt of payment.

Financial Instruments

Classification

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below.

Classification depends on the purpose for which the financial instruments were acquired or issued, characteristics and the Corporation's designation of such instruments.

Classifications are described below:

Cash and cash equivalents	Loans and receivables
Accrued interest receivable and assessments receivable	Loans and receivables
Investments	Available-for-sale
Provision for financial assistance	Financial liabilities
Accounts payable and accrued liabilities	Financial liabilities
Long-term unclaimed credit union balances	Financial liabilities

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or fair value through net income investments. Available-for-sale financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to net income.

For available-for-sale financial assets that do not have quoted market prices, cost represents reasonable fair value for these assets.

Loans and Receivables

Loans and receivables are accounted for at amortized cost. Interest received is accounted for using the effective interest method.

Impairment of Financial Assets

Financial assets are assessed for indicators of impairment on a quarterly basis. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

When a financial asset is considered to be impaired, cumulative losses previously recognized in other comprehensive income are reclassified to net income in the period. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income. The carrying amount of the investment at the date the impairment is reversed will not exceed what the amortized cost would have been had the impairment not been recognized.

Financial Liabilities

Accounts payable and accrued liabilities, provision for financial assistance and long-term unclaimed credit union balances have been classified as financial liabilities and have been recorded at amortized cost. Amortized cost is a reasonable estimate of the fair value of these instruments.

Effective Interest Method

The Corporation uses the effective interest method to recognize investment income or expense which includes premiums or discounts earned on or incurred for financial instruments.

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating investment income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Transaction Costs

Transaction costs related to financial assets and liabilities are expensed as incurred as these do not represent material amounts.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Corporation does not have finance leases. Operating lease payments, net of any lease inducements, are recognized on a straight-line basis over the lease term.

Employee Benefits

The Corporation has a defined contribution plan and pays fixed contributions to a separate entity with no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense on the Statements of Net Income and Other Comprehensive Income in the periods during which services are rendered by employees.

Termination Benefits

The Corporation recognizes termination benefits only when there is evidence that the employee is leaving the Corporation. Termination amounts are either paid with the final pay or are accrued to be paid at the appropriate time.

Short-term Employee Benefits

Short-term employee benefit obligations are measured at cost on an undiscounted basis and are expensed as the related service is provided.

Comprehensive Income and Accumulated Other Comprehensive Income ("AOCI")

Comprehensive income is comprised of net income and other comprehensive income. For the Corporation, other comprehensive income includes net unrealized gains and losses on segregated and pooled funds classified as available-for-sale.

Amounts recognized in other comprehensive income will eventually be reclassified to the Statements of Net Income and Other Comprehensive Income and reflected in net income as gains or losses once securities, classified as available-for-sale, are realized.

Comprehensive income and its components are disclosed in the Statements of Net Income and Other Comprehensive Income. The Statements of Changes in Equity present the continuity of AOCI. The cumulative amount of other comprehensive income recognized, AOCI, represents a component of equity on the Statements of Financial Position.

Changes in Accounting Policies

There are a number of IFRS changes that impacted the Corporation in 2013.

IAS 1 – Presentation of Financial Statements

The Corporation has adopted the guidance of the amended International Accounting Standard ("IAS") 1, Presentation of Financial Statements. Under the amended standard, Other Comprehensive Income ("OCI") is classified by nature and discloses items that will be transferred subsequently to net income (when specific conditions are met) and those that will not be transferred. It also requires presentation of a single statement of OCI and net income. This revised standard relates only to presentation and has not impacted the financial results of the Corporation.

IFRS 13 – Fair Value Measurement

The Corporation has adopted the guidance of IFRS 13, Fair Value Measurement to increase consistency and comparability of fair value measurements through the use of a "fair value hierarchy". The inputs used in valuation techniques are categorized into three levels giving the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The adoption of this standard relates primarily to disclosure and has not impacted the financial results of the Corporation.

New Standards and Interpretations Not Yet Adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2013, and have not been applied in preparing these financial statements.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Standards and Interpretations Not Yet Adopted (Continued)

Standards that may impact the Corporation include:

IFRS 9 – Financial Instruments

This standard defines how to classify and measure financial assets and liabilities and will replace IAS 39, Financial Instruments: Recognition and Measurement. Under this standard financial assets will be classified into one of two categories (amortized cost and fair value) based on the contractual cash flow characteristics of the financial assets. On November 19, 2013, the International Accounting Standards Board ("IASB") issued amendments to IFRS 9 to include a new general hedge accounting model, allow adoption of the treatment of fair value changes due to own credit on liabilities designated at fair value through profit and loss and to remove the January 1, 2015 mandatory effective date. The IASB tentatively decided that the mandatory effective date would be no earlier than annual periods beginning on or after January 1, 2017. The impact of the adoption of this standard on the Corporation's financial statements has not been determined at this time.

IAS 32 – Financial Instruments: Presentation, Offsetting Financial Assets and Financial Liabilities

This standard establishes principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset. The IASB issued Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) in December 2011 clarifying the offsetting criteria. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014 and are to be applied retrospectively. The Corporation does not have financial instruments presented net under the current requirements of IAS 32. Whether the offsetting criteria set out in the amendment affect the Corporation has not been determined at this time.

IAS 36 – Impairment of Assets

This standard ensures that assets are carried at no more than their recoverable amount, and defines how recoverable amount is determined. On May 29, 2013, the IASB issued Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) to clarify that the scope of the disclosure of information is limited to the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. Amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014. The effect of the amendments, which relates primarily to disclosure, has not been determined at this time.

NOTE 4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are on deposit in the Consolidated Cash Investment Trust Fund ("CCITF") of the Province which is managed with the objective of providing competitive interest income while maintaining appropriate security and liquidity of capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at December 31, 2013, securities held in CCITF have a rate of return of 1.2% per annum (2012: 1.3%). For purposes of the fair value hierarchy (see Note 5: Investments), the cash balance in the CCITF classified as Level 1 is $849 and as Level 2 is $6,676.

NOTE 5 INVESTMENTS

The Corporation has classified all investments, including units in the Universe Fixed Income Pool ("Bond Pool"), as available-for-sale. These investments are measured on the Statements of Financial Position at fair value.

NOTE 5 INVESTMENTS (Continued)

Fair Value

The fair value of the Corporation's financial instruments is summarized below:

(thousands of dollars)	December 31, 2013 Fair Value[1]	December 31, 2013 Cost	December 31, 2012 Fair Value[1]	December 31, 2012 Cost
Directly held:				
Securities issued or guaranteed by:				
Canada	$ 40,820	$ 41,122	$ 40,355	$ 38,694
Provinces	49,552	48,567	46,822	43,989
Financial institutions	53,319	52,535	53,221	51,807
Utility and transportation	12,053	12,176	-	-
Asset backed securities and other[2]	27,904	27,615	21,068	20,517
Bond Pool	32,798	32,913	32,596	31,387
Total	**$ 216,446**	**$ 214,928**	**$ 194,062**	**$ 186,394**

[1] Fair value is calculated using independent pricing sources and Canadian investment dealers. The calculation of fair value is based on market conditions or estimates at a point in time and may not be reflective of future fair value. Fair value is an estimated amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Investment in bonds and units in the Bond Pool are valued at year end quoted prices where available. For those investments where quoted market prices are not available, estimated fair values are calculated using discounted cash flows that reflect current market yields.

[2] Other securities total $115 (2012: $115) and are shares of Credit Union Central Alberta Limited ($100, 2012: $100) and Concentra Financial Services Association ($15, 2012: $15). These securities have no specified maturity and are classified as available-for-sale. As there is no market for the shares, the fair value is estimated at amortized cost.

Fair Value Hierarchy

The table below provides a summary of management's best estimate of the relative reliability of data or inputs used to measure the fair value of the Corporation's investments. The measure of reliability is determined based on the following three levels:

Level 1:	The fair value is based on quoted prices in active markets.
Level 2:	The fair value is based on inputs other than quoted prices that are observable market data. Generally included in this category would be Government of Canada bonds, provincial government bonds, municipal bonds and chartered bank deposit notes.
Level 3:	The fair value is based on inputs that are not based on observable market data.

(thousands of dollars)	Level 1	Level 2	Level 3	Total
Investment:				
Fixed income securities, directly held	$ 40,820	$ 142,713	$ 115	$ 183,648
Bond Pool	-	32,798	-	32,798
December 31, 2013 – Total	**40,820**	**175,511**	**115**	**216,446**
Percent	19%	81%	0%	100%
December 31, 2012 – Total	**15,074**	**178,873**	**115**	**194,062**
Percent	8%	92%	0%	100%
Increase/(decrease) during the year	**$ 25,746**	**$ (3,362)**	**$ -**	**$ 22,384**

There were no transfers between Level 1 and 2 in the period.

NOTE 5 INVESTMENTS (Continued)

Valuation Technique and Inputs

The valuation technique and key inputs used for Level 2 securities for fixed income securities and the Bond Pool are based on a vendor hierarchy:

- Using either spread pricing or curve pricing when direct quotes are not available. Spread pricing involves using interpolated spreads from liquid bonds and applying those to the valuation of illiquid bonds. Curve pricing involves using a variety of different generic quotes and terms to maturity to generate a curve of data points that would then be used to value securities using a linear interpolation.
- Using market observations to calculate evaluated prices for a variety of security types with a 3-pronged approach in the valuation algorithms: direct observations, historical tracking and observed comparables. The results are then weighted and aggregated based on the reliability of each input to arrive at a final evaluated price for that security.

Fair Value Classification of Bond Pool

The Corporation owns units in the Bond Pool and is considered to have exposure to the risks and benefits of those units in the pool and not the underlying investments. The classification of the Bond Pool is therefore determined based on the level that represents the most significant portion of the underlying investments in the entire pool. As a result, the value of all the units in the Bond Pool is categorized as Level 2.

Fair Value Measurement of Shares

The shares in Credit Union Alberta Central Limited ($100) and Concentra Financial Services Association ($15) are not quoted nor traded in an active market, the shares are issued and redeemed at par value, and there is no observable market data with which to reliably measure a fair value. On this basis, the shares are classified as Level 3 and the cost (i.e. par value) is considered to be the fair market value of the shares. There are no identifiable observable inputs and thus no inputs from which to determine the relationship to or sensitivity of fair market value to changes in unobservable inputs. During the year, there were no changes to the valuation of the shares (i.e. profit, loss, purchase, sales or transfers).

Investment Income

Investment income is as follows:

(thousands of dollars)	2013	2012
Investment and dividend income	$ 7,230	$ 7,006
Gain on sale of investments	593	614
Loss on sale of investments	(149)	(214)
Net gain on sale of investments	444	400
Total Investment Income	$ 7,674	$ 7,406

For 2013, no adjustments for impairment losses (2012: Nil) were required.

NOTE 5 INVESTMENTS (Continued)

Investment Risk Management

The Corporation's investment policy permits investments in fixed income securities on a segregated basis and units of a bond pool. Investments are independently managed by the Alberta Investment Management Corporation ("AIMCo"), an experienced independent fund manager. AIMCo is a provincial corporation responsible to the President of Treasury Board and Minister of Finance. The Corporation classified all investments in fixed income securities and the units in the Bond Pool as available-for-sale.

In accordance with the Corporate Investment Policy, the Corporation manages investment risk by maintaining a conservative portfolio, and engages AIMCo to manage the portfolio. The Corporation's management is responsible for monitoring performance, recommending changes to the Corporate Investment Policy and fund manager. The Board of Directors is responsible for governance and strategic direction of the investment portfolio through its annual review and approval of the Corporate Investment Policy.

Per the investment policy, the Corporation's investment portfolio is managed with the objective of providing 25 basis points greater than the average investment return over a rolling four year period on the aggregate portfolio based on market benchmarks comprised of 41.5% DEX Short Term *All Government Index*, 41.5% DEX Mid Term *All Government Index* and 17.0% on the DEX Universe Bond Index.

While the majority of funds are invested in high quality Canadian fixed income and debt related investments, a portion of the investments are maintained in a Bond Pool. Included in the Bond Pool are certain derivative contracts. Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. Derivative contracts held indirectly through pooled funds are used to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes.

The Corporation is exposed to risks of varying degrees of significance which could affect its ability to meet its obligation to guarantee deposits at credit unions. The main objectives of the Corporation's risk management processes are to properly identify risks and maintain adequate capital in relation to these risks. The principal investment risks to which the income and financial returns of the Corporation are exposed are described below.

Capital Risk

The Corporation is not subject to externally imposed regulatory capital requirements. The capital of the corporation consists of equity in the Deposit Guarantee Fund. Accumulated other comprehensive income is not included in the calculation of capital. The Corporation's capital target is for the Deposit Guarantee Fund to reach 1.5% of total credit union deposits and borrowings. This target is to be achieved by December 31, 2017. As at December 31, 2013, the fund is at 1.13% (2012: 1.07%) of total credit union deposits and borrowings. The Corporation manages equity through the following: quarterly reporting to the Board of Directors through its committees on financial results and equity, setting budgets and reporting variances to those budgets, establishing the Corporate Investment Policy, monitoring and reporting, and reviewing the adequacy of the Deposit Guarantee Fund annually in conjunction with the review of assessment rates for credit unions.

Credit Risk

Credit risk related to securities arises from the possibility that the counter-party to an instrument fails to discharge its contractual obligation to the Corporation or the possibility of a decline in the value of a debt security following a rating downgrade.

NOTE 5 INVESTMENTS (Continued)

Credit Risk (Continued)

To mitigate credit risk, the Corporation has established specific rules with respect to the credit ratings of counter-parties so that they do not fall below an acceptable threshold. The Corporation only invests in issuers of debt instruments with a credit rating of A for federal and provincial investments, AA for financial institutions, AAA for asset backed securities and A for utility and transportation from recognized credit rating agencies: Standard & Poors ("S&P") or Dominion Bond Rating Service ("DBRS"). DBRS is used to rate most fixed income investments, followed by S&P. The Bond Pool continues to limit its credit exposure to counter-parties with a credit standing of A plus unless there is a Credit Support Annex in place. In that instance, counter parties with a rating of A minus may be accepted.

The table below shows the credit risk exposure, by bond rating, at the end of the reporting period.

(thousands of dollars)	2013			2012		
Bond Rating	**Fair Value**	**Book Value**	**% of Total**	**Fair Value**	**Book Value**	**% of Total**
A	$ 3,332	$ 3,417	1.6%	$ -	$ -	-
AA	50,253	49,536	23.2%	-	-	-
AAA	71,675	71,622	33.1%	61,308	59,096	31.6%
AAM	-	-	-	53,221	51,807	27.4%
AAL	18,653	18,992	8.6%	17,896	17,304	9.2%
AH	39,620	38,333	18.3%	28,926	26,685	14.9%
Bond Pool	32,798	32,913	15.2%	32,596	31,387	16.8%
Total	**$ 216,331**	**$ 214,813**	**100.0%**	**$ 193,947**	**$ 186,279**	**100.0%**

Note: Excludes Credit Union Alberta Central Limited ($100) and Concentra Financial Services Association ($15) shares as there is no credit risk associated with these equities.

Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet the Corporation's cash and funding requirements in support of the guarantee of deposits at credit unions. Management expects that the Corporation's principal sources of funds will be cash generated from credit union deposit guarantee assessments and interest earned on its investments to meet its financial obligation to guarantee deposits at the credit unions. The Corporation's Investment Policy provides for a minimum of $3 million (2012: $3 million) of investments to be held in cash or financial instruments maturing within one year. All the Corporation's investments are classified as available-for-sale and can readily be sold should the need arise.

Market Risk

Market risk relates to the possibility that investments will change in value due to future fluctuations in market prices. Investments are carried on the Statements of Financial Position at fair value and are exposed to fluctuations in fair value. Changes in unrealized gains (losses) to the value of investments are recorded as other comprehensive income, net of any impairment which is recognized immediately in net income.

The Corporation is exposed to interest rate fluctuation as a result of normal market risk. This can affect cash flows, term deposits and fixed income securities at the time of maturity and re-investment of individual instruments. The Corporation's portfolio is positioned defensively on interest rates with shorter duration relative to its benchmark with

NOTE 5 INVESTMENTS (Continued)

Market Risk (Continued)

a view that the current low yield environment is not sustainable, especially in Canada. A one percent increase or decrease is used when reporting interest rates to represent management's assessment of a possible reasonable change in interest rates. Any changes would impact cash flow, term deposits and fixed income securities at the time of maturity and re-investment of individual instruments. An increase or decrease of one percent would result in a decrease or increase of $10,014 (2012: $9,000) in the fair value of total investments.

As at December 31, 2013, securities directly held (excluding the Bond Pool) have an average effective yield of 2.4% based on fair value (2012: 1.9%). These securities have the following term structure: under one year: 3% (2012: 3%), over one year and under five years: 55% (2012: 53%), and over five years and under ten years: 42% (2012: 44%).

The Corporation owns units in the Bond Pool representing approximately 0.5% of the Bond Pool's outstanding units. The Bond Pool is comprised of Canadian fixed-income instruments and debt related derivatives. As at December 31, 2013, securities held by the Bond Pool have an average effective market yield of 3.4% per annum (2012: 4.1% per annum) and the following term structure based on principal amount, net of obligations under repurchase agreements: under one year: (3)% (2012: 3%), one to five years: 42% (2012: 41%) and over five years: 61% (2012: 56%). The Bond Pool includes derivative contracts with a total net positive fair value of $133 (2012: $169). The investment in units of the Bond Pool can be liquidated with one week's notice.

NOTE 6 ASSESSMENTS RECEIVABLE

Assessments receivable are classified as 'loans and receivables' and are, therefore, measured at amortized cost. Assessments receivable refer to an accrued balance that will be owed by credit unions for the fourth quarter assessment to be charged by the Corporation. Since November 1, 2012, the annual assessment rate has been 0.14% of total credit union deposits and borrowings. Assessments are based on credit union quarter ends with the December receivable being an accrual based on October results. Invoices are not issued until February of the following year. Variances between the accruals made and actual billed are minimal. The majority of invoices are paid within a week of processing as payment is done via electronic fund transfers.

NOTE 7 RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with AIMCo, an Alberta Crown Corporation, and departments related to the Corporation by virtue of common control or influence by the Province. Routine operating transactions and outstanding balances with any related parties, which are settled at prevailing market prices under normal trade terms and conditions, no more or less favorable than with non-government parties dealing with arm's length, are incidental and not disclosed.

The Board of Directors, senior management and their immediate family members, are also deemed to be related parties. The Board Chair for the Corporation reports directly to the President of Treasury Board and Minister of Finance. As at the reporting date, there were no business relationships or transactions, other than compensation, between the Corporation, Board members and its senior management that require disclosure in these financial statements (Note 15: Directors' and Management Remuneration). As at December 31, 2013, the balance of compensation payable was $128 (2012: $112).

NOTE 8 CAPITAL ASSETS

Property and Equipment

(thousands of dollars)	2013	2012
Cost	$ 1,391	$ 1,386
Accumulated depreciation	(979)	(805)
Net Book Value	**412**	**581**
Furniture and equipment	45	61
Computer equipment	42	76
Leasehold improvements	325	444
Net Book Value	**$ 412**	**$ 581**

(thousands of dollars)	Furniture & Equipment	Computer Hardware	Leasehold Improvements	Total
Cost				
Balance at December 31, 2012	$ 431	$ 309	$ 646	$ 1,386
Additions	2	19	2	23
Disposals	(18)	-	-	(18)
Balance at December 31, 2013	**415**	**328**	**648**	**1,391**
Accumulated Depreciation				
Balance at December 31, 2012	370	233	202	805
Disposals	(17)	-	-	(17)
Depreciation and amortization expense	17	53	121	191
Balance at December 31, 2013	**370**	**286**	**323**	**979**
Net Book Value	**$ 45**	**$ 42**	**$ 325**	**$ 412**

As at December 31, 2013, the cost of fully depreciated capital assets that are still in use are as below:

(thousands of dollars)	2013	2012
Furniture and equipment	$ 331	$ 307
Computer equipment	195	141
Total Fully Depreciated Capital Assets	**$ 526**	**$ 448**

NOTE 8 CAPITAL ASSETS (continued)

Intangible Assets

(thousands of dollars)	2013	2012
Cost	$ 441	$ 400
Accumulated amortization	(270)	(284)
Net Book Value	**$ 171**	**$ 116**

As at December 31, 2013, the cost of fully amortized intangible assets is $258 (2012: $283).

NOTE 9 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are classified as 'financial liabilities' and therefore measured at amortized cost.

Accounts payable refers to trade payables. Trade payables are outstanding invoices to vendors, payable upon receipt. Accrued liabilities refer to obligations to employees or vendors where no invoice has been received.

(thousands of dollars)	2013	2012
Accounts payable	$ 21	$ 36
Accrued liabilities	669	848
Total accounts payable and accrued liabilities	**$ 690**	**$ 884**

NOTE 10 DEFERRED LEASE INDUCEMENTS

Deferred lease inducements consist of tenant improvements and four months free rent received at the commencement of the current lease for the office premises. The amount is recorded at amortized cost and is recognized as an offset against monthly rental lease payments over the term of the lease.

(thousands of dollars)	2013	2012
Tenant improvements	$ 213	$ 292
Free rent	53	73
Total lease inducements	**$ 266**	**$ 365**
Less current portion	(100)	(100)
Deferred lease inducements	**$ 166**	**$ 265**

NOTE 11 PROVISION FOR FINANCIAL ASSISTANCE

To fulfill the mandate described in Note 1: Nature of Organization and as described in Note 3: Provision for Financial Assistance, the Corporation assists Alberta credit unions experiencing financial difficulties when, and as required. The Corporation monitors credit unions experiencing financial difficulty and has a contingent responsibility to provide financial assistance in the outcomes referred to in Note 1: Nature of Organization.

The provision for financial assistance is based on potential payments that are established to include the probability and estimated amount of financial assistance payments for an individual credit union or, if deemed necessary by management, an assessment of the aggregate risk for the system.

A contingent liability for financial assistance arises from a liability of sufficient uncertainty with respect to the probability and amount of the expected outflows such that it does not qualify for recognition as a provision. Depending on the probability of loss occurring, contingent liabilities may be disclosed in the notes to the financial statements. Contingent liabilities may be established based on potential individual credit union assistance payments and/or an assessment of the aggregate risk in the credit union system.

Provisions and contingencies for financial assistance consist of the calculation of potential liabilities and contingencies to meet the IFRS standards. Calculations include management's judgment based on historical information and other factors. Credit union analysis includes a review of all credit unions based on key financial and risk information:

- Aggregate score and individual components of capital, asset quality, management, earnings and liquidity; and composite risk ratings;
- The credit union's financial strength, including capital strength to absorb potential losses and earnings trends;
- Whether the credit union appears to have appropriately valued assets;
- Loans in the Borrower Risk Rating ("BRR") that fall into categories 6 (Watch List), 7 (Unacceptable Risk – Non Performing), 8 (Impaired Risk Performing), and 9 (Impaired Risk Non Performing);
- Impaired loans by category and Loan Transaction Review ("LTR") results;
- Whether allowances for impairment appear reasonable compared to total impaired loans and loans in the BRR 8 and 9 categories; and
- Provisions and contingencies related to amalgamations or arrangements and any indemnity agreements.

(thousands of dollars)	Balance
Provision for financial assistance – December 31, 2011	$ 969
Change in provision for financial assistance	(731)
Provision for financial assistance – December 31, 2012	$ 238
Change in provision for financial assistance	(238)
Provision for financial assistance – December 31, 2013	$ -

(thousands of dollars)	2013	2012
Recovery of financial assistance		
Change in financial assistance provision	$ (238)	$ (731)
Financial assistance payments	238	724
Recoveries	(10)	(4)
Recovery of financial assistance	**$ (10)**	**$ (11)**

NOTE 12 COMMITMENTS

The Corporation is a lessee under an operating lease related to a five-year agreement for office space commencing September 2011 with an option to renew for an additional five years.

The following represents the minimum payments over the next five years.

Not later than one year	$ 584
Later than one year and not later than 5 years	$ 974
Later than 5 years	$ -

NOTE 13 INCOME TAXES (RECOVERY)

The Corporation is a deposit insurance corporation for income tax purposes and pays income taxes on its taxable income at the statutory rate prescribed for deposit insurance corporations. Its taxable income excludes deposit guarantee assessments and financial assistance recoveries and no deduction may be made for financial assistance payments.

The Corporation's statutory income tax rate is 21% (2012: 21%). Income taxes differ from the expected result that would have been obtained by applying the combined federal and provincial tax rate to income before taxes for the following reasons:

(thousands of dollars)	2013	2012
Expected income tax expense on pre-tax net income at the statutory rate	$ 5,834	$ 5,559
Add (deduct) tax effect of:		
Non-taxable assessments	(5,679)	(5,609)
Non-deductible provision for financial assistance	(2)	(2)
Other	$ (2)	$ 10
Current Tax	**$ 151**	**$ (42)**
Adjustments	22	10
Total Income Tax Expense (Recovery)	**$ 173**	**$ (32)**

At December 31, 2013, the non-depreciated property and equipment values for income tax purposes are lower than the related book values by approximately $21 (2012: $53). The resulting deferred tax liability is reflected in the Statements of Financial Position. The Corporation's future effective income tax rate is 21% (2012: 21%).

NOTE 14 ASSESSMENT REVENUE

The Corporation charges quarterly deposit guarantee assessments to credit unions to carry out its legislated mandate. In 2013, the Corporation earned $27,043 (2012: $26,706) from deposit guarantee assessments charged to credit unions. Assessments received by the Corporation from the largest credit union represent 60.1% of the total assessments received.

NOTE 15 DIRECTORS' AND MANAGEMENT REMUNERATION

	2013			
(thousands of dollars)	Salary[1]	Other Cash Benefits[3]	Other Non Cash Benefits[4]	Total
Chair[5,6]	$ 41	$ -	$ -	$ 41
Board members[5,6]	135	-	-	135
Current senior management:				
President & Chief Executive Officer[2]	250	50	13	313
Executive Vice President, Regulation & Risk Assessment	200	53	24	277
Vice President, Finance, Governance & Human Resources	183	50	26	259
Vice President, Strategy, Analysis & Information Technology	171	47	22	240
Total Remuneration	**$ 980**	**$ 200**	**$ 85**	**$ 1,265**

	2012			
(thousands of dollars)	Salary[1]	Other Cash Benefits[3]	Other Non Cash Benefits[4]	Total
Chair[5,6]	$ 38	$ -	$ -	$ 38
Board members[5,6]	191	-	-	191
Current senior management:				
President & Chief Executive Officer[2]	270	825	18	1,113
Executive Vice President, Regulation & Risk Assessment	198	52	23	273
Vice President, Finance, Governance & Human Resources	183	50	25	258
Vice President, Strategy, Analysis & Information Technology	170	47	22	239
Total Remuneration	**$ 1,050**	**$ 974**	**$ 88**	**$ 2,112**

[1] Salary includes regular base pay.

[2] The President & Chief Executive Officer commenced in March 2013. The Chair for the Board of Directors retired and a new Chair and three new Directors were appointed in the second quarter of 2013. The total value of the retirement allowance included in Other Cash Benefits paid to the retired President & Chief Executive Officer in 2012 was $800.

[3] Other cash benefits include bonus, computer grant and other allowances.

[4] Employer's share of all employee benefits and contributions or payments made on behalf of employees including Canada Pension Plan, Employment Insurance, group Registered Retirement Savings Plan, dental coverage, medical benefits, group life insurance, accidental disability and dismemberment insurance, professional memberships and staff fund. The total amount contributed to senior management RRSPs in the defined contribution plan was $34 (2012: $44).

[5] The Chair receives a $10 annual retainer which was paid to the retired Chair and his successor. The Chair and Board members are paid on a per diem basis for preparation and meeting time. The Deputy Minister of Treasury Board & Finance of the Province is a Board member but receives no remuneration from the Corporation.

[6] The minimum and maximum amounts paid to directors were $4 (2012: $6) and $34 (2012: $51) respectively. The average amount paid to directors was $18 (2012: $29).

NOTES TO FINANCIAL STATEMENTS
(Thousands of dollars)

NOTE 16 RETIREMENT BENEFIT PLANS

The Corporation maintains a defined contribution plan for its employees where the cost is charged to net income or expenses when recognized. The Corporation contributes 6% of the employees' gross salary including any paid vacation pay to each employee's RRSP on a matching basis, and participation is compulsory for all employees. The RRSP deductions are remitted monthly to the administrator of the group plan.

The total expense recognized in the Statements of Net Income and Other Comprehensive Income of $213 (2012: $212) represents contributions payable to these plans by the Corporation. As at December 31, 2013, no contributions (2012: Nil) were due in respect of the 2013 reporting period.

The Corporation does not have any defined benefit plans nor are there any post-retirement benefits.

NOTE 17 2013 BUDGET

The 2013 budget was approved by the Board of Directors on December 5, 2012.

NOTE 18 ADMINISTRATION EXPENSES

(thousands of dollars)	2013	2012
Salaries and benefits	$ 5,040	$ 5,612
Lease payments	487	449
Professional fees	347	364
Office	242	192
Depreciation and amortization	204	212
Other	186	341
Board and committee fees	176	229
Staff travel	144	169
Board and committee expenses	126	85
Total administration expenses	**$ 6,952**	**$ 7,653**

NOTE 19 COMPARATIVE FIGURES

Certain 2012 figures have been reclassified, where necessary, to conform to 2013 presentation.

Other Information

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Supplementary Information

Required by Legislation or by Direction of the President of Treasury Board and Minister of Finance

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Public Interest Disclosure (Whistleblower Protection) Act

(Unaudited)
For the year ended March 31, 2014

Section 32 of the *Public Interest Disclosure Act* requires the ministry to report annually on the following parts of the act:

(a) the number of disclosures received by the designated officer of the Public Interest Disclosure Office, the number of disclosures acted on and the number of disclosures not acted on by the designated officer;

(b) the number of investigations commenced by the designated officer as a result of the disclosures;

(c) in the case of an investigation that results in a finding of wrongdoing, a description of the wrongdoing and any recommendations made or corrective measures taken in relation to the wrongdoing or the reasons why no corrective measure was taken.

In 2013-14, there were no disclosures of wrongdoing filed with the Public Interest Disclosure Office.

Statement of Remissions, Compromises and Write-offs

(Unaudited)
For the year ended March 31, 2014

The following has been prepared pursuant to section 23 of the *Financial Administration Act*.

The statement includes all remissions, compromises and write-offs of the Ministry of Treasury Board and Finance made or approved during the fiscal year.

Write-offs	
Department of Treasury Board and Finance	
Accounts Receivable	
Corporate Income Tax	$ 42,768,933
Implemented guarantees and indemnities	
Gainers Inc. and subsidiaries	4,474
	42,773,407
ATB Financial	
Loans and accounts receivable	33,893,000
Total write-offs	$ 76,666,407

Statement of Borrowings Made Under Section 56(1) of the *Financial Administration Act*

(Unaudited)
For the year ended March 31, 2014

The following has been reported pursuant to section 56(2) of the *Financial Administration Act*.

	Issue Principal	Proceeds
Payable in Canadian dollars:		
Promissory Notes	$ 11,545,000,000	$ 11,528,816,718
Debentures	8,407,950,000	8,220,435,710
	$ 19,952,950,000	$ 19,749,252,428

Statement of the Amount of Debt of the Crown for Which Securities Were Pledged

(Unaudited)
For the year ended March 31, 2014

The following statement has been prepared pursuant to section 66(2) of the *Financial Administration Act*.

The amount of the debt of the crown outstanding at the end of the 2013-14 fiscal year for which securities were pledges under Part 6 of the *Financial Administration Act* was $ nil.

Statements of Guarantees and Indeminities

(Unaudited)
For the year ended March 31, 2014

The following statement has been prepared pursuant to section 75 of the *Financial Administration Act*.

The statement summarizes the amounts of all guarantees and indemnities given by the Ministry of Finance and Enterprise on behalf of the Crown and Provincial Corporations for the year ended March 31, 2011, the amounts paid as a result of liability under guarantees and indemnities, and the amounts recovered in debts owing as a result of payments under guarantees and indemnities.

Program/Borrower	Payments	Recoveries
CROWN GUARANTEES		
Gainers Inc. and subsidiaries	$ 4,474	$ -

LOCAL AUTHORITIES PENSION PLAN

Financial Statements

Year Ended December 31, 2013

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance and
the Local Authorities Pension Plan Board of Trustees

Report on the Financial Statements

I have audited the accompanying financial statements of the Local Authorities Pension Plan, which comprise the statement of financial position as at December 31, 2013, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Local Authorities Pension Plan as at December 31, 2013, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 16, 2014

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2013

	($ thousands)	
	2013	**2012**
Net assets available for benefits		
Assets		
Investments (Note 3)	$26,462,783	$22,799,744
Contributions receivable		
Employers	37,192	35,026
Employees	34,040	31,860
Accounts receivable	30,343	16,274
Total Assets	26,564,358	22,882,904
Liabilities		
Accounts payable	14,155	20,407
Accrued investment expenses	19	-
Total Liabilities	14,174	20,407
Net assets available for benefits	$ 26,550,184	$ 22,862,497
Pension obligation and deficit		
Pension obligation (Note 5)	$31,411,700	$27,839,800
Deficit (Note 6)	(4,861,516)	(4,977,303)
Pension obligation and deficit	$26,550,184	$22,862,497

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2013

	($ thousands)	
	2013	**2012**
Increase in assets		
Contributions (Note 7)	$ 2,074,795	$ 1,905,758
Investment income (Note 8)	2,859,591	2,319,365
Transfers from other plans	29,724	79,401
	4,964,110	4,304,524
Decrease in assets		
Benefit payments (Note 10)	1,073,227	944,308
Transfers to other plans	24,307	26,585
Investment expenses (Note 11)	149,510	104,080
Administrative expenses (Note 12)	29,379	29,864
	1,276,423	1,104,837
Increase in net assets	3,687,687	3,199,687
Net assets available for benefits at beginning of year	22,862,497	19,662,810
Net assets available for benefits at end of year	$ 26,550,184	$ 22,862,497

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2013

	($ thousands)	
	2013	**2012**
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 1,704,700	$ 1,582,900
Benefits earned	1,546,400	1,384,200
Net increase due to actuarial assumption changes (Note 5a)	1,415,000	1,492,500
Net experience losses (gains) (Note 5b)	4,700	(3,800)
	4,670,800	4,455,800
Decrease in pension obligation		
Benefits, transfers and interest	1,098,900	918,200
Net increase in pension obligation	3,571,900	3,537,600
Pension obligation at beginning of year	27,839,800	24,302,200
Pension obligation at end of year (Note 5)	$ 31,411,700	$ 27,839,800

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2013

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Local Authorities Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41, and the *Local Authorities Pension Plan* Alberta Regulation 366/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, school divisions, school districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0216556. The Alberta President of Treasury Board and Minister of Finance is the legal trustee of the Plan and Alberta Treasury Board and Finance is management of the Plan. The Local Authorities Pension Plan Board of Trustees (the Board) has certain statutory functions with respect to the Plan, including but not limited to setting general policy guidelines on investment and management of the Plan Fund's assets and administration of the Plan, setting contribution rates, conducting actuarial valuations and making recommendations for Plan rule amendments. The Alberta Local Authorities Pension Plan Corp. (LAPP Corp.) supports the Board's functions and provides high level strategic guidance to the Plan.

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 14) are funded by employers and employees at contribution rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2013 were 9.43% (2012: 8.91%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 13.47% (2012: 12.74%) of the excess for employees, and 10.43% (2012: 9.91%) of pensionable earnings up to the YMPE and 14.47% (2012: 13.74%) of the excess for employers.

The contribution rates were reviewed by the Board in 2013 and are to be reviewed at least once every three years based on recommendations of the Plan's actuary. As a result of that review, the contribution rates have increased at January 1, 2014 as follows: 10.39% of pensionable salary up to the YMPE and 14.84% of the excess for employees, and 11.39% of pensionable salary up to the YMPE and 15.84% of the excess for employers.

c) RETIREMENT BENEFITS

The Plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the average YMPE over the same five consecutive year period and 2.0% on the excess, subject to the maximum

pension benefit limit allowed under the *Income Tax Act*. The maximum pensionable service allowable under the Plan is 35 years. Unreduced pensions are payable to members at retirement who have attained age 65, or have attained age 55 and the sum of their age and years of pensionable service equals at least 85. Reduced pensions are payable to members at age 55 or older retiring early with a minimum of two years of pensionable service.

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least two years of pensionable service. Reduced pensions may be payable to members who become partially disabled and retire early with at least two years of pensionable service.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least two years of pensionable service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner, or where pensionable service is less than two years, a lump sum payment will be made.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with at least two years of membership and who are not immediately entitled to a pension may receive the commuted value for all years of membership, contributions paid in respect of optional service with interest, plus excess contributions if applicable, with the commuted value being subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with fewer than two years of membership receive a refund of their contributions and interest. These payments are included as refunds to members on the statement of changes in net assets available for benefits.

g) OPTIONAL SERVICE AND RECIPROCAL TRANSFERS

All optional service purchases are to be cost-neutral to the Plan. The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about

the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established under Part 5 of the *Financial Administration Act* of Alberta. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

Investment income includes the following:

i) Income distributions from the pools are recorded in the Plan's accounts and included in investment income on the statement of changes in net assets (see Note 8). Income distributions are based on the Plan's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of units and unrealized gains and losses on units are recorded in the Plan's accounts and included in investment income on the

statement of changes in net assets. Realized gains and losses on disposal of units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts, including transaction costs, charged to the Plan by AIMCo (see Note 11). Investment expenses are recorded on an accrual basis.

e) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at the beginning of the year and results from the most recent valuation are extrapolated to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds, real estate and timberland investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

g) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) approved by the Plan's board. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

($ thousands)

	Fair Value Hierarchy [a]			2013	2012
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Fixed income					
Deposits and short-term securities	$ -	$ 294,323	$ -	$ 294,323	$ 222,281
Bonds and mortgages	-	6,572,083	770,027	7,342,110	6,674,942
	-	6,866,406	770,027	7,636,433	6,897,223
Inflation sensitive and alternatives					
Real estate	-	-	3,425,524	3,425,524	3,133,105
Real return bonds	-	1,037,710	-	1,037,710	1,049,122
Infrastructure and private debt and loans	-	-	1,289,947	1,289,947	1,172,205
Timberland	-	-	353,111	353,111	252,507
	-	1,037,710	5,068,582	6,106,292	5,606,939
Short horizon					
Canadian equities	2,002,089	1,205,660	-	3,207,749	2,766,788
Global developed equities	3,374,094	1,361,711	1,444,600	6,180,405	5,021,697
Emerging market equities	837,532	114,303	151,749	1,103,584	765,034
Small cap equity	954,486	-	-	954,486	670,092
	7,168,201	2,681,674	1,596,349	11,446,224	9,223,611
Long horizon					
Private equities	-	-	1,273,834	1,273,834	1,071,971
Total investments	$7,168,201	$ 10,585,790	$8,708,792	$26,462,783	$22,799,744

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $7,168,201 (2012: $5,956,501).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $10,585,790 (2012: $9,345,741). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $8,708,792 (2012: $7,497,502).

*** Reconciliation of Level 3 Fair Value Measurement**

	($ thousands)	
	2013	**2012**
Balance, beginning of year	$ 7,497,502	$ 6,628,491
Investment income	1,034,533	860,985
Purchases of Level 3 pooled fund units	1,140,537	985,348
Sale of Level 3 pooled fund units	(963,780)	(977,322)
Balance, end of year	$ 8,708,792	$ 7,497,502

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Fixed income:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Inflation sensitive and alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Private debt and loans is valued similar to private mortgages. Infrastructure investments are valued similar to private equity investments.
- ***Short horizon:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers.
- ***Long horizon***: The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.

NOTE 3 INVESTMENTS CONTINUED

- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pooled investment funds created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix December 31, 2013		Actual Asset Mix December 31, 2012	
		($ thousands)	*%*	*($ thousands)*	*%*
Fixed income	20 - 50%	$ 7,636,433	28.9	$ 6,897,223	30.2
Inflation sensitive and alternatives	20 - 50%	6,106,292	23.1	5,606,939	24.6
Short horizon	25 - 50%	11,446,224	43.2	9,223,611	40.5
Long horizon	3 - 9%	1,273,834	4.8	1,071,971	4.7
		$26,462,783	100.0	$22,799,744	100.0

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes these debt securities by counterparty credit rating at December 31, 2013:

Credit rating	2013	2012
Investment Grade (AAA to BBB-)	90%	88%
Speculative Grade (BB+ or lower)	0%	2%
Unrated	10%	10%
	100%	100%

ii) Counterparty default risk - derivative contracts

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2013, the Plan's share of securities loaned under this program is $1,558 million and collateral held totals $1,641 million. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 30% of the Plan's investments, or $7,830 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (16%) and the Euro (3%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 3.0% (2012: 2.6%).

The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2013:

($ millions)

	2013		2012	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 4,181	$ (418)	$ 3,149	$ (315)
Euro	806	(81)	711	(71)
British pound	524	(52)	403	(40)
Japanese yen	492	(49)	376	(38)
Swiss franc	218	(22)	141	(14)
Australian dollar	199	(20)	203	(20)
Other foreign currencies	1,410	(141)	1,018	(102)
Total foreign currency investments	$ 7,830	$ (783)	$ 6,001	$ (600)

c) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 3.2% (2012: 3.6%).

d) Price Risk

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Plan would be approximately 4.9% (2012: 5.5%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through

income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4f).

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	**2013**	**2012**
Contracts in favourable position (current credit exposure)	27	$ 243,621	$ 174,094
Contracts in unfavourable position	18	(121,566)	(49,343)
Net fair value of derivative contracts	45	$ 122,055	$ 124,751

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $243,621 (2012: $174,094) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	**2013**	**2012**
Structured equity replication derivatives	$ 169,827	$ 135,329
Foreign currency derivatives	(51,989)	(16,806)
Interest rate derivatives	5,366	8,842
Credit risk derivatives	(1,149)	(2,614)
Net fair value of derivative contracts	$ 122,055	$ 124,751

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At December 31, 2013 deposits in futures contracts margin accounts totalled $123,611 (2012: $38,859) and deposits as collateral for derivative contracts totalled $52,157 (2012: $Nil).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2012 by Mercer (Canada) Limited and results were then extrapolated to December 31, 2013.

The actuarial assumptions used in determining the value of the pension obligation of $31,411,700 (2012: $27,839,800) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2013	2012
	%	
Discount rate	5.90	5.80
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50
Mortality rate**		

* In addition to age specific merit and promotion increase assumptions.

** Mortality rate used for 2013 is the 2014 Canadian Pension Mortality Table (Public Sector) and for 2012 was the Uninsured Pensioner 1994 table projected generationally.

The Board's policy is to have an actuarial valuation of the Plan carried out every year. As a result, an actuarial valuation of the Plan as at December 31, 2013 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2014.

b) NET EXPERIENCE LOSSES (GAINS)

Experience losses of $4,700 (2012: gains of $3,800) arose from differences between the actuarial assumptions used in the 2012 valuation and 2013 extrapolation for reporting compared to actual results.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2013:

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings [1]
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	2,373,800	1.2
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	1,300,100	1.4
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	5,380,200	3.8

[1] The current service cost as a percentage of pensionable earnings as determined by the December 31, 2013 extrapolation was 16.97%.

NOTE 6 DEFICIT

	($ thousands)	
	2013	**2012**
Deficit at beginning of year	$ (4,977,303)	$ (4,639,390)
Increase in net assets available for benefits	3,687,687	3,199,687
Net increase in pension obligation	(3,571,900)	(3,537,600)
Deficit at end of year	$ (4,861,516)	$ (4,977,303)

NOTE 7 CONTRIBUTIONS

	($ thousands)	
	2013	**2012**
Current and optional service		
Employers	$ 1,067,794	$ 959,937
Contribution from Alberta Health Services [(a)]	-	44,980
Employees	975,876	873,287
Past service		
Employers	8,273	7,308
Employees	22,852	20,246
	$ 2,074,795	$ 1,905,758

[(a)] This was a one time, additional contribution, that relates to the transfer of employees from Public Service Pension Plan to Local Authorities Pension Plan.

NOTE 8 INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class:

	($ thousands)	
	2013	**2012**
Fixed Income	$ (180,719)	$ 356,338
Inflation sensitive and alternatives		
Real estate	398,590	433,059
Real return bonds	(132,541)	32,397
Infrastructure and private debt and loans	109,690	85,971
Timberland	85,217	1,964
	460,956	553,391
Short horizon		
Canadian equities	432,385	306,506
Foreign equities	2,082,166	987,507
	2,514,551	1,294,013
Long horizon		
Private equities	64,803	115,623
	$ 2,859,591	$ 2,319,365

Investment income includes realized gains and losses from disposal of pool units, unrealized gains and losses on units and income distributions from the pools.

Income distributions from the pools is based on income earned by the pools determined on an accrual basis which includes interest, dividends, security lending income, realized gains and losses on sale of securities held by the pools, realized foreign exchange gains and losses, writedowns of securities held in the pools and income and expense earned on derivative contracts. Realized gains and losses are determined on an average cost basis. Impairment charges related to the writedown of securities held in the pools are indicative of a loss in value that is other than temporary.

NOTE 9 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2013	2012	2011	2010	2009
	in per cent				
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	11.3	9.5	5.2	11.5	11.1
Value added return (loss) by investment manager	-	1.6	1.5	(1.6)	(1.5)
Total return on investments [(a)]	11.3	11.1	6.7	9.9	9.6
Other sources [(b)]	4.8	5.2	4.5	5.2	4.1
Per cent change in net assets [(c)]	**16.1**	**16.3**	**11.2**	**15.1**	**13.7**
Per cent change in pension obligation [(c)]	**12.8**	**14.6**	**8.9**	**15.3**	**8.0**
Per cent of pension obligation supported by net assets	**85**	**82**	**81**	**79**	**79**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 9.7% (PBR: 9.7%), ten years is 7.4% (PBR: 7.5%) and twenty years is 7.5% (PBR: 7.5%). The total return reported for 2012 was revised by AIMCo to conform to valuation changes made by AIMCo subsequent to the completion of the 2012 financial statements. The total return in 2012 increased by 0.3% from 10.8% to 11.1% attributed to an increase in the value added return by the investment manager.

(b) Other sources includes employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

(c) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 10 BENEFIT PAYMENTS

	($ thousands)	
	2013	**2012**
Retirement benefits	$ 747,264	$ 674,643
Disability benefits	10,091	9,809
Termination benefits	254,975	209,502
Death benefits	60,897	50,354
	$ 1,073,227	$ 944,308

NOTE 11 INVESTMENT EXPENSES

	($ thousands)	
	2013	**2012**
Amount charged by:		
AIMCo [a]	$ 149,458	$ 104,028
Alberta Treasury Board and Finance [b]	52	52
Total investment expenses	$ 149,510	$ 104,080
Increase in expenses	43.65%	48.08%
Increase in average investments under management	16.1%	13.8%
Investment expense as a percent of:		
Dollar earned	5.23%	4.49%
Dollar invested	0.61%	0.49%
Average fair value of investments	$24,631,264	$21,207,448
Investment expenses per member	$ 658	$ 475

(a) For investment management services. Please refer to AIMCo's financial statements for a detailed breakdown of expenses. In 2013, investment expenses include external performance fees of $34,071. In 2012 and prior years, external performance fees were netted against investment income. External performance fees for 2012 totalled $22,395.

(b) For investment accounting and Plan reporting services.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands)	
	2013	**2012**
General administration costs and process improvement costs		
Alberta Pensions Services Corporation (APS)	$ 26,918	$ 27,225
Alberta Local Authorities Pension Plan Corporation (LAPP Corp.)	2,074	2,086
Actuarial fees	387	492
Audit fees	-	61
	29,379	29,864
Member service expenses per member	$ 129	$ 136

General administration costs and process improvement costs, including the Board costs were paid to APS and LAPP Corp. on a cost-recovery basis.

The Plan's share of APS's operating and plan specific costs were based on cost allocation policies approved by the President of Treasury Board and Minister of Finance.

LAPP Corp. costs include remuneration to senior officials and the Board members as follows:

	($ thousands)				
	2013				2012
	Base Salary (a)	Other Cash Benefits (b)	Other Non-Cash Benefits (c)	Total	Total
Corporation Board Chair [d]	$ -	$ 34	$ -	$ 34	$ 40
Corporation Board Members (excluding Chair) [d]	-	96	-	96	117
President & Chief Executive Officer	214	51	61	326	318
Vice-Presidents:					
Investments	141	49	7	197	194
Pension Policy and Funding [e]	130	22	30	182	99
Stakeholder Relations	137	23	34	194	189

(a) Base salary includes regular base pay.

(b) Other cash benefits include incentive pay, lump sum payments, vacation payouts and car allowance honoraria.

(c) Other non-cash benefits include the Corporation's share of all employees' benefits and contributions or payments made on their behalf including pension, health care, dental coverage, professional memberships and group life insurance.

(d) Remuneration paid for the services of the Chair and 13 board members is classified under Board meeting fees and is paid in accordance with the fee structure approved by the President of Treasury Board and Minister of Finance.

(e) This position was vacant for five months in 2012.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $178,889 (2012: $133,944) or $787 (2012: $612) per member and 0.67% (2012: 0.59%) of net assets under administration.

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's SIP&G approved by the Board.

The Plan's asset values are determined on the fair value basis for accounting purposes. However for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset value for funding valuation purposes amounted to $25,101,400 at December 31, 2013 (2012: $22,975,200).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency as determined by actuarial funding valuations is being funded by special payments currently

NOTE 14 CAPITAL CONTINUED

totalling 7.40% of pensionable earnings shared equally between employers and employees until December 31, 2026. The special payments have been included in the rates in effect at December 31, 2013 (see Note 1b).

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2013 presentation.

NOTE 16 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance, based on information provided by APS, LAPP Corp., AIMCo and the Plan's actuary, and after consultation with the Board.

MANAGEMENT EMPLOYEES PENSION PLAN

Financial Statements

Year Ended December 31, 2013

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Management Employees Pension Plan, which comprise the statement of financial position as at December 31, 2013, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Management Employees Pension Plan as at December 31, 2013, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 16, 2014

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2013

	($ thousands)	
	2013	**2012**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 3,460,621	$ 2,984,755
Contributions receivable		
Employers	560	525
Employees	327	305
Accounts receivable and accrued investment income	2,482	1,350
Total Assets	3,463,990	2,986,935
Liabilities		
Accounts payable	365	585
Total Liabilities	365	585
Net assets available for benefits	$ 3,463,625	$ 2,986,350
Pension obligation and surplus or deficit		
Pension obligation (Note 5)	$ 3,413,168	$3,289,773
Surplus (Deficit) (Note 6)	50,457	(303,423)
Pension obligation and surplus or deficit	$ 3,463,625	$ 2,986,350

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2013

	($ thousands)	
	2013	**2012**
Increase in Assets		
Contributions (Note 7)	$ 174,493	$ 168,082
Investment income (Note 8)	478,612	340,083
Transfers from other plans, net	16,853	12,319
	669,958	520,484
Decrease in Assets		
Benefit payments (Note 10)	170,465	153,778
Investment expenses (Note 11)	19,820	14,032
Administrative expenses (Note 12)	2,398	2,180
	192,683	169,990
Increase in net assets	477,275	350,494
Net assets available for benefits at beginning of year	2,986,350	2,635,856
Net assets available for benefits at end of year	$ 3,463,625	$ 2,986,350

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2013

	($ thousands)	
	2013	**2012**
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 205,529	$ 195,418
Benefits earned	116,637	119,266
	322,166	314,684
Decrease in pension obligation		
Benefits, transfers and interest	153,612	141,459
Net decrease (increase) due to actuarial assumption changes (Note 5a)	34,802	(4,420)
Net experience gains (Note 5b)	10,357	41,454
	198,771	178,493
Net increase in pension obligation	123,395	136,191
Pension obligation at beginning of year	3,289,773	3,153,582
Pension obligation at end of year (Note 5)	$ 3,413,168	$ 3,289,773

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2013

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Management Employees Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act,* Revised Statutes of Alberta 2000, Chapter P-41 and the *Management Employees Pension Plan* Alberta Regulation 367/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0570887. The President of Treasury Board and Minister of Finance is the legal trustee for the Plan and Alberta Treasury Board and Finance is management of the Plan. The Plan receives advice from the Management Employees Pension Board (the Board).

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 14) are funded by employees and employers at contribution rates, which together with investment earnings, are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2013 are unchanged at 11.16% (2012: 11.16%) of pensionable salary up to the maximum pensionable salary limit under the *Income Tax Act* for employees and 19.14% (2012: 19.14%) for employers.

The contribution rates were reviewed in 2013 and are reviewed at least once every three years by the President of Treasury Board and Minister of Finance, in consultation with the Board, based on recommendations of the Plan's actuary. As a result of this review, the contribution rates have been set at January 1, 2014 as follows: 12.80% of pensionable salary up to the maximum pensionable salary limit under the *Income Tax Act* for employees and 21.85% for employers.

c) RETIREMENT BENEFITS

The Plan provides a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. Pensionable earnings after December 31, 1991 are capped at the maximum pensionable salary limit under the *Income Tax Act*. The maximum service allowable under the Plan is 35 years.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of service.

Members are entitled to an unreduced pension on service after 1991 if they retire with at least five years of service and have either attained age 60, or age 55 and the sum of their

age and years of service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 and the 80 factor is not attained.

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability benefits.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least five years of service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension, or a lump sum payment. For a beneficiary other than a pension partner, or where service is less than five years, the benefits take the form of a lump sum payment.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with fewer than five years of service receive a refund of their contributions plus interest. The refunds are accounted for as refunds to members on the statement of changes in net assets available for benefits.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a lump sum payment or a deferred pension. The lump sum payment is based on contributions and interest in relation to service before 1992 and commuted value for service after 1991. The commuted value portion of the lump sum payment is subject to the Plan's lock-in provisions.

g) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about

the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established under Part 5 of the *Financial Administration Act* of Alberta. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

Investment income includes the following:

i) Income distributions from the pools are recorded in the Plan's accounts and included in investment income on the statement of changes in net assets (see Note 8). Income distributions are based on the Plan's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of units and unrealized gains and losses on units are recorded in the Plan's accounts and included in investment income on the

statement of changes in net assets. Realized gains and losses on disposal of units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts, including transaction costs, charged to the Plan by AIMCo (see Note 11). Investment expenses are recorded on an accrual basis.

e) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds and real estate investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds and real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumptions or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

g) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the MEPP Investment Policy (IP) approved by the Plan's board. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

	($ thousands)				
	Fair Value Hierarchy [a]			**2013**	**2012**
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Money market and fixed income					
Deposits and short-term securities	$ -	$ 21,855	$ -	$ 21,855	$ 24,410
Bonds and mortgages	-	323,006	120,144	443,150	380,449
	-	344,861	120,144	465,005	404,859
Equities					
Canadian	302,334	180,792	-	483,126	413,627
Foreign	997,269	344,916	194,662	1,536,847	1,308,803
Private	-	-	196,929	196,929	133,082
	1,299,603	525,708	391,591	2,216,902	1,855,512
Inflation sensitive					
Real estate	-	-	231,810	231,810	211,335
Infrastructure	-	-	148,732	148,732	166,521
Private debt	-	-	38,597	38,597	-
Real return bonds	-	359,575	-	359,575	346,528
	-	359,575	419,139	778,714	724,384
Total investments	$ 1,299,603	$ 1,230,144	$ 930,874	$ 3,460,621	$ 2,984,755

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $1,299,603 (2012: $1,169,256).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $1,230,144 (2012: $1,112,645). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments $930,874 (2012: $702,854).

*** Reconciliation of Level 3 Fair Value Measurement**

	($ thousands)	
	2013	**2012**
Balance, beginning of year	$ 702,854	$ 638,561
Investment income	96,260	80,091
Purchases of Level 3 pooled fund units	229,750	96,091
Sale of Level 3 pooled fund units	(97,990)	(111,889)
Balance, end of year	$ 930,874	$ 702,854

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Money market and fixed income:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. Private debt and loans is valued similar to private mortgages. Infrastructure investments are valued similar to private equity investments. Real return bonds are valued similar to public interest bearing securities.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows

NOTE 3 INVESTMENTS CONTINUED

using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pooled investment funds created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the IP approved by the Board. The purpose of the IP is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix			
		December 31, 2013		December 31, 2012	
		($ thousands)	*%*	*($ thousands)*	*%*
Money market and fixed income	10 - 40%	$ 465,005	13.4	$ 404,859	13.5
Equities	40 - 70%	2,216,902	64.1	1,855,512	62.2
Inflation sensitive	15 - 40%	778,714	22.5	724,384	24.3
		$ 3,460,621	100.0	$ 2,984,755	100.0

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual

obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The following table summarizes the Plan's investment in debt securities by counterparty credit rating at December 31, 2013:

Credit rating	2013	2012
Investment Grade (AAA to BBB-)	87%	89%
Speculative Grade (BB+ or lower)	0%	1%
Unrated	13%	10%
	100%	100%

ii) Counterparty default risk - derivative contracts

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2013, the Fund's share of securities loaned under this program is $148 million and collateral held totals $154 million. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 49% of the Plan's investments, or $1,687 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (27%) and the Euro (5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 4.9% (2012: 4.5%).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2013:

	($ millions)			
	2013		2012	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 935	$ (94)	$ 711	$ (71)
Euro	185	(18)	162	(16)
British pound	114	(11)	105	(11)
Japanese yen	107	(11)	81	(8)
Swiss franc	51	(5)	33	(3)
Australian dollar	38	(4)	45	(5)
Other foreign currencies	257	(26)	215	(21)
Total foreign currency investments	$ 1,687	$ (169)	$ 1,352	$ (135)

c) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 2.1% (2012: 2.2%).

d) Price Risk

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Plan would be approximately 6.2% (2012: 6.4%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4f).

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	**2013**	**2012**
Contracts in favourable position (current credit exposure)	24	$ 48,198	$ 36,462
Contracts in unfavourable position	21	(25,942)	(16,641)
Net fair value of derivative contracts	45	$ 22,256	$ 19,821

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $48,198 (2012: $36,462) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	**2013**	**2012**
Structured equity replication derivatives	$ 27,150	$ 21,481
Foreign currency derivatives	(4,994)	(1,701)
Interest rate derivatives	394	688
Credit risk derivatives	(294)	(647)
Net fair value of derivative contracts	$ 22,256	$ 19,821

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At December 31, 2013 deposits in futures contracts margin accounts totalled $23,058 (2012: $7,895) and deposits as collateral for derivative contracts totalled $6,773 (2012: $nil).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2012 by Aon Hewitt and was then extrapolated to December 31, 2013.

The actuarial assumptions used in determining the value of the pension obligation of $3,413,168 (2012: $3,289,773) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2013	2012
	%	
Discount rate	6.90	6.30
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50
Mortality rate**		

* In addition to age specific merit and promotion increase assumptions.

** Mortality rate used for 2013 is the 2014 Canadian Pension Mortality Table (Public Sector) and for 2012 was the Uninsured Pensioner 1994 table projected generationally.

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2015. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2016.

b) NET EXPERIENCE GAINS

Net experience gains of $10,357 (2012: $41,454) reflect the results of the valuation as at December 31, 2012 extrapolated to December 31, 2013.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2013:

	($ thousands)		
	Changes in Assumptions	Increase in Plan Deficiency	Increase in Current Service Cost as a % of Pensionable Earnings *
	%	$	
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	242,900	1.4
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	27,500	0.4
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	458,400	5.2

* The current service cost of accruing benefits (including 0.4% allowance for administration expenses) as a percentage of pensionable earnings as at December 31, 2012 valuation was 19.9%.

NOTE 6 SURPLUS (DEFICIT)

	($ thousands)	
	2013	2012
Deficit at beginning of year	$ (303,423)	$ (517,726)
Increase in net assets available for benefits	477,275	350,494
Net increase in pension obligation	(123,395)	(136,191)
Surplus (Deficit) at end of year	$ 50,457	$ (303,423)

NOTE 7 CONTRIBUTIONS

	($ thousands)	
	2013	2012
Current service		
Employers	$ 107,843	$ 104,139
Employees	62,887	60,726
Past service		
Employers	1,258	546
Employees	2,505	2,671
	$ 174,493	$ 168,082

NOTE 8 INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class:

	($ thousands)	
	2013	**2012**
Money market and fixed income	$ 3,320	$ 24,361
Equities		
Canadian	65,065	44,848
Foreign	398,123	202,520
Private	14,277	17,992
	477,465	265,360
Inflation sensitive		
Real estate	26,904	29,051
Infrastructure	12,360	10,402
Private debt	3,973	-
Real return bonds	(45,410)	10,909
	(2,173)	50,362
	$ 478,612	$ 340,083

Investment income includes realized gains and losses from disposal of pool units, unrealized gains and losses on units and income distributions from the pools.

Income distributions from the pools is based on income earned by the pools determined on an accrual basis which includes interest, dividends, security lending income, realized gains and losses on sale of securities held by the pools, realized foreign exchange gains and losses, writedowns of securities held in the pools and income and expense earned on derivative contracts. Realized gains and losses are determined on an average cost basis. Impairment charges related to the writedown of securities held in the pools are indicative of a loss in value that is other than temporary.

NOTE 9 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2013	2012	2011	2010	2009
	in per cent				
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	15.1	9.8	1.5	10.7	15.1
Value added return (loss) by investment manager	(0.2)	2.5	0.9	(0.5)	-
Total return on investments [a]	**14.9**	**12.3**	**2.4**	**10.2**	**15.1**
Other sources [b]	1.1	1.0	0.4	0.9	2.0
Per cent change in net assets [c]	**16.0**	**13.3**	**2.8**	**11.1**	**17.1**
Per cent change in pension obligation [c]	**3.7**	**4.3**	**6.5**	**6.1**	**9.9**
Per cent of pension obligation supported by net assets	**101**	**91**	**84**	**87**	**83**

[a] All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 10.9% (PBR: 10.3%), ten years is 7.3% (PBR: 7.2%) and twenty years is 7.7% (PBR: 7.5%). The total return reported for 2012 was revised by

AIMCo to conform to valuation changes made by AIMCo subsequent to the completion of the 2012 financial statements. The total return in 2012 increased by 0.3% from 12.0% to 12.3% attributed to an increase in the value added return by the investment manager.

(b) Other sources includes employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

(c) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 10 BENEFIT PAYMENTS

	($ thousands)	
	2013	**2012**
Retirement benefits	$ 151,775	$ 139,803
Disability benefits	339	342
Termination benefits	15,062	8,929
Death benefits	3,289	4,704
	$ 170,465	$ 153,778

NOTE 11 INVESTMENT EXPENSES

	($ thousands)	
Amount charged by:	**2013**	**2012**
AIMCo [a]	$ 19,768	$ 13,980
Alberta Treasury Board and Finance [b]	52	52
Total investment expenses	$ 19,820	$ 14,032
Increase in expenses	41.2%	72.2%
Increase in average investments under management	14.7%	8.1%
Investment expenses as a percent of :		
Dollar earned	4.1%	4.1%
Dollar invested	0.61%	0.50%
Investment expenses per member	$ 1,908	$ 1,396

(a) For investment management services. Please refer to AIMCo's financial statements for a detailed breakdown of expenses. In 2013, investment expenses include external performance fees of $4,553. In 2012 and prior years, external performance fees were netted against investment income. External performance fees for 2012 totalled $3,218.

(b) For investment accounting and Plan reporting services.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands)	
	2013	**2012**
General administration costs	$ 1,874	$ 1,701
Board costs	98	95
Actuarial fees	164	105
Audit fees	-	50
Other professional fees	262	229
	2,398	2,180
Member service expenses per member	$ 231	$ 217

NOTE 12 ADMINISTRATIVE EXPENSES CONTINUED

General Administration and the Board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

The Plan's share of APS's operating and plan specific costs was based on cost allocation policies approved by the President of Treasury Board and Minister of Finance.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $22,218 (2012: $16,212) or $2,139 (2012: $1,613) per member and 0.64% (2012: 0.54%) of net assets under administration.

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's IP approved by the Board.

The Plan's asset values are determined on the fair value basis for accounting purposes. However, for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $3,180,568 at December 31, 2013 (2012: $2,850,591).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency determined by the December 31, 2012 actuarial funding valuation is being funded by special payments currently totalling 12.3% of pensionable earnings shared between employees and employers until December 31, 2014. Thereafter, the special payments will decrease successively to 10.2% until December 31, 2016; to 5.4% until December 31, 2017; to 5.0% until December 31, 2024 and to 2.9% until December 31, 2027.

The special payments have been included in the rates in effect at December 31, 2013 (see Note 1b).

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2013 presentation.

NOTE 16 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS REGISTERED AND UNREGISTERED PENSION PLANS

Financial Statements

Year Ended March 31, 2014

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Provincial Judges and Masters in Chambers Registered Pension Plan and the Provincial Judges and Masters in Chambers Unregistered Pension Plan, which comprise the statements of financial position as at March 31, 2014, and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Provincial Judges and Masters in Chambers Registered Pension Plan and the Provincial Judges and Masters in Chambers Unregistered Pension Plan as at March 31, 2014, and the changes in the plans' net assets available for benefits and changes in the plans' pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 12, 2014

Edmonton, Alberta

Statements of Financial Position

As at March 31, 2014

	Registered Plan Note 1a ($ thousands)		Unregistered Plan Note 1a ($ thousands)	
	2014	**2013**	**2014**	**2013**
Net Assets Available for Benefits				
Assets				
Cash and cash equivalents (Note 3)	$ -	$ -	$ 922	$ 134
Investments (Note 4)	123,642	109,798	-	-
Contributions receivable				
Employer	84	93	44	46
Employee	45	44	44	46
Province of Alberta	-	1,005	-	-
GST receivable	63	47	-	-
Income tax refundable	-	-	5,403	6,290
Due from Reserve Fund (Note 6)	-	-	133,699	112,327
Total assets	123,834	110,987	140,112	118,843
Liabilities				
Accounts payable	29	33	116	111
Total Liabilities	29	33	116	111
Net assets available for benefits	$ 123,805	$ 110,954	$ 139,996	$ 118,732
Pension obligation and (deficit)				
Pension Obligation (Note 7)	125,436	112,992	153,441	132,529
Deficit (Note 8)	(1,631)	(2,038)	(13,445)	(13,797)
Pension obligation and (deficit)	$ 123,805	$ 110,954	$ 139,996	$ 118,732

The accompanying notes are part of these financial statements.

Statements of Changes in Net Assets Available for Benefits

Year ended March 31, 2014

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2014	**2013**	**2014**	**2013**
Increase in assets				
Contributions (Note 9)	$ 4,430	$ 4,591	$ 2,352	$ 2,462
Investment income (Note 10)	16,522	11,111	38	28
Transfers from the Reserve Fund	-	-	2,600	-
Increase in due from Reserve Fund	-	-	21,372	16,233
	20,952	15,702	26,362	18,723
Decrease in assets				
Benefit payments (Note 12)	7,410	7,059	4,971	4,307
Investment expenses (Note 13)	596	381	23	32
Administrative expenses (Note 14)	95	135	104	105
	8,101	7,575	5,098	4,444
Increase in net assets	12,851	8,127	21,264	14,279
Net assets available for benefits at beginning of year	110,954	102,827	118,732	104,453
Net assets available for benefits at end of year	$ 123,805	$ 110,954	$ 139,996	$ 118,732

The accompanying notes are part of these financial statements.

Statements of Changes in Pension Obligation

Year ended March 31, 2014

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2014	**2013**	**2014**	**2013**
Increase in pension obligation				
Interest accrued on benefits	$ 6,541	$ 5,916	$ 7,324	$ 6,360
Benefits earned	3,492	3,726	8,146	8,352
Increase due to actuarial assumption changes	13,201	294	15,092	6,077
	23,234	9,936	30,562	20,789
Decrease in pension obligation				
Benefits, transfers and interest	7,410	7,059	4,971	4,307
Decrease due to actuarial assumption changes	2,792	1,191	4,260	2,031
Net experience gains (losses)	588	(7,707)	419	(8,645)
	10,790	543	9,650	(2,307)
Net increase in pension obligation	12,444	9,393	20,912	23,096
Pension obligation at beginning of year	112,992	103,599	132,529	109,433
Pension obligation at end of year (Note 7)	$ 125,436	$ 112,992	$ 153,441	$ 132,529

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2014

(all dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Provincial Judges and Masters in Chambers Registered Pension Plan (Registered Plan) and the Provincial Judges and Masters in Chambers Unregistered Pension plan (Unregistered Plan) is a summary only. The Registered Plan and the Unregistered Plan, collectively, are contributory defined benefit plans for provincial court judges appointed under the *Provincial Court Act* and masters in chambers appointed under the *Court of Queen's Bench Act.* For a complete description of the plans, reference should be made to the Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans *Alberta Regulation 196/2001*, as amended, which is established pursuant to the *Provincial Court Act*, Revised Statutes of Alberta 2000, Chapter P-31, and the *Court of Queens Bench Act*, Revised statutes of Alberta 2000, Chapter F-12. The plans are administered and accounted for by the Province of Alberta (Province) separately; however, the regulation allows for the financial report of both plans to be combined within the same report.

a) GENERAL

The plans were established with effect from April 1, 1998. The Registered Plan provides, to members, benefits up to the maximum allowed for registered pension plans under federal tax rules. It is a registered pension plan as defined in the *Income Tax Act* and the registered number is 0927764. The Unregistered Plan which provides benefits, to members, in excess of those limits is a Retirement Compensation Arrangement (RCA) under the *Income Tax Act*. The Registered Plan is financed by contributions from members and the Province as well as investment earnings. The Unregistered Plan is also funded by contributions from members and the Province. Due to the tax treatment of the RCA, contributions and investment income from the RCA are not large enough to provide for all of the expected future benefit payments from the Unregistered Plan. As a result, the Province has established the Provincial Judges and Masters in Chambers Reserve Fund (Reserve Fund) (see note 6) to collect contributions from the Province. These contributions are provided by the Department of Justice and Solicitor General. The President of Alberta Treasury Board and Minister of Finance is the legal trustee of both plans and Alberta Treasury Board and Finance is management of both plans.

b) FUNDING POLICY

The Registered Plan current service costs are funded by the Province and members at rates which are expected to provide for all benefits payable under the Registered Plan. The rates in effect at March 31, 2014 are 7.00% of *capped salary* for members and 13.12% of *capped salary for* the Province. In addition, annual payments by the Province of $1,006 (in 2013 annual payment was retroactively adjusted to $1,006) were made towards the unfunded liability of the Registered Plan. The rates are reviewed at least once every three years by the Province based on recommendations of the plan's actuary.

The Unregistered Plan contribution rates in effect at March 31, 2014 are unchanged at 7.0% of pensionable salary in excess of capped salary for members and 7.0% of the excess for the Province. The contribution rate for the Province must equal or exceed the

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

rate payable by members and is set by the President of Treasury Board and Minister of Finance, taking into account recommendations of the plan's actuary. If assets held in the Unregistered Plan are insufficient to pay for benefits as they become due, the amount due is payable by the Province.

The current service costs funded by the Province to the Reserve Fund are contributed at a rate of 31.10% of excess pensionable salary. In addition, annual payments by the Province to the Reserve Fund of $1,784 (in 2013 annual payment was retroactively adjusted to $1,784) were made towards the unfunded liability of the Unregistered Plan.

c) RETIREMENT BENEFITS

The Registered Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years for retirements prior to April 1, 2006 and three consecutive years for retirements subsequent to March 31, 2006. Pensionable earnings after December 31, 1991 are capped at the maximum pensionable *salary limit* under the *Income Tax Act*. The maximum benefit accrual percentage allowable under the Registered Plan is 70%. The normal pensionable age is 70 years of age.

Together the Registered Plan and Unregistered Plan provide a pension based on 2 percent of a member's highest average salary for years of pensionable service before April 1, 1998; 2.67 percent of a member's highest average for years of pensionable service between April 1, 1998 to March 21, 2000 and 3 percent of a member's highest average salary for years of pensionable service after March 31, 2000.

Members who terminated after March 31, 1998 are entitled to an unreduced pension on service after 1991 and before April 1,1998 if they have 5 years of service and have attained the age of 55 years with the sum of his or her age and judicial service amounting to at least 80 years, or has attained the age of 60 years.

Members are entitled to an unreduced pension on service after March 31,1998 if they retire with at least 5 years of service and have attained the age 60 and the sum of their age and service equals 80. Pensions are reduced if the member is under age 60 or if the 80 factor is not attained at age 60. The 80-factor requirement does not apply to members who have attained age 70.

d) DISABILITY BENEFITS

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least five years of service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where service is less than five years, a lump sum payment must be chosen.

f) TERMINATION BENEFITS

Members who terminate with fewer than five years of service receive a refund of their own contributions plus interest.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a deferred pension.

g) PROVINCE OF ALBERTA'S LIABILITY FOR BENEFITS

Benefits are payable by the Province if assets are insufficient to pay for all benefits under the plans.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index for persons who terminated before April 1, 2009. For persons who terminated after March 31, 2009, pensions payable are increased each year on January 1st by an amount equal to 100% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. Both plans have elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to the investment portfolio or pension obligations. The statements provide information about the net assets available in both plans to meet future benefit payments and are prepared to assist members and others in reviewing the activities for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 4, the Registered Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 9/89, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the plan does not report the financial instruments of the pools on its statement of financial position.

The Registered Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The plan reports its share of the financial risks in Note 5.

The fair value of units held by the Registered Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 4b). Investments in units are recorded in the plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based

unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units are recorded on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

Investment income includes the following:

i) Income distributions from the pools are recorded in the Registered Plan's accounts and included in investment income on the statement of changes in net assets (see Note 10). Income distributions are based on the plan's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of units and unrealized gains and losses on units are recorded in the plan's accounts and included in investment income on the statement of changes in net assets. Realized gains and losses on disposal of units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts, including transaction costs, incurred by the Plan to earn investment income (see Note 13). Investment expenses are recorded on an accrual basis.

e) VALUE OF PENSION OBLIGATION

The value of the pension obligations and changes therein during the year are based on actuarial valuations prepared by an independent firm of actuaries. The valuations are made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuations use the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation dates, of various economic and non-economic assumptions.

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between

the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the pension obligations, private investments, hedge funds and private real estate investments. Uncertainty arises because:

i) actual experience may differ, perhaps significantly, from assumptions used in the calculation of the pension obligations, and

ii) the estimated fair values of the private investments, hedge funds and private real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the pension obligations, private investments, hedge funds and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the pension obligations are disclosed as net experience gains or losses in the statements of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

g) INCOME TAXES

The Registered Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

The Unregistered Plan is a RCA as defined in the *Income Tax Act*. Refundable income tax is remitted on any cash contributions from eligible employees and designated employers and net investment income received at the rate of 50%. Refundable income tax is returned to the Unregistered Plan at the same rate when pension benefit payments are made to members and beneficiaries.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The CCITF is a pool comprised of short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at March 31, 2014, securities held by the CCITF have a time weighted rate of return of 1.2% per annum (2013: 1.3% per annum).

NOTE 4 INVESTMENTS

The Registered Plan's investments are managed at the asset class level for purposes of evaluating the plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the plan's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) approved by the Judges' Pension Plans Investment Committee (the Investment Committee). The fair value of the pool units is based on the plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and plan, and units of the pools, within the ranges approved for each asset class (see Note 5).

($ thousands)

	Fair Value Hierarchy [(a)]			2014	2013
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Fixed income securities					
Deposits and short-term securities	$ -	$ 1,133	$ -	$ 1,133	$ 505
Bonds, mortgages and private debt	-	45,086	3,221	48,307	43,171
	-	46,219	3,221	49,440	43,676
Equities					
Canadian	12,218	7,349	-	19,567	16,893
Global	27,061	6,455	10,855	44,371	38,939
	39,279	13,804	10,855	63,938	55,832
Inflation sensitive					
Real estate	-	-	6,426	6,426	5,770
Real return bonds	-	-	-	-	288
Infrastructure	-	-	3,838	3,838	4,232
	-	-	10,264	10,264	10,290
Total investments	$ 39,279	$ 60,023	$ 24,340	$ 123,642	$ 109,798

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $39,279 (2013: $37,047).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $60,023 (2013: $53,811). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, and certain alternative investments totalling $24,340 (2013: $18,940).

*** Reconciliation of Level 3 Fair Value Measurement**

	($ thousands)	
	2014	**2013**
Balance, beginning of year	$ 18,940	$ 16,796
Investment income	2,579	2,154
Purchases of Level 3 pooled fund units	5,328	5,739
Sale of Level 3 pooled fund units	(2,507)	(5,749)
Balance, end of year	$ 24,340	$ 18,940

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Fixed income securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Private debt and loans is valued similar to private mortgages. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers.
- ***Inflation sensitive:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. Real return bonds are valued similar to public interest bearing securities. Infrastructure investments are valued similar to private equity investments.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pools (see Note 5f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 5 INVESTMENT RISK MANAGEMENT

The Registered Plan is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Registered Plan are clearly outlined in the SIP&G. The purpose of the SIP&G is to ensure the Registered Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Investment Committee manages the Registered Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5b).

Actuarial liabilities of the Registered Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Investment Committee has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2014 ($ thousands)	2014 %	2013 ($ thousands)	2013 %
Fixed income securities	30 - 45%	$ 49,440	40.0	$ 43,676	39.8
Equities	30 - 50%	63,938	51.7	55,832	50.8
Inflation sensitive	15 - 35%	10,264	8.3	10,290	9.4
		$ 123,642	100.0	$ 109,798	100.0

a) Credit Risk

i) Debt securities

The Registered Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 4 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The following table summarizes the Registered Plan's investment in debt securities by counterparty credit rating at March 31, 2014:

Credit rating	2014	2013
Investment Grade (AAA to BBB-)	94.4%	93.2%
Speculative Grade (BB+ or lower)	0.5%	2.7%
Unrated	5.1%	4.1%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Registered Plan is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 5f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2014, the Registered Plan's share of securities loaned under this program is $3.4 million and collateral held totals $3.6 million. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Registered Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 35% of the Plan's investments, or $43 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (20%) and the Euro (4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 3.5% (2013: 3.3%).

NOTE 5 INVESTMENT RISK MANAGEMENT CONTINUED

The following table summarizes the Registered Plan's exposure to foreign currency investments held in the pools at March 31, 2014:

	($ millions)			
	2014		2013	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 24	$ (2.4)	$ 21	$ (2.1)
Euro	6	(0.6)	4	(0.4)
Japanese yen	3	(0.3)	3	(0.3)
British pound	4	(0.4)	3	(0.3)
Australian dollar	1	(0.1)	1	(0.1)
Swiss franc	1	(0.1)	1	(0.1)
Other foreign currencies	4	(0.4)	3	(0.3)
Total foreign currency investments	$ 43	$ (4.3)	$ 36	$ (3.6)

c) Interest Rate Risk

The Registered Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the plan would be approximately 2.2% (2013: 2.4%) of total investments.

d) Price Risk

Price risk relates to the possibility that units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Registered Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the plan would be approximately 5.1% (2013: 5.3%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Registered Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the plan are met through income generated from investments, employee and employer contributions, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Registered Plan's future liabilities include the accrued pension benefits obligation and payables related to the purchase of units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Registered Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	**2014**	**2013**
Contracts in favourable position (current credit exposure)	27	$ 652	$ 1,178
Contracts in unfavourable position	16	(404)	(437)
Net fair value of derivative contracts	43	$ 248	$ 741

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $652 (2013: $1,178) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 5. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	**2014**	**2013**
Structured equity replication derivatives	$ 272	$ 585
Interest rate derivatives	160	325
Foreign currency derivatives	(155)	(89)
Credit risk derivatives	(29)	(80)
Net fair value of derivative contracts	$ 248	$ 741

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At March 31, 2014 deposits in futures contracts margin accounts totalled $599 (2013: $332) and deposits as collateral for derivative contracts totalled $9 (2013: $114).

NOTE 6 DUE FROM RESERVE FUND

The Provincial Judges and Masters in Chambers Reserve Fund is established to collect contributions from the Province and to invest the funds, which are set aside to meet future benefit payments of the Unregistered Plan. Separate financial statements are prepared for the Reserve Fund and can be found in the Ministry of Alberta Treasury Board and Finance Annual Report. The table below summarizes the net assets of the Reserve Fund at March 31.

	($ thousands)	
	2014	**2013**
Interest-bearing securities	$ 58,826	$ 49,395
Public equities	69,190	56,724
Alternatives	5,683	5,118
Receivable from the Province of Alberta	-	1,090
	$ 133,699	$ 112,327

During the year, net assets of the Reserve Fund increased by $21,372 (2013: $16,233), comprised of employer contributions of $7,568 (2013: $6,470), investment income of $16,879 (2013: $10,037) less investment expenses of $475 (2013: $274) and transfers of $2,600 (2013: $0).

NOTE 7 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

Actuarial valuations of both plans were carried out as at December 31, 2011 by Aon Hewitt and the results were then extrapolated to March 31, 2014. The next valuations of the plans will be carried out as at December 31, 2014. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the plans and will be accounted for as gains or losses in 2015.

The Registered Plan

The actuarial assumptions used in determining the value of the pension obligation of $125,436 (2013: $112,992) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate, and the salary escalation rate. The discount rate is based on the average from a consistent modeled investment rate of return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2014 %	2013 %
Discount rate	6.00	5.80
Inflation rate	2.25	2.25
Salary escalation rate	3.50	3.50
Mortality rate*		

* Mortality rate used for 2014 is the 2014 Canadian Pension Mortality Table (Public Sector) and for 2013 was the Uninsured Pensioner 1994 table projected generationally.

The Unregistered Plan

The major assumptions used in the actuarial extrapolation to March 31, 2014 to determine the pension obligation of $153,441 (2013: 132,529) were the same as those used in the extrapolation of the Registered Plan except for the investment rate of return which was assumed to be 5.5% per annum (2013: 5.3%).

NET EXPERIENCE GAINS (LOSSES)

The Registered Plan net experience gain of $588 (2013: loss of $7,707) reflect the results of the valuation as at December 31, 2011 extrapolated to March 31, 2014.

The Unregistered Plan net experience gain of $419 (2013: loss of $8,645) reflect the results of the valuation as at December 31, 2011 extrapolated to March 31, 2014.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTION

The Registered Plan's future experience will differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the plan.

The following is a summary of the sensitivities of the Registered Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation as at March 31, 2014:

	Sensitivities		
	Changes in Assumptions %	Decrease in Plan Surplus *($ millions)*	Increase in Current Service Cost*
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0%	$10.1	2.5%
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0%	$2.7	1.8%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	$15.0	4.9%

* As a % of capped pensionable earnings

NOTE 7 PENSION OBLIGATION CONTINUED

The following is a summary of the sensitivities of the Unregistered Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation as at March 31, 2014:

	Sensitivities		
	Changes in Assumptions	Decrease in Plan Surplus	Increase in Current Service Cost*
	%	*($ millions)*	
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0%	$15.9	5.9%
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0%	$5.4	4.0%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	$23.1	11.3%

NOTE 8 DEFICIT

	Registered Plan *($ thousands)*		Unregistered Plan *($ thousands)*	
	2014	**2013**	**2014**	**2013**
Deficit at beginning of year	$ (2,038)	$ (772)	$ (13,797)	$ (4,980)
Increase in net assets available for benefits	12,851	8,127	21,264	14,279
Net increase in pension obligation	(12,444)	(9,393)	(20,912)	(23,096)
Deficit at end of year	$ (1,631)	$ (2,038)	$ (13,445)	$ (13,797)

NOTE 9 CONTRIBUTIONS

	Registered Plan *($ thousands)*		Unregistered Plan *($ thousands)*	
	2014	**2013**	**2014**	**2013**
Current service				
Employer	$ 2,262	$ 2,427	$ 1,176	$ 1,231
Employees	1,161	1,159	1,176	1,231
Province of Alberta	1,007	1,005	-	-
	$ 4,430	$ 4,591	$ 2,352	$ 2,462

NOTE 10 INVESTMENT INCOME

The following is a summary of the Registered Plan's investment income (loss) by asset class:

	($ thousands)	
	2014	**2013**
Fixed income securities	$ 1,310	$ 3,158
Equities		
Canadian	3,194	1,384
Foreign	11,177	5,516
	14,371	6,900
Inflation sensitive		
Real estate	714	697
Real return bonds	(29)	16
Infrastructure	156	339
Absolute return strategies	-	1
	841	1,053
	$ 16,522	$ 11,111

Investment income includes realized gains and losses from disposal of pool units, unrealized gains and losses on units and income distributions from the pools.

Income distributions from the pools is based on income earned by the pools determined on an accrual basis which includes interest, dividends, security lending income, realized gains and losses on sale of securities held by the pools, realized foreign exchange gains and losses, writedowns of securities held in the pools and income and expense earned on derivative contracts. Realized gains and losses are determined on an average cost basis. Impairment charges related to the writedown of securities held in the pools are indicative of a loss in value that is other than temporary.

The Unregistered Plan had interest income of $38 (2013: $28).

NOTE 11 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of the Registered Plan's investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2014	2013	2012	2011	2010
	in per cent				
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	13.4	8.8	5.2	9.4	16.3
Value added return by investment manager	1.1	1.9	0.9	0.3	3.9
Total return on investments [(a)]	**14.5**	**10.7**	**6.1**	**9.7**	**20.2**
Other sources [(b)]	(2.9)	(2.8)	(2.5)	(1.4)	(3.6)
Per cent change in net assets [(c)]	**11.6**	**7.9**	**3.6**	**8.3**	**16.6**
Per cent change in pension obligation [(c)]	**11.0**	**9.1**	**10.2**	**0.8**	**4.3**
Per cent of pension obligation supported by net assets	**99**	**98**	**99**	**105**	**98**

NOTE 11 INVESTMENT RETURNS, CHANGE IN NET ASSETS... CONTINUED

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 12.2% (PBR: 10.6%), ten years is 6.9% (PBR: 6.6%) and twenty years is 7.6% (PBR: 7.4%).

(b) Other sources includes employee and employer contributions, net of benefit payments, and administration expenses.

(c) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

The following is a summary of the Unregistered Plan annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2014	2013	2012	2011	2010
	in per cent				
Per cent change in net assets [a]	**17.9**	**13.7**	**14.2**	**13.8**	**22.1**
Per cent change in pension obligation [a]	**15.8**	**21.1**	**31.5**	**1.7**	**10.5**
Per cent of pension obligation supported by net assets	**91**	**90**	**95**	**110**	**98**

(a) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 12 BENEFIT PAYMENTS

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2014	**2013**	**2014**	**2013**
Retirement benefits	$ 6,996	$ 6,648	$ 4,690	$ 4,012
Termination benefits	-	1	-	2
Death benefits	414	410	281	293
	$ 7,410	$ 7,059	$ 4,971	$ 4,307

NOTE 13 INVESTMENT EXPENSES

The Registered Plan has investment expenses of:

	($ thousands)	
	2014	**2013**
Amount charged by:		
AIMCo [a]	$ 565	$ 350
Alberta Treasury Board and Finance [b]	31	31
Total investment expenses	$ 596	$ 381
Increase (decrease) in expenses	56.4%	(3.3%)
Increase in average investments under management	10.1%	5.2%
Investment expense as a percent of:		
Dollar earned	3.61%	3.43%
Dollar invested	0.51%	0.36%
Investment expenses per member	$ 2,144	$ 1,427

(a) For investment management services. Please refer to AIMCo's financial statements for a detailed breakdown of expenses. In 2014, investment expenses include external performance fees of $161. In 2013 and prior years, external performance fees were netted against investment income. External performance fees for 2013 were estimated at $167.

(b) For investment accounting and reporting services

The Unregistered Plan investment expenses amounted to $23 (2013: $32) or $90 (2013: $120) per member.

NOTE 14 ADMINISTRATIVE EXPENSES

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2014	**2013**	**2014**	**2013**
General administration costs	$ 90	$ 104	$ 104	$ 105
Actuarial fees	2	31	-	-
Other fees	3	-	-	-
	95	135	104	105
Member service expenses per member	$ 342	$ 506	$ 403	$ 426

General Administration and the Board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

NOTE 15 TOTAL EXPENSES

Total Registered Plan expenses of investment expenses per Note 13 and administrative expenses per Note 14 are $691 (2013: $516) or $2,486 (2013: $1,933) per member and 0.56% (2013: 0.47%) of net assets under administration.

Total Unregistered Plan expenses of investment expenses per Note 13 and administrative expenses per Note 14 are $127 (2013: $137) or $493 (2013: $555) per member and 0.09% (2013: 0.12%) of net assets under administration.

NOTE 16 CAPITAL

The Registered Plan defines its capital as the funded status. In accordance with the *Employment Pension Plans Act,* the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, including the use of derivatives and leverage are based on the plan's SIP&G. The asset mix and risk policies and procedures are designed to enable the plan to meet or exceed its long-term funding requirement within an acceptable level of risk.

If there is an actuarial funding surplus that exceeds the amount that is actuarially determined to be necessary to pay benefits and the costs of administering the plan, the Lieutenant Governor in Council may, with respect to any portion or all of the excess, transfer it to the Province's General Revenue Fund, or apply it towards reduction of the contributions for which the Province is liable.

If the Registered Plan is terminated and the assets are not sufficient to pay all the benefits accrued under the terms of the Registered Plan, additional contributions are payable by the Province in amounts sufficient to ensure that all accrued benefits are paid. If, after all benefits are provided on the complete wind-up of the Registered Plan, assets remain in the plan, those assets shall be transferred to the General Revenue Fund of the Province.

The Unregistered Plan defines its capital as the funded status as described in Notes 1a, 1b, 1g and Note 6.

NOTE 17 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2014 presentation.

NOTE 18 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by APS, AIMCo, and the Plan's actuary, and after consultation with the Judges' Pension Plan Advisory Committee.

SCHEDULE A

SCHEDULE OF THE PROVINCIAL JUDGES AND MASTER IN CHAMBERS (REGISTERED) PENSION PLAN AND THE PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (UNREGISTERED) PENSION PLAN

The following Schedule is provided for illustrative purposes only. The Provincial Judges and Masters in Chambers (Registered) Pension Plan and the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan are independent entities and, as such, there is no right of offset of these individual liabilities and assets. Data is provided using fair value of assets (not actuarial or "smoothed" values), as presented in the respective financial statements.

	($ thousands)	
	March 31, 2014	**March 31, 2013**
Net assets available for benefits - Registered Plan	$ 123,805	$ 110,954
Net assets available for benefits - Unregistered Plan *	139,996	118,732
	263,801	229,686
Pension Obligation - Registered Plan	125,436	112,992
Pension Obligation - Unregistered Plan	153,441	132,529
	278,877	245,521
Deficiency of aggregate assets over aggregate accrued benefits	$ (15,076)	$ (15,835)

* Includes due from Reserve Fund for 2014 $133,699 (2013: $112,327)

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PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

Financial Statements

Year Ended December 31, 2013

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Public Service Management (Closed Membership) Pension Plan, which comprise the statement of financial position as at December 31, 2013, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Public Service Management (Closed Membership) Pension Plan as at December 31, 2013, and changes in its net assets available for benefits and changes in its pension obligation, for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 16, 2014

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2013

	($ thousands)	
	2013	**2012**
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 5)	$ 10,080	$ 10,684
Accounts receivable	131	43
Total Assets	10,211	10,727
Liabilities		
Accounts payable	-	6
Total Liabilites	-	6
Net assets available for benefits	$ 10,211	$ 10,721
Pension obligation and deficit		
Pension obligation (Note 3)	$ 635,228	$ 602,989
Deficit (Note 4)	(625,017)	(592,268)
Pension obligation and deficit	$ 10,211	$ 10,721

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2013

	($ thousands)	
	2013	**2012**
Increase in assets		
Contributions from the Province of Alberta	$ 54,600	$ 60,000
Investment income	143	124
	54,743	60,124
Decrease in net assets		
Benefit payments (Note 6)	54,955	56,151
Administration expenses (Note 7)	298	332
	55,253	56,483
(Decrease) Increase in net assets	(510)	3,641
Net assets available for benefits at beginning of year	10,721	7,080
Net assets available for benefits at end of year	$ 10,211	$ 10,721

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2013

	($ thousands)	
	2013	**2012**
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 24,459	$ 26,667
Net increase due to actuarial assumption changes (Note 3a)	62,735	11,797
	87,194	38,464
Decrease in pension obligation		
Benefits paid	54,955	56,151
Net experience gains (Note 3b)	-	8,540
	54,955	64,691
Net increase (decrease) in pension obligation	32,239	(26,227)
Pension obligation at beginning of year	602,989	629,216
Pension obligation at end of year (Note 3)	$ 635,228	$ 602,989

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2013

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Public Service Management (Closed Membership) Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act,* Revised Statutes of Alberta 2000, Chapter P-41. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a defined benefit pension plan for eligible retired management employees of the Province of Alberta and certain provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were retired or were entitled to receive deferred pensions or had attained 35 years of service before August 1, 1992 continue as members of this Plan. The Plan is a registered pension plan as defined in the *Income Tax Act.* The Plan's registration number is 1006923. The President of Treasury Board and Minister of Finance is the legal trustee for the Plan and Treasury Board and Finance is management of the Plan.

b) PLAN FUNDING

The Plan is funded by investment income and money appropriated to the Plan, if any, by the Legislative Assembly of the Province of Alberta.

The Plan's actuary performs an actuarial valuation of the Plan at least once every three years.

c) RETIREMENT BENEFITS

The Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. The maximum service allowable under the Plan is 35 years.

Members are entitled to receive a pension if they terminated before August 1, 1992 and attained age 55 with at least five years of service. In addition, those members who had achieved 35 years of service at August 1, 1992 and subsequently terminated are also entitled to a pension.

d) COST-OF-LIVING ADJUSTMENTS

Pensions payable by the Plan are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

e) GUARANTEE

The Province of Alberta guarantees payment of all benefits arising under the Plan. After all assets in the Plan are exhausted, the Province of Alberta pays all benefits under the Plan.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF CASH AND CASH EQUIVALENTS

Short-term securities included in cash and cash equivalents are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The Plan's cut-off policy for valuation of investments and investment income is based on valuations provided by AIMCo at the close of the 4th business day following the year end.

c) INVESTMENT TRANSACTIONS, INCOME RECOGNITION AND TRANSACTION COSTS

Investment income is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or liability. Transaction costs are expensed, and include fees and commissions paid to agents, advisors and brokers.

d) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

e) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the magnitude of the calculation of the Plan's actuarial value of the pension obligation. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Plan's actuarial value of the pension obligation, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts. Differences between actual results and expectations are disclosed as changes in actuarial assumptions and net experience gains or losses in the note describing changes in the pension obligation (see Note 3a).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

f) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2011 by Aon Hewitt and was then extrapolated to December 31, 2013.

The actuarial assumptions used in determining the value of the pension obligation of $635,228 (2012: $602,989) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate and inflation rate.

	2013	2012
	%	%
Inflation rate	2.25	2.25
Discount rate	4.00	4.25
Mortality rate *		

* Mortality rate used for 2013 is the 2014 Canadian Pension Mortality Table (Public Sector) and for 2012 was the Uninsured Pensioner 1994 table projected generationally.

An actuarial valuation of the Plan as at December 31, 2014 will be carried out. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses subsequent to the next valuation.

b) NET EXPERIENCE GAINS

Net experience gains of $nil (2012: $8,540) reflect the results of the valuation as at December 31, 2011 extrapolated to December 31, 2013.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will inevitably differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains and losses in future valuations and will affect the financial position of the Plan.

NOTE 3 PENSION OBLIGATION CONTINUED

The following is a summary of the sensitivities of the Plan's deficiency to changes in assumptions used in the actuarial extrapolation as at December 31, 2013:

	($ thousands)	
	Changes in Assumptions	Increase in Plan Deficiency
	%	$
Inflation rate increase holding the discount rate assumption constant	1.0	$ 33,853
Discount rate decrease holding the inflation rate assumption constant	(1.0)	60,558

NOTE 4 DEFICIT

	($ thousands)	
	2013	**2012**
Deficit at beginning of year	$ (592,268)	$ (622,136)
Decrease (increase) in net assets available for benefits	(510)	3,641
Net (increase) decrease in pension obligation	(32,239)	26,227
Deficit at end of year	$ (625,017)	$ (592,268)

NOTE 5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of deposits in the Consolidated Cash Investment Trust Fund. The Fund is managed with the objectives of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at December 31, 2013, securities held by the Fund have a time weighted rate of return of 1.2% per annum (2012: 1.3% per annum).

NOTE 6 BENEFIT PAYMENTS

	($ thousands)	
	2013	**2012**
Retirement benefits	$ 53,117	$ 54,233
Disability benefits	309	306
Termination benefits	96	63
Death benefits	1,433	1,549
	$ 54,955	$ 56,151

NOTE 7 ADMINISTRATION EXPENSES

	($ thousands)	
	2013	**2012**
General administration costs	$ 274	$ 301
Investment management costs	17	14
Actuarial fees	7	17
	$ 298	$ 332

General administration costs were paid to Alberta Pensions Services Corporation on a cost-recovery basis. The Plan's share of the Corporation's operating and plan specific costs were based on cost allocation policies approved by the President of Treasury Board and Minister of Finance.

Investment management costs were paid to Alberta Investment Management Corporation and do not include custodial fees, which have been deducted in arriving at investment income.

Total administration expenses amounted to $143 (2012: $153) per member.

NOTE 8 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by Alberta Pensions Services Corporation and the Plan's actuary.

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PUBLIC SERVICE PENSION PLAN

Financial Statements

Year Ended December 31, 2013

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance
and the Public Service Pension Board of Trustees

Report on the Financial Statements

I have audited the accompanying financial statements of the Public Service Pension Plan, which comprise the statement of financial position as at December 31, 2013, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Public Service Pension Plan as at December 31, 2013, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 16, 2014

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2013

	($ thousands)	
	2013	**2012**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 8,542,287	$ 7,292,236
Contributions receivable		
Employers	5,372	3,406
Employees	5,391	3,416
Accounts receivable and accrued investment income	9,712	4,747
Total Assets	8,562,762	7,303,805
Liabilities		
Accounts payable	4,184	3,968
Total Liabilities	4,184	3,968
Net assets available for benefits	$ 8,558,578	$ 7,299,837
Pension obligation and deficit		
Pension obligation (Note 5)	$ 9,813,256	$ 8,944,978
Deficit (Note 6)	(1,254,678)	(1,645,141)
Pension obligation and deficit	$ 8,558,578	$ 7,299,837

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2013

	($ thousands)	
	2013	**2012**
Increase in assets		
Contributions (Note 7)	$ 633,784	$ 516,837
Investment income (Note 8)	1,108,743	779,889
Transfers from other plans	14,945	13,266
	1,757,472	1,309,992
Decrease in assets		
Benefit payments (Note 10)	413,846	370,384
Transfers to other plans	30,717	78,263
Investment expenses (Note 11)	43,550	31,658
Administrative expenses (Note 12)	10,618	10,615
	498,731	490,920
Increase in net assets	1,258,741	819,072
Net assets available for benefits at beginning of year	7,299,837	6,480,765
Net assets available for benefits at end of year	$ 8,558,578	$ 7,299,837

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2013

	($ thousands)	
	2013	**2012**
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 571,240	$ 531,862
Benefits earned	405,862	351,836
Net increase due to actuarial assumption changes (Note 5a)	223,892	381,552
Net experience losses (Note 5b)	111,847	21,449
	1,312,841	1,286,699
Decrease in pension obligation		
Benefits, transfers and interest	444,563	612,869
	444,563	612,869
Net increase in pension obligation	868,278	673,830
Pension obligation at beginning of year	8,944,978	8,271,148
Pension obligation at end of year (Note 5)	$ 9,813,256	$ 8,944,978

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2013

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Public Service Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41, and the Public Service Pension Plan Alberta Regulation 368/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension Plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies.

The Plan is a registered pension plan as defined in the *Income Tax Act.* The Plan's registration number is 0208769. The President of Treasury Board and Minister of Finance is the legal trustee for the Plan and Alberta Treasury Board and Finance is management of the Plan. The Plan is governed by the Public Service Pension Board (the Board). The Board has certain statutory functions with respect to the Plan, including but not limited to, setting general policy guidelines on investment and management of the Plan fund's assets and administration of the plan, setting contribution rates, conducting actuarial valuations and recommending amendments to the Plan rules.

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 14) are funded equally by employers and employees at contribution rates, which together with investment earnings, are expected to provide for all benefits payable under the Plan. The contribution rates in effect for 2013 were 11.70% (2012: 9.90%) of pensionable salary up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 16.72% (2012: 14.14%) of the excess for employees, with matching contributions by employers.

The contribution rates were reviewed by the Board in 2012 and are to be reviewed at least once every three years based on recommendations of the Plan's actuary.

c) RETIREMENT BENEFITS

The Plan provides a pension of 1.4% for each year of pensionable service based on average salary of the highest five consecutive years up to the YMPE and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the *Income Tax Act*. The maximum service allowable under the Plan is 35 years. Pensions are payable to members at retirement who have attained age 65, or have attained age 55 and the sum of their age and years of service equals 85. Reduced pensions are payable to members at age 55 or older retiring early with a minimum of two years of service.

The Plan's formula pension is paid monthly for the member's lifetime. Should the member die before 60 monthly payments have been made, the balance of the 60 payments are paid to the member's beneficiary or estate, as the case may be. The member may choose

to have the formula pension paid in a form having different survivor benefits subject to the formula pension being adjusted to reflect the relative value of the survivor benefits.

d) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with at least two years of regular service and are not immediately entitled to a pension may receive the commuted value for all earned service, contributions paid in respect of optional service with interest, plus excess contributions, if applicable, with the commuted value being subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than two years of service receive a refund of their contributions and interest. The refunds are accounted for as refunds to members on the statement of changes in net assets available for benefits.

e) DISABILITY BENEFITS

Unreduced pensions may be payable to members who become totally disabled and have at least two years of service. Reduced pensions may be payable to members who become partially disabled and have at least two years of service.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability benefits.

f) DEATH BENEFITS

Death benefits are payable on the death of a member prior to retirement. If the member has at least two years of service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where service is less than two years, a lump sum payment must be chosen.

g) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established under Part 5 of the *Financial Administration Act* of Alberta. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

Investment income includes the following:

i) Income distributions from the pools are recorded in the Plan's accounts and included in investment income on the statement of changes in net assets (see Note 8). Income distributions are based on the Plan's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of units and unrealized gains and losses on units are recorded in the Plan's accounts and included in investment income on the statement of changes in net assets. Realized gains and losses on disposal of units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts, including transaction costs, charged to the Plan by AIMCo (see Note 11). Investment expenses are recorded on an accrual basis.

e) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland pools. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds, real estate and timberland pools may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statements of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

g) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) approved by the Plan's board. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

	($ thousands)				
	Fair Value Hierarchy [a]			**2013**	**2012**
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Money market					
Deposits and short-term securities	$ -	$ 54,922	$ -	$ 54,922	$ 52,203
	-	54,922	-	54,922	52,203
Bonds and mortgages					
Liability matching assets	-	1,386,014	-	1,386,014	1,362,784
Other fixed income	-	864,251	294,364	1,158,615	970,650
	-	2,250,265	294,364	2,544,629	2,333,434
Equities					
Canadian	637,720	382,145	-	1,019,865	881,534
Global developed	1,881,682	681,407	425,215	2,988,304	2,624,002
Emerging markets	375,360	51,228	49,973	476,561	369,541
Private	-	-	215,453	215,453	115,470
	2,894,762	1,114,780	690,641	4,700,183	3,990,547
Alternatives					
Real estate	-	-	663,622	663,622	423,022
Infrastructure and private debt and loans	-	-	434,605	434,605	389,823
Timberland	-	-	144,326	144,326	103,207
	-	-	1,242,553	1,242,553	916,052
Total investments	$2,894,762	$3,419,967	$2,227,558	$8,542,287	$7,292,236

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $2,894,762 (2012: $2,629,652).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $3,419,967 (2012: $3,145,347). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $2,227,558 (2012: $1,517,237).

*** Reconciliation of Level 3 Fair Value Measurements:**

	($ thousands)	
	2013	**2012**
Balance, beginning of year	$ 1,517,237	$ 1,464,668
Investment income	268,753	172,905
Purchases of Level 3 pooled fund units	684,533	136,218
Sale of Level 3 pooled fund units	(242,965)	(256,554)
Balance, end of year	$ 2,227,558	$ 1,517,237

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Money market, bonds and mortgages:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Private debt and loans is valued similar to private mortgages. Infrastructure investments are valued similar to private equity investments.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign

NOTE 3 INVESTMENTS CONTINUED

exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pooled investment funds created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix December 31, 2013		Actual Asset Mix December 31, 2012	
		($ thousands)	*%*	*($ thousands)*	*%*
Money market	0 - 3%	$ 54,922	0.6	$ 52,203	0.7
Bonds and mortgages					
Liability matching assets	12 - 25%	1,386,014	16.2	1,362,784	18.7
Other fixed income	6 - 12%	1,158,615	13.6	970,650	13.3
Equities	41 - 55%	4,700,183	55.0	3,990,547	54.7
Alternatives	20 - 30%	1,242,553	14.6	916,052	12.6
		$ 8,542,287	100.0	$ 7,292,236	100.0

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk

exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes these debt securities by counterparty credit rating at December 31, 2013:

Credit rating	2013	2012
Investment Grade (AAA to BBB-)	89%	92%
Speculative Grade (BB+ or lower)	0%	1%
Unrated	11%	7%
	100%	100%

ii) Counterparty default risk - derivative contracts

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2013, the Plan's share of securities loaned under this program is $421 million and collateral held totals $443 million. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 43% of the Plan's investments, or $3,631 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (23%) and the Euro (5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 4.3% of total investments (2012: 4.0%).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2013:

	($ millions)			
	2013		2012	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 1,923	$ (192)	$ 1,503	$ (150)
Euro	394	(39)	356	(36)
Japanese yen	227	(23)	189	(19)
British pound	244	(25)	236	(23)
Australian dollar	113	(11)	99	(10)
Swiss franc	110	(11)	75	(8)
Other foreign currencies	620	(62)	482	(48)
Total foreign currency investments	$ 3,631	$ (363)	$ 2,940	$ (294)

c) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 2.8% of total investments (2012: 3.2%).

d) Price Risk

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Plan would be approximately 5.5% of total investments (2012: 5.9%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4f).

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	**2013**	**2012**
Contracts in favourable position (current credit exposure)	23	$ 100,913	$ 69,225
Contracts in unfavourable position	19	(52,171)	(43,496)
Net fair value of derivative contracts	42	$ 48,742	$ 25,729

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $100,913 (2012: $69,225) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	**2013**	**2012**
Structured equity replication derivatives	$ 56,886	$ 28,472
Foreign currency derivatives	(9,601)	(4,370)
Interest rate derivatives	2,140	3,193
Credit risk derivatives	(683)	(1,566)
Net fair value of derivative contracts	$ 48,742	$ 25,729

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At December 31, 2013 deposits in futures contracts margin accounts totalled $49,332 (2012: $16,025) and deposits as collateral for derivative contracts totalled $1,409 (2012: $nil).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2012 by Aon Hewitt and results were then extrapolated to December 31, 2013.

The actuarial assumptions used in determining the value of the pension obligation of $9,813,256 (2012: $8,944,978) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate, and the salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2013	2012
	%	
Discount rate	6.50	6.40
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50
Mortality rate**		

* In addition to age specific merit and promotion increase assumptions.

** Mortality rate used for 2013 is the 2014 Canadian Pension Mortality Table (Public Sector) and for 2012 was the Uninsured Pensioner 1994 table projected generationally.

An actuarial valuation of the Plan as at December 31, 2013 will be carried out. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2014.

b) NET EXPERIENCE LOSSES

Net experience losses of $111,847 (2012: $21,449) reflect the results of the valuation as at December 31, 2012 extrapolated to December 31, 2013.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2013:

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	660,000	0.74
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	227,000	0.70
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	1,396,000	2.71

* The current service cost as a percentage of pensionable earnings is 16.22% at December 31, 2013.

NOTE 6 DEFICIT

	($ thousands)	
	2013	**2012**
Deficit at beginning of year	$ (1,645,141)	$ (1,790,383)
Increase in net assets available for benefits	1,258,741	819,072
Net increase in pension obligation	(868,278)	(673,830)
Deficit at end of year	$ (1,254,678)	$ (1,645,141)

NOTE 7 CONTRIBUTIONS

	($ thousands)	
	2013	**2012**
Current service		
Employers	$ 314,692	$ 256,312
Employees	313,669	255,775
Past service		
Employers	1,138	1,038
Employees	4,285	3,712
	$ 633,784	$ 516,837

NOTE 8 INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class:

	($ thousands)	
	2013	**2012**
Money market, bonds and mortgages	$ (101,598)	$ 119,698
Equities		
Canadian	137,474	100,550
Foreign	911,342	455,856
Private	18,262	16,841
	1,067,078	573,247
Alternatives		
Real estate	72,753	58,097
Infrastructure and private debt and loans	35,680	28,034
Collateralized commodities	-	10
Timberland	34,830	803
	143,263	86,944
	$ 1,108,743	$ 779,889

Investment income includes realized gains and losses from disposal of pool units, unrealized gains and losses on units and income distributions from the pools.

Income distributions from the pools is based on income earned by the pools determined on an accrual basis which includes interest, dividends, security lending income, realized gains and losses on sale of securities held by the pools, realized foreign exchange gains and losses, writedowns of securities held in the pools and income and expense earned on derivative contracts. The cost of securities disposed of in the pools is determined on an average cost basis. Impairment charges related to the writedown of securities held in the pools are indicative of a loss in value that is other than temporary.

NOTE 9 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2013	2012	2011	2010	2009
	in per cent				
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	12.7	9.2	2.7	10.4	13.1
Value added return (loss) by investment manager	1.4	2.2	0.9	(0.7)	1.0
Total return on investments [(a)]	**14.1**	**11.4**	**3.6**	**9.7**	**14.1**
Other sources [(b)]	3.1	1.2	1.5	2.7	0.9
Per cent change in net assets [(c)]	**17.2**	**12.6**	**5.1**	**12.4**	**15.0**
Per cent change in pension obligation [(c)]	**9.7**	**8.1**	**0.4**	**14.1**	**21.1**
Per cent of pension obligation supported by net assets	**87**	**82**	**78**	**75**	**76**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 10.5% (PBR: 9.6%), ten years is 6.7% (PBR: 6.4%) and twenty years is 7.3% (PBR: 7.1%). The total return reported for 2012 was revised by AIMCo to conform to valuation changes made by AIMCo subsequent to the completion of the 2012 financial

statements. The total return in 2012 increased by 0.3% from 11.1% to 11.4% attributed to an increase in the value added return by the investment manager.

(b) Other sources includes employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

(c) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 10 BENEFIT PAYMENTS

	($ thousands)	
	2013	**2012**
Retirement benefits	$ 291,828	$ 269,511
Disability benefits	2,066	2,084
Termination benefits	92,145	74,753
Death benefits	27,807	24,036
	$ 413,846	$ 370,384

NOTE 11 INVESTMENT EXPENSES

	($ thousands)	
Amount charged by:	**2013**	**2012**
AIMCo [a]	$ 43,498	$ 31,606
Alberta Treasury Board and Finance [b]	52	52
Total investment expenses	$ 43,550	$ 31,658
Increase in expenses	37.6%	59.7%
Increase in average investments under management	15.1%	9.0%
Investment expense as a percent of:		
Dollar earned	3.93%	4.06%
Dollar invested	0.55%	0.46%
Investment expenses per member	$ 549	$ 406

(a) For investment management services. Please refer to AIMCo's financial statements for a detailed breakdown of expenses. In 2013, investment expenses include external performance fees of $10,221. In 2012 and prior years, external performance fees were netted against investment income. External performance fees for 2012 totalled $7,551.

(b) For investment accounting and Plan reporting services.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands)	
	2013	**2012**
General administration costs	$ 10,210	$ 10,209
Board costs	50	24
Actuarial fees	129	169
Audit fees	-	49
Other professional fees	229	164
	10,618	10,615
Member service expenses per member	$ 134	$ 136

General administration and the Board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

The Plan's share of APS's operating and Plan specific costs was based on cost allocation policies approved by the President of Treasury Board and Minister of Finance.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and administrative expenses per Note 12 are $54,168 (2012: $42,273) or $683 (2012: $542) per member and 0.63% (2012: 0.58%) of net assets under administration.

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's SIP&G approved by the Board.

The Plan's asset values are determined on the fair value basis for accounting purposes. However for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $7,988,000 at December 31, 2013 (2012: $6,993,000). In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency determined by the December 31, 2012 actuarial funding valuation is being funded by special payments shared equally between employees and employers in the following amounts:

2.76% of pensionable earnings until December 31, 2017, plus
0.16% of pensionable earnings until December 31, 2020, plus
3.76% of pensionable earnings until December 31, 2023, plus
0.26% of pensionable earnings until December 31, 2025 plus
2.40% of pensionable earnings from January 1, 2013 until December 31, 2026

The special payments have been included in the rates shown in Note 1b.

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2013 presentation.

NOTE 16 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance, based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.

SPECIAL FORCES PENSION PLAN

Financial Statements

Year Ended December 31, 2013

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance
and the Special Forces Pension Board

Report on the Financial Statements

I have audited the accompanying financial statements of the Special Forces Pension Plan, which comprise the statement of financial position as at December 31, 2013, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Special Forces Pension Plan as at December 31, 2013, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 24, 2014

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2013

	($ thousands)	
	2013	**2012**
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 2,019,975	$ 1,743,779
Contributions receivable		
Employers	2,450	2,479
Employees	2,278	2,302
Province of Alberta	373	358
Accounts receivable and accrued investment income	1,455	809
Total Assets	2,026,531	1,749,727
Liabilities		
Accounts payable	420	285
Total Liabilities	420	285
Net assets available for benefits	$ 2,026,111	$ 1,749,442
Pension obligation and deficit		
Pension obligation (Note 5)	$ 2,246,581	$ 2,248,294
Deficit (Note 6)	(220,470)	(498,852)
Pension obligation and deficit	$ 2,026,111	$ 1,749,442

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2013

($ thousands)

	2013			2012
	Plan Fund	**Indexing Fund**	**Total**	**Total**
Increase in assets				
Contributions (Note 7)	$ 110,074	$ 5,203	$ 115,277	$ 111,177
Investment income (Note 8)	262,045	6,969	269,014	190,053
	372,119	12,172	384,291	301,230
Decrease in assets				
Benefit payments (Note 10)	95,371	-	95,371	92,219
Transfers to other plans	110	-	110	36
Investment expenses (Note 11)	9,894	240	10,134	7,447
Administrative expenses (Note 12)	2,007	-	2,007	1,818
	107,382	240	107,622	101,520
Increase in net assets	264,737	11,932	276,669	199,710
Net assets available for benefits at beginning of year	1,705,372	44,070	1,749,442	1,549,732
Net assets available for benefits at end of year	$ 1,970,109	$ 56,002	$ 2,026,111	$ 1,749,442

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2013

($ thousands)

	2013			2012
	Pre-1992	**Post-1991**	**Total**	**Total**
Increase in pension obligation				
Interest accrued on opening pension obligation	$ 51,714	$ 90,137	$ 141,851	$ 134,072
Benefits earned	-	79,243	79,243	76,467
Net experience losses (Note 5c)	-	-	-	7,963
	51,714	169,380	221,094	218,502
Decrease in pension obligation				
Benefits, transfers and interest	59,140	38,196	97,336	94,424
Net decrease due to actuarial assumptions changes (Note 5a)	20,721	104,750	125,471	-
	79,861	142,946	222,807	94,424
Net (decrease) increase in pension obligation	(28,147)	26,434	(1,713)	124,078
Pension obligation at beginning of year	834,097	1,414,197	2,248,294	2,124,216
Pension obligation at end of year (Note 5)	$ 805,950	$1,440,631	$2,246,581	$2,248,294

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2013

(All dollar amounts in thousands, except per member data and remuneration of board members)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Special Forces Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41, and *Special Forces Pension Plan* Alberta Regulation 369/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for police officers employed by participating employers in Alberta. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0584375. The President of Treasury Board and Minister of Finance is the legal trustee for the Plan and Alberta Treasury Board and Finance is management of the Plan. The Plan is governed by the Special Forces Pension Board (the Board). The Board has certain statutory functions with respect to the Plan, including but not limited to, setting general policy guidelines on investment and management of the Plan Fund's assets and administration of the plan, setting contribution rates, conducting actuarial valuations and recommending amendments to the Plan rules.

b) PLAN FUNDING

Plan Fund

Contributions and investment earnings are expected to fund all benefits payable under the Plan from the Plan Fund. The Board, in consultation with the Plan's actuary, reviews the contribution rates at least once every three years. The last actuarial valuation for funding purposes was prepared as at December 31, 2011.

The unfunded liability for service prior to December 31, 1991 is being financed by additional contributions from the Province of Alberta, employers and employees. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 2013 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

Employees and employers are responsible for fully funding service after 1991. The current service contribution rates for employers are 1.1% higher than the rates of employees. The contribution rates in effect at December 31, 2013 for current service and post-1991 actuarial deficiency were 13.8% of pensionable salary for employers and 12.70% for employees. Of this, contribution rates towards current service were 10.32% of pensionable salary for employers and 9.22% for employees. Contributions towards the post-1991 actuarial deficiency were 3.48% of pensionable salary each for both employers and employees.

The total contribution rates in effect at December 31, 2013 were 14.55% of pensionable salary for employers and 13.45% for employees and includes contributions towards COLA

of 0.75% each (refer to the Indexing Fund in note 1b) and the pre-1992 unfunded liability of 0.75% each.

Indexing Fund

Benefit payment increases for post-1991 COLA (see Note 1i) are funded by contributions to another fund called the Indexing Fund from employers and employees and earnings from investments. The rates in effect at December 31, 2013 were 0.75% of pensionable salary each for employers and employees. COLA rates and benefits are set by the Board. Subject to the *Employment Pension Plans Act*, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991.

c) RETIREMENT BENEFITS

The Plan provides for a lifetime pension of 2.0% for each year of pensionable service based on the average salary of the five highest consecutive years, subject to the maximum benefit limit allowed under the Income Tax Act. However, a portion of the 2.0% pension that is paid before age 65 is a bridge benefit paid only until age 65. The bridge benefit is 0.6% of the five-year average of the year's maximum pensionable earnings (as defined by the Canada Pension Plan) over the same period used to determine the highest average salary. At 65, the bridge benefit is no longer paid. The maximum service allowable under the Plan is 35 years.

For a member who has a pension partner at retirement, the pension plan provides that the pension will continue in the amount of 65% to the surviving pension partner for their remaining lifetime. For a member who does not have a pension partner at retirement, the pension is payable for the member's lifetime with a guarantee that the pension payment will not cease until a minimum of 60 monthly payments have been made.

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service. Individuals who became members after June 30, 2007 and had no pensionable service prior to July 1, 2007 are not entitled to disability benefits.

e) DEATH BENEFITS

Benefits are payable on the death of a member before retirement. If the member had at least five years of service and there is a pension partner or dependent minor child, benefits may take the form of a survivor pension, or a lump sum payment. If the member has less than five years of service, the pension partner or beneficiary is entitled to receive death benefits in the form of a lump sum payment, and with respect to pre-1992 service there are additional benefits for dependent minor children.

f) TERMINATION BENEFITS, REFUNDS AND TRANSFERS

Members who terminate with at least five years of service and who are not immediately entitled to a pension may receive a refund of their contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of service receive a refund of contributions and interest. The refunds are accounted for as refunds and transfers on the statement of changes in net assets available for benefits.

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

g) GUARANTEE

As long as there remains an unfunded liability for pre-1992 service, payment of all benefits arising from service before 1992 is guaranteed by the Province of Alberta. (Section 9.1(c) of the Act Schedule 4).

h) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of commuted value for all service, or all contributions made by the member to the Plan.

i) COST-OF-LIVING ADJUSTMENTS (COLA)

Pensions payable by the Plan Fund for pre-1992 service are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

For post-1991 service, the Board is responsible for setting COLA based on funds available in the Indexing Fund (see Note 15). COLA at 60% has been granted on service up to December 31, 2000. Effective January 1, 2013, COLA at 30% (January 2012: 30%) of the Alberta Consumer Price Index was applied to the portion of Plan pensions in pay, and deferred pensions, relating to pensionable service after December 31, 2000.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established under Part 5 of the *Financial Administration Act* of Alberta. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

Investment income includes the following:

i) Income distributions from the pools are recorded in the Plan's accounts and included in investment income on the statement of changes in net assets (see Note 8). Income distributions are based on the Plan's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of units and unrealized gains and losses on units are recorded in the Plan's accounts and included in investment income on the statement of changes in net assets. Realized gains and losses on disposal of units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts, including transaction costs, charged to the Plan by AIMCo (see Note 11). Investment expenses are recorded on an accrual basis.

e) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds, real estate and timberland investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known. Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

g) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) approved by the Plan's board. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

	($ thousands)				
	Fair Value Hierarchy [a]			**2013**	**2012**
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest-bearing securities					
Cash and short-term securities	$ -	$ 21,575	$ -	$ 21,575	$ 12,479
Bonds and mortgages	-	438,342	42,525	480,867	436,808
	-	459,917	42,525	502,442	449,287
Equities					
Canadian	227,268	136,029	-	363,297	312,828
Global developed	431,650	165,870	81,347	678,867	557,417
Private			75,214	75,214	61,274
Emerging markets	71,943	9,819	18,107	99,869	82,803
	730,861	311,718	174,668	1,217,247	1,014,322
Inflation sensitive					
Real estate	-	-	135,966	135,966	124,049
Infrastructure and private debt and loans	-	-	91,594	91,594	89,006
Real return bonds	-	35,292	-	35,292	40,347
Timberland	-	-	37,434	37,434	26,768
	-	35,292	264,994	300,286	280,170
Total investments	$ 730,861	$ 806,927	$ 482,187	$ 2,019,975	$ 1,743,779

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $730,861 (2012: $639,866).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $806,927 (2012: $700,476). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $482,187 (2012: $403,437).

NOTE 3 INVESTMENTS CONTINUED

*** Reconciliation of Level 3 Fair Value Measurements:**

	($ thousands)	
	2013	**2012**
Balance, beginning of year	$ 403,437	$ 364,594
Investment income	58,052	42,629
Purchases of Level 3 pooled fund units	82,826	79,189
Sale of Level 3 pooled fund units	(62,128)	(82,975)
Balance, end of year	$ 482,187	$ 403,437

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Private debt and loans is valued similar to private mortgages. Infrastructure investments are valued similar to private equity investments.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net

of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pooled investment funds created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix December 31, 2013 ($ thousands)	%	December 31, 2012 ($ thousands)	%
Interest-bearing securities					
Money market (cash and short-term securities)	0 - 10%	$ 21,575	1.1	$ 12,479	0.7
Fixed income (bonds and mortgages)	18 - 38%	480,867	23.8	436,808	25.0
Equities	38 - 78%	1,217,247	60.2	1,014,322	58.2
Inflation sensitive	4 - 30%	300,286	14.9	280,170	16.1
		$2,019,975	100.0	$1,743,779	100.0

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes these debt securities by counterparty credit rating at December 31, 2013:

Credit rating	2013	2012
Investment Grade (AAA to BBB-)	90%	88%
Speculative Grade (BB+ or lower)	0%	2%
Unrated	10%	10%
	100%	100%

ii) Counterparty default risk - derivative contracts

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2013, the Plan's share of securities loaned under this program is $107 million and collateral held totals $113 million. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 41% of the Plan's investments, or $836 million, are

denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (22%) and the Euro (4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 4.1% (2012: 3.8%).

The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2013:

	($ millions)			
	2013		**2012**	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 453	$ (45)	$ 346	$ (35)
Euro	90	(9)	82	(8)
Japanese yen	52	(5)	40	(4)
British pound	56	(6)	50	(5)
Australian dollar	26	(3)	21	(2)
Swiss franc	25	(3)	16	(2)
Other foreign currencies	134	(13)	103	(10)
Total foreign currency investments	$ 836	$ (84)	$ 658	$ (66)

c) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 2.4% (2012: 2.7%).

d) Price Risk

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Plan would be approximately 5.8% (2012: 6.1%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include

the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4f).

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	**2013**	**2012**
Contracts in favourable position (current credit exposure)	22	$ 26,125	$ 19,293
Contracts in unfavourable position	21	(13,435)	(7,563)
Net fair value of derivative contracts	43	$ 12,690	$ 11,730

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $26,125 (2012: $19,293) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	**2013**	**2012**
Structured equity replication derivatives	$ 15,031	$ 12,260
Foreign currency derivatives	(2,632)	(771)
Interest rate derivatives	439	542
Credit risk derivatives	(148)	(301)
Net fair value of derivative contracts	$ 12,690	$ 11,730

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At December 31, 2013 deposits in futures contracts margin accounts totalled $12,801 (2012: $4,194) and deposits as collateral for derivative contracts totalled $3,961 (2012: $nil).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2011 by Mercer (Canada) Limited and was then extrapolated to December 31, 2013.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $2,246,581 (2012: $2,248,294) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

	2013	2012
	%	
Discount rate	6.70	6.20
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50
Mortality rate**		

* In addition to age specific merit and promotion increase assumptions.

** Mortality rate used for 2013 is the 2014 Canadian Pension Mortality Table (Public Sector) and for 2012 was the Uninsured Pensioner 1994 table projected generationally.

An actuarial valuation of the Plan as at December 31, 2013 will be carried out. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses subsequent to the next valuation.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

NOTE 5 PENSION OBLIGATION CONTINUED

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2013:

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding discount rate and salary escalation assumptions constant **	1.0	142,549	0.7
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	43,602	1.1
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	374,913	5.1

* The current service cost as a % of pensionable earnings as determined by the December 31, 2013 extrapolation is 18.28%.

** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

c) NET EXPERIENCE LOSSES

Net experience losses of $nil (2012: $7,963) reflect the results of the valuation as at December 31, 2011 extrapolated to December 31, 2013.

NOTE 6 DEFICIT

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the pension obligation and deficiency with respect to service that was recognized as pensionable as at December 31, 1991.

	($ thousands)			
	2013			2012
	Pre-1992	Post-1991	Total	Total
Deficit at beginning of year	$ (268,685)	$ (230,167)	$ (498,852)	$ (574,484)
Increase in Plan Fund net assets available for benefits	32,824	231,913	264,737	190,428
Increase in Indexing Fund net assets	-	11,932	11,932	9,282
Net decrease (increase) in pension obligation	28,147	(26,434)	1,713	(124,078)
Deficit at end of year	$ (207,714)	$ (12,756)	$ (220,470)	$ (498,852)

	($ thousands)			
	2013			2012
	Pre-1992	Post-1991	Total	Total
Plan opening net assets available for benefits	$ 565,412	$ 1,184,030	$ 1,749,442	$ 1,549,732
Increase in Plan net assets available for benefits	32,824	243,845	276,669	199,710
Plan closing net assets available for benefits	$ 598,236	$ 1,427,875	$ 2,026,111	$ 1,749,442

This Plan deficiency is for accounting purposes and may differ from the Plan Fund deficiency for funding purposes (Note 16).

NOTE 7 CONTRIBUTIONS

	($ thousands)	
	2013	**2012**
Current service		
Employers	$ 40,014	$ 39,210
Employees	35,793	35,050
Unfunded liability		
Employers	16,507	15,478
Employees	16,507	15,478
Province of Alberta	4,877	4,707
Past service		
Employers	204	229
Employees	1,138	676
Transfers from other plans	237	349
	$ 115,277	$ 111,177

NOTE 8 INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class.

	($ thousands)	
	2013	**2012**
Interest-bearing securities	$ (9,332)	$ 24,899
Equities		
Canadian	48,971	33,380
Foreign	195,912	99,247
Private	6,620	5,866
	251,503	138,493
Inflation Sensitive		
Real estate	15,788	17,060
Real return bonds	(5,022)	1,299
Infrastructure and private debt and loans	7,043	8,094
Timberland	9,034	208
	26,843	26,661
	$ 269,014	$ 190,053

Investment income includes realized gains and losses from disposal of pool units, unrealized gains and losses on units and income distributions from the pools.

Income distributions from the pools is based on income earned by the pools determined on an accrual basis which includes interest, dividends, security lending income, realized gains and losses on sale of securities held by the pools, realized foreign exchange gains and losses, writedowns of securities held in the pools and income and expense earned on derivative contracts. Realized gains and losses are determined on an average cost basis. Impairment charges related to the writedown of securities held in the pools are indicative of a loss in value that is other than temporary.

NOTE 9 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2013	2012	2011	2010	2009
	in per cent				
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	13.4	9.3	2.2	10.5	13.5
Value added return (loss) by investment manager	1.1	2.3	0.8	(0.3)	-
Total return on investments [a]	**14.5**	**11.6**	**3.0**	**10.2**	**13.5**
Other sources [b]	1.3	1.3	0.8	0.6	(1.4)
Per cent change in net assets [c]	**15.8**	**12.9**	**3.8**	**10.8**	**12.1**
Per cent change in pension obligation [c]	**-**	**5.8**	**3.9**	**18.7**	**5.5**
Per cent of pension obligation supported by net assets	**90**	**78**	**73**	**73**	**78**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 10.5% (PBR: 9.7%), ten years is 6.9% (PBR: 6.6%) and twenty years is 7.4% (PBR: 7.2%). The total return reported for 2012 was revised by AIMCo to conform to valuation changes made by AIMCo subsequent to the completion of the 2012 financial statements. The total return in 2012 increased by 0.2% from 11.4% to 11.6% attributed to an increase in the value added return by the investment manager.

(b) Other sources includes employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

(c) the percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 10 BENEFIT PAYMENTS

	($ thousands)	
	2013	**2012**
Retirement benefits	$ 87,912	$ 83,786
Disability benefits	371	351
Termination benefits	5,098	6,513
Death benefits	1,990	1,569
	$ 95,371	$ 92,219

NOTE 11 INVESTMENT EXPENSES

	($ thousands)	
	2013	2012
Amount charged by:		
AIMCo [(a)]	$ 10,056	$ 7,369
Alberta Treasury Board and Finance [(b)]	78	78
Total investment expenses	$ 10,134	$ 7,447
Increase in expenses	36.1%	45.5%
Increase in average investments under management	14.5%	8.4%
Investment expense as a percent of:		
Dollar earned	3.77%	3.92%
Dollar invested	0.54%	0.45%
Investment expenses per member	$ 1,524	$ 1,144

(a) For investment management services. Please refer to AIMCo's financial statements for a detailed breakdown of expenses. In 2013, investment expenses include external performance fees of $2,177. In 2012 and prior years, external performance fees were netted against investment income. External performance fees for 2012 totalled $1,685.

(b) For investment accounting and Plan reporting services.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands)	
	2013	2012
General administration costs	$ 1,563	$ 1,240
Board costs	99	81
Actuarial fees	165	215
Audit fees	-	43
Other professional fees	180	239
	$ 2,007	$ 1,818
Member service expenses per member	$ 302	$ 279

General administration costs including Plan board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

The Plan's share of the APS's operating and plan specific costs was based on cost allocation policies approved by the President of Treasury Board and Minister of Finance.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $12,141 (2012: $9,265) or $1,826 (2012: $1,423) per member and 0.60% (2012: 0.53%) of net assets under administration.

NOTE 14 REMUNERATION OF BOARD MEMBERS

Remuneration paid to or on behalf of the Board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chair	Members
Remuneration rates effective April 1, 2009		
Up to 4 hours	$ 219	$ 164
4 to 8 hours	383	290
Over 8 hours	601	427

	2013	2012
The following amounts were paid:		
Remuneration		
Chair	$ 15,678	$ 15,961
Members	32,991	28,026
Travel, training and conference expenses		
Chair	6,034	9,363
Members	44,964	27,212

NOTE 15 TRANSFER FROM THE INDEXING FUND TO THE PLAN FUND

If the Board has set a COLA increase and the conditions have been met under the Act (i.e. plan's actuary has certified that the indexing fund contains enough assets to cover the increase) the Minister shall on, the recommendation of the Board, transfer from the Indexing Fund to the Plan Fund the amount certified by the Plan's actuary to cover the cost-of-living increases for post-1991 service. For 2013 there was no transfer.

NOTE 16 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's SIP&G approved by the Board.

The Plan's asset values are determined on the fair value basis for accounting purposes. However for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $1,902,397 at December 31, 2013 (2012: $1,711,929), comprising of $558,536 (2012: $553,070) Pre-1992 and $1,343,861 (2012: $1,158,859) Post-1991.

In accordance with the *Public Sector Pension Plans Act*, the unfunded liability for post-1991 service as determined by actuarial funding valuation is financed by a special payment currently totalling 6.96% of pensionable salary shared equally between employees and employers (3.48% each) until December 31, 2023. The special payment is included in the rates in effect at December 31, 2013 (see Note 1b).

Effective January 1, 2011 awards of COLA at 30% of the Alberta Consumer Price Index will be applied to the portion of Plan pensions in pay, and deferred pensions, relating to pensionable service after December 31, 2000.

NOTE 17 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2013 presentation.

NOTE 18 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance, based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.

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SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Financial Statements

Year Ended December 31, 2013

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Supplementary Retirement Plan for Public Service Managers, which comprise the statement of financial position as at December 31, 2013, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Supplementary Retirement Plan for Public Service Managers as at December 31, 2013, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 24, 2014

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2013

	($ thousands)	
	2013	**2012**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 19,101	$ 19,340
Refundable income tax (Note 1f and Note 5)	27,555	25,241
Contributions receivable		
Employers	16	16
Employees	16	16
Other receivables	4	2
Due from Alberta Pensions Services Corporation	238	111
Due from SRP Reserve Fund (Note 6)	77,965	58,882
Total Assets	124,895	103,608
Liabilities		
Income tax payable	334	285
Other payables	1	-
Total Liabilities	335	285
Net assets available for benefits	124,560	103,323
Pension obligation and deficit		
Pension obligation (Note 7)	136,944	155,193
Deficit (Note 8)	(12,384)	(51,870)
Pension obligation and deficit	$ 124,560	$ 103,323

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2013

	($ thousands)	
	2013	**2012**
Increase in assets		
Contributions (Note 9)	$ 6,669	$ 6,348
Increase in SRP Reserve Fund (Note 6)	19,083	12,880
	25,752	19,228
Decrease in assets		
Investment loss (income) (Note 10)	284	(1,145)
Benefit payments (Note 11)	3,636	3,118
Investment expenses (Note 12)	46	67
Administrative expenses (Note 13)	549	521
	4,515	2,561
Increase in net assets	21,237	16,667
Net assets available for benefits at beginning of year	103,323	86,656
Net assets available for benefits at end of year	$ 124,560	$ 103,323

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2013

	($ thousands)	
	2013	**2012**
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 6,374	$ 5,933
Benefits earned	9,603	12,233
	15,977	18,166
Decrease in pension obligation		
Net decrease due to actuarial assumption changes (Note 7a)	27,871	-
Benefits paid	3,636	3,118
Net experience gains (Note 7b)	2,719	-
	34,226	3,118
Net (decrease) increase in pension obligation	(18,249)	15,048
Pension obligation at beginning of year	155,193	140,145
Pension obligation at end of year (Note 7)	$ 136,944	$ 155,193

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

December 31, 2013

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Supplementary Retirement Plan for Public Service Managers (the Plan) is a summary only. For a complete description of the Plan, reference should be made to sections 5, 7 and 98 of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and the *Supplementary Retirement Plan - Retirement Compensation Arrangement Directive* (Treasury Board Directive 01/06). The President of Treasury Board and Minister of Finance has overall responsibility for the operations of the Plan and is responsible for investments. Alberta Treasury Board and Finance is management of the Plan. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan was established on July 1, 1999 to provide additional pension benefits to certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the *maximum pensionable salary limit* under the *Income Tax Act.* The Plan is supplementary to the MEPP. Service under MEPP is used to determine eligibility for vesting and early retirement. A member's pension commencement date is the same under both Plans and the pension is payable in the same form. Members of MEPP who had attained 35 years of combined pensionable service at the Plan's inception are not eligible to participate in the Plan.

b) PLAN FUNDING

Current service costs are funded by employee and employer contributions which together with investment earnings and transfers from the SRP Reserve Fund (see Note 6) are expected to provide for all benefits payable under the Plan. The contribution rate for designated employers equals or exceeds the rate for eligible employees. The contribution rates in effect at December 31, 2013 were unchanged at 11.16% (2012: 11.16%) of pensionable salary in excess of the maximum pensionable salary limit for eligible employees and designated employers.

An actuarial valuation of the Plan is required to be performed at least once every three years. The rates are to be reviewed periodically by the President of Treasury Board and Minister of Finance. As a result of this review, the contribution rates have increased at January 1, 2014 to 12.80% of pensionable salary in excess of the maximum pensionable salary limit for eligible employees and designated employers.

c) BENEFITS

The Plan provides a pension of 2.0% of pensionable earnings that are in excess of the *maximum pensionable salary limit* under the *Income Tax Act* for each year of pensionable service after July 1, 1999 in which the employer was a participating employer, based on the average salary of the highest five consecutive years.

Members are entitled to an unreduced pension on service if they retire with at least five years of combined pensionable service and have either attained age 60, or age 55 and the

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

sum of their age and combined pensionable service equals 80. Pensions are reduced if the member is under age 60 and the 80 factor is not attained.

Disability, death, termination benefits and cost-of-living adjustments under this Plan usually follow those of the MEPP.

d) GUARANTEE

Designated employers guarantee payment of all benefits arising under the Plan. If assets held in the Plan are insufficient to pay for benefits as they become due, the amount due is payable by designated employers.

e) SURPLUS PLAN ASSETS

The Province of Alberta has the right to amend or discontinue the Plan in whole or in part at any time. Any assets remaining in the Plan after provision for benefits payable to or in respect of members on the complete wind-up of the Plan accrue to the Province of Alberta.

f) INCOME TAXES

The Plan is a *Retirement Compensation Arrangement* (RCA) as defined in the *Income Tax Act*. Refundable income tax is remitted on any cash contributions from eligible employees and designated employers and net investment income received at the rate of 50%. Refundable income tax is returned to the Plan at the same rate when pension benefit payments are made to Plan members and beneficiaries.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established under Part 5 of the *Financial Administration Act* of Alberta. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the period end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the period cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

Investment income includes the following:

i) Income distributions from the pools are recorded in the Plan's accounts and included in investment income on the statement of changes in net assets (see Note 10). Income distributions are based on the Plan's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of units and unrealized gains and losses on units are recorded in the Plan's accounts and included in investment income on the statement of changes in net assets. Realized gains and losses on disposal of units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis.

d) INVESTMENT EXPENSES

i) Investment expenses include all amounts, including transaction costs, charged to the Plan by AIMCo (see Note 12). Investment expenses are recorded on an accrual basis.

e) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the magnitude of the calculation of the Plan's pension obligation. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts. Differences between actual results and expectations are disclosed as actuarial assumption changes and net experience gains or losses in the note describing changes in the benefit obligation in the year when actual results are known.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) approved by the Plan's Advisory Committee. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

	($ thousands)				
	Fair Value Hierarchy [a]			**2013**	**2012**
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest bearing securities					
Cash and short-term securities	$ -	$ 615	$ -	$ 615	$ 885
Bonds	-	15,377	-	15,377	15,156
Real return bonds	-	3,109	-	3,109	3,299
Total Investment	$ -	$ 19,101	$ -	$ 19,101	$ 19,340

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $ nil (2012: $ nil).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $19,101

(2012: $19,340). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $nil (2012: $ nil).

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4d). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pooled investment funds created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Advisory Committee. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Advisory Committee manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments, including assets held in the Supplementary Retirement Plan Reserve Fund (SRP Reserve Fund). In order to earn the best possible return at an acceptable level of risk, the Advisory Committee has established policy asset mix ranges of 25-45% fixed income instruments, 35-60% equities, and 15-30% alternative investments.

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes debt securities by counterparty credit rating at December 31, 2013:

Credit rating	2013	2012
Investment Grade (AAA to BBB-)	97%	100%
Speculative Grade (BB+ or lower)	0%	0%
Unrated	3%	0%
	100%	**100%**

ii) Counterparty default risk - derivative contracts

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4d). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2013, the Fund's share of securities loaned under this program is $921 thousand and collateral held totals $956 thousand. Securities borrowers

are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 6.8% (2012: 7.0%).

c) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4d).

d) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share *($ thousands)*	
By counterparty	Number of counterparties	**2013**	**2012**
Contracts in favourable position (current credit exposure)	9	$ 96	$ 139
Contracts in unfavourable position	11	(35)	(60)
Net fair value of derivative contracts	20	$ 61	$ 79

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $96 (2012: $139) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Types of derivatives used in pools	Plan's Indirect Share ($ thousands) 2013	2012
Interest rate derivatives	$ 91	$ 125
Foreign currency derivatives	(16)	(11)
Credit risk derivatives	(14)	(35)
Net fair value of derivative contracts	$ 61	$ 79

(i) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(ii) Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(iv) Deposits: At December 31, 2013 deposits in futures contracts margin accounts totalled $14 (2012: $58).

NOTE 5 REFUNDABLE INCOME TAX

	($ thousands) 2013	2012
Refundable income tax at beginning of year	$ 25,241	$ 22,497
Tax on employees and employers contributions received	3,334	3,180
Tax on net investment income received plus adjustments of prior year taxes less tax refunds on benefits and refunds payments, net	(1,020)	(436)
Refundable income tax at end of year	$ 27,555	$ 25,241

NOTE 6 SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND (SRP RESERVE FUND)

Designated employers guarantee payment of all benefits arising under the Plan (see Note 1d). To provide for their future obligations to the Plan, designated employers contribute to the SRP Reserve Fund at rates established by the President of Treasury Board and Minister of Finance. The employer contribution rate is 22.6% of pensionable salary of eligible employees in excess of the *maximum pensionable salary limit* under the *Income Tax Act*.

The SRP Reserve Fund is a regulated fund established and administered by the President of Treasury Board and Minister of Finance to collect contributions from designated employers and to invest the funds, which are reserved to meet future benefit payments of the Plan.

As at December 31, 2013, the SRP Reserve Fund had net assets with fair value totalling $77,965 (2012: $58,882), comprising of $77,664 (2012: $58,882) in investments and $301 (2012: $nil) in receivables. The increase during the year of $19,083 (2012: $12,880) is attributed to contributions from employers of $6,827 (2012: $6,552) and investment gain of $12,256 (2012: $6,328).

NOTE 7 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2012 by Aon Hewitt and results were then extrapolated to December 31, 2013.

The actuarial assumptions used in determining the value of the pension obligation of $136,944 (2012: $155,193) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate, and the salary escalation rate. The investment rate of return is based on the average from a consistent modeled investment return, net

	2013	2012
	%	
Discount rate on an after-tax basis	4.70	4.10
Inflation rate	2.25	2.25
Discount rate	6.30	5.50
Salary escalation rate *	3.50	3.50
Pension cost-of-living increase as a percentage of Alberta Consumer Price Index	60.0	60.0
Mortality rate**		

* In addition to age specific merit and promotion increase assumptions.

** Mortality rate used for 2013 is the 2014 Canadian Pension Mortality Table (Public Sector) and for 2012 was the Uninsured Pensioner 1994 table projected generationally.

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2015. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2016.

b) NET EXPERIENCE GAINS

Net experience gains of $ 2,719 (2012: $nil) reflect the results of the valuation as at December 31, 2012 extrapolated to December 31, 2013

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

NOTE 7 PENSION OBLIGATION CONTINUED

The following is a summary of the sensitivities of the Plan's net assets and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2013:

	($ thousands)		
	Changes in Assumptions	Decrease in Net Assets	Increase in Benefits Earned
	%	$	$
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	10,912	745
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	23,454	5,392
Discount rate decrease holding inflation rate and salary escalation assumptions constant*	(1.0)	25,564	2,384

* Sensitivities includes investment return of assets held by the SRP Reserve Fund (Note 6).

NOTE 8 DEFICIT

	($ thousands)	
	2013	**2012**
Deficit at beginning of year	$ (51,870)	$ (53,489)
Increase in net assets available for benefits	21,237	16,667
Net decrease (increase) in pension obligation	18,249	(15,048)
Deficit at end of year	$ (12,384)	$ (51,870)

NOTE 9 CONTRIBUTIONS

	($ thousands)	
	2013	**2012**
Employers	$ 3,339	$ 3,174
Employees	3,330	3,174
	$ 6,669	$ 6,348

NOTE 10 INVESTMENT LOSS (INCOME)

The following is a summary of the Plan's investment loss (income) by asset class:

	($ thousands)	
	2013	**2012**
Interest-bearing securities	$ 284	$ (1,145)

Investment loss (income) includes realized gains and losses from disposal of pool units, unrealized gains and losses on units and income distributions from the pools.

Income distributions from the pools is based on income earned by the pools determined on an accrual basis which includes interest, dividends, security lending income, realized gains and losses on sale of securities held by the pools, realized foreign exchange gains and losses, writedowns of securities held in the pools and income and expense earned on

derivative contracts. Realized gains and losses are determined on an average cost basis. Impairment charges related to the writedown of securities held in the pools are indicative of a loss in value that is other than temporary.

NOTE 11 BENEFIT PAYMENTS

	($ thousands)	
	2013	**2012**
Retirement benefits	$ 2,956	$ 2,329
Termination benefits	636	679
Death benefits	44	110
	$ 3,636	$ 3,118

NOTE 12 INVESTMENT EXPENSES

	($ thousands)	
Amount charged by:	**2013**	**2012**
AIMCo [(a)]	$ 21	$ 42
Alberta Treasury Board and Finance [(b)]	25	25
Total investment expenses	$ 46	$ 67
Decrease in expenses	-31.3%	-28.7%
Increase in average investments under management	2.1%	8.1%
Investment expenses as a percent of dollar invested	0.24%	0.35%
Investment expenses per member	$ 25	$ 37

(a) For investment management services. Please refer to AIMCo's financial statements for a detailed breakdown of expenses.

(b) For investment accounting and Plan reporting services.

NOTE 13 ADMINISTRATION EXPENSES

Administration expenses of $549 (2012: $521) were charged to the Plan on a cost recovery basis.

	($ thousands)	
	2013	**2012**
General administration costs	$ 506	$ 487
Actuarial fees	40	20
Other professional fees	3	14
	$ 549	$ 521
Member service expenses per member	$ 296	$ 292

The Plan's share of the Alberta Pensions Services Corporation's (APS) operating and plan specific costs was based on cost allocation formula approved by the President of Treasury Board and Minister of Finance.

NOTE 14 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 12 and administration expenses per Note 13 are $595 (2012: $588) or $321 (2012: $329) per member and 0.48% (2012: 0.57%) of net assets under administration.

NOTE 15 CAPITAL

The Plan defines its capital as the funded status as described in Notes 1b, 1e, Note 6 and Note 8.

NOTE 16 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2013 presentation.

NOTE 17 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Advisory Committee for the Supplementary Retirement Plan for Public Service Managers.

Performance Measures Methodology

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Performance Measures
(Methodology, Sources and Notes)

1.a Alberta's credit rating (blended credit rating for domestic debt)

METHODOLOGY

Credit rating is an independent credit rating agency's assessment of the future ability of an organization to repay its long term debt. The highest possible rating is AAA.

Alberta is rated by three agencies:

» Standard and Poor's (S&P) – AAA

» Moody's Investor Service (Moody's) – Aaa

» Dominion Bond Rating Service (DBRS) – AAA

SOURCE

Three rating agencies: Dominion Bond Rating Service, Moody's Investor Services and Standard and Poor's Rating Services

RATING COMPARISON TABLE

Year	Alberta	Ontario	B.C.	Canada
2013	AAA	AA-	AAA	AAA

1.b Ratio of amounts added to net tax revenue to costs of administration (as a measure of efficiency)

METHODOLOGY

The measure is calculated by dividing the additional revenue obtained through administrative effort by Tax and Revenue Administration's operating budget.

SOURCE

Data comprises a summary of revenue obtained through the revision of returns and claims, the collection of overdue accounts and recoveries due to audit activity. Data is generated through existing ORACLE and IMAGIS system reports and ad hoc reporting created for the purpose. Administrative costs are obtained through the Government of Alberta IMAGIS expense tracking system.

NOTES

The ratio for the 2012-13 and 2013-14 were higher than the previous years' results and targets as a result of significant recoveries made by applying reassessments made by Canada Revenue Agency (CRA) in a similar fashion in Alberta. Most of these reassessments are currently under objection. Removing the impact of these reassessments results in a revised ratio of 12:1 for 2012-13 and a revised ratio of 13.1 for 2013-14.

1.c The Alberta Heritage Savings Trust Fund five-year annualized rate of return

METHODOLOGY

The performance measurement system employed by AIMCo calculates a total return of the Heritage Fund.

Consumer Price Index (CPI) is a measure of price movements of baskets of selected goods and services between two different points in time. CPI is calculated by Statistics Canada.

A comparison is made between annualized five-year market value rate of return of the Heritage Fund and annualized five-year CPI plus 5.5 per cent.

SOURCE

The Heritage Fund return is calculated within the Sylvan product of the Financial Models Corporation (FMC) by the Valuation and Fund Accounting Group within AIMCo's Investment Administration division.

CPI is obtained from either the Bank of Canada website or from Bloomberg.

FMC – Sylvan module:

Monthly data downloaded to Excel spreadsheet from FMC - Sylvan and annualized manually to check the accuracy and subsequently compared with the FMC - Sylvan annualized download.

2. ATB Financial return on average assets

METHODOLOGY

For the fiscal year ended March 31, 2014:

Net Income/Average Total Assets

SOURCE

Net income - as per annual report

Average Total Assets - per internal reporting systems

3. Sustainable operating spending growth (operating spending relative to the rate of population growth plus CPI)

METHODOLOGY

1. Growth in operating expense is calculated based on data taken from the Executive Summary in the Government of Alberta Annual Report.
2. Population growth is calculated by taking the annual change in population at the mid-point of the fiscal year (October 1).
3. Inflation is the year over year growth in the average of the Alberta Consumer Price Index over the fiscal year (April to March).

SOURCE

Growth in operating expense, population and inflation are calculated by Alberta Treasury Board and Finance.

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