Treasury Board and Finance

Annual Report
2012–2013

Alberta

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Treasury Board and Finance

Annual Report 2012–2013

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Preface

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Government Accountability Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 18 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.

On May 8, 2012, the government announced new ministry structures. The 2012-13 ministry annual reports and financial statements have been prepared based on the new structure. The Ministry of Finance and the Ministry of Treasury Board and Enterprise (excluding the Enterprise and Corporate Human Services functions) were consolidated and renamed as the Ministry of Treasury Board and Finance.

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 *Government Accountability 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, 2013, was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as at June 13, 2013, 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

Alberta continues to be one of the most dynamic provinces in Canada. Lured by jobs and higher incomes, Alberta has become a destination of choice for a growing number of Canadians and international migrants. Our economy continues to grow at a rate that is expected to attract more than 68,000 people this year alone.

In the 2012-13 fiscal year we saw both a year of growth for Alberta's economy and a year of challenge for the province's finances. Alberta's economy grew briskly for the third consecutive year, recording growth of 3.9 per cent in 2012. The economy was propelled by a jump in consumer spending and residential investment, along with continued gains in business sector investment. Employment growth once again led all provinces, helping to maintain one of the lowest unemployment rates in the country.

On the other hand, the province saw an overall decline in the expected revenue in 2012, mainly from lower oil and gas prices and especially bitumen prices. The "bitumen bubble" saw Alberta bitumen selling at a larger discount as a result of pipeline access issues and growing U.S. oil supply. *Budget 2013: Responsible Change* presented a prudent fiscal plan outlining the government's response to that revenue decline and a plan for building Alberta.

Our government's Building Alberta Plan:

- Invests in families and communities, including the new roads, schools and health facilities our growing province needs;
- Ensures we live within our means, by challenging every dollar the government spends and making sure every program continues to deliver real results for people; and
- Builds new markets for all our resources so we get the fairest price and we protect the jobs and prosperity Albertans depend on.

Treasury Board and Finance is putting the Building Alberta Plan into action in a number of ways. This includes fast-tracking the results-based budgeting process, which is now expected to be completed by May 2014.

These are significant outcomes, which are reflected in the *Fiscal Management Act*, and which are based in part on commitments we made in *Budget 2012* to develop a renewed fiscal and savings strategy.

They also reflect the priorities of Albertans. In the fall of 2012, Albertans were asked to help set savings and spending priorities. More than 6,000 people participated in fiscal framework and budget consultations either online or in communities across our province.

We are building Alberta for continued prosperity and I am proud of the ministry's role in that success.

"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 Authority
- Alberta Local Authorities Pension Plan Corporation
- Alberta Pension 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 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 2012.*

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 *Government Accountability 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"

Annette Trimbee
Deputy Minister Treasury Board and Finance
June 13, 2013

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Results Analysis

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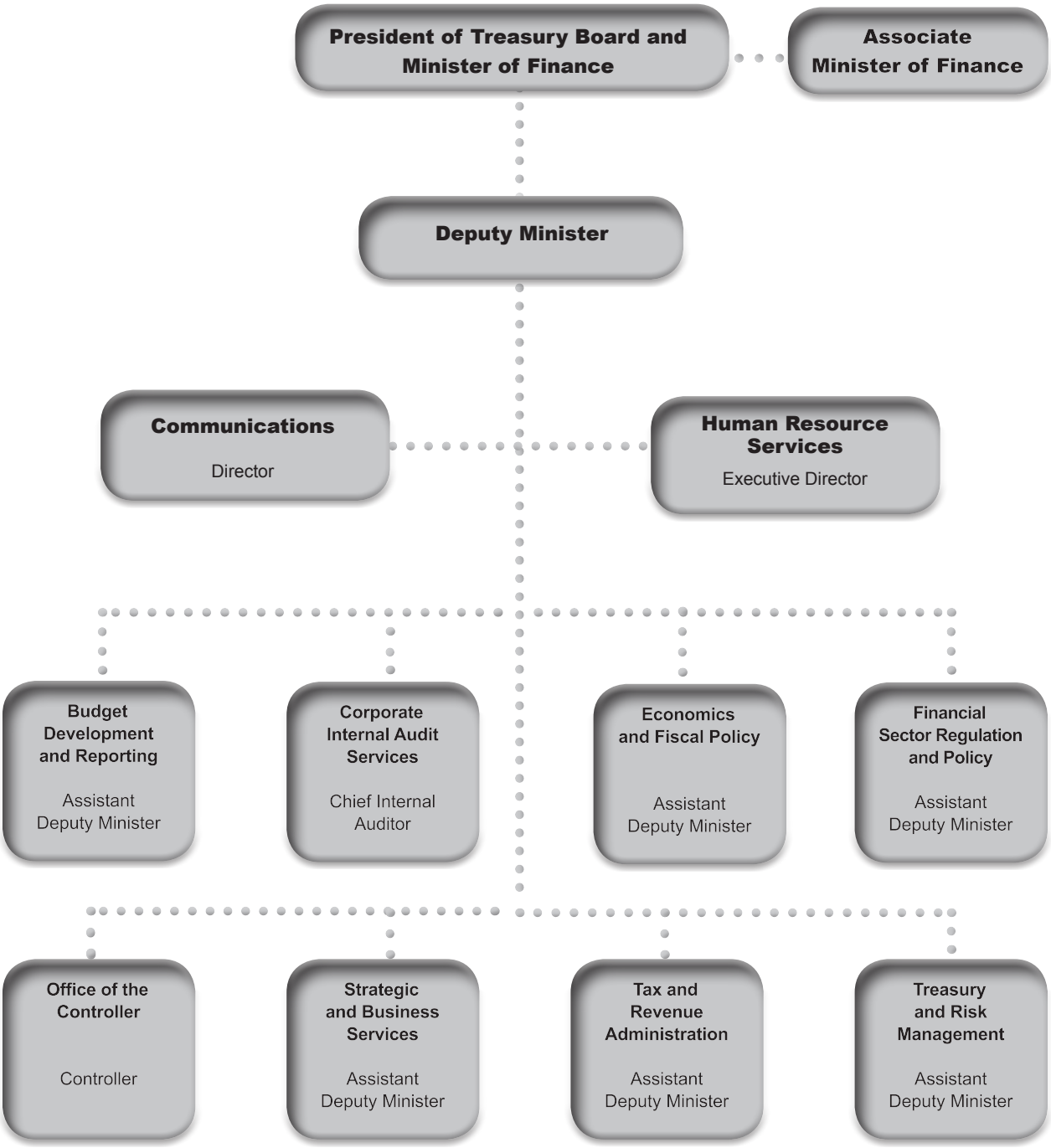
Organizational Chart



Ministry Goals

Goals

Goal 1: Strong and sustainable government finances

Goal 2: Revenue programs are administered fairly, efficiently and effectively

Goal 3: Sound investment, treasury and risk management

Goal 4: Policy and regulatory oversight for the financial, insurance and pensions sectors that is effective, fair and in the interests of Albertans

Goal 5: Effective and efficient government

Goal 6: Accessible financial services for Albertans

Goal 7: Alberta's gaming and liquor activities are conducted with integrity and in a socially responsible manner

Operational Overview

Oxbridge Place	Terrace Building	Haultain Building	Labour Building	Norcen Building
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 business planning, strategic planning, performance measurement and reporting. BDR is accountable for the government's budgeting and performance reporting process, including results-based budgeting (RBB). In addition, BDR is responsible for preparing the annual budget, quarterly updates, the executive summary of the *GoA Annual Report* and *Measuring Up.*

Communications (COMM)

Communications advises and supports the President of Treasury Board and Minister of Finance as well as the ministry 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 the province's legislated fiscal framework as well as advising the government on overall fiscal economic and tax policy issues. EFP prepares economic and population projections for use within the province, which are included in budget and quarterly updates. In addition, the division forecasts federal transfers, tax revenues and other tax information. EFP consolidates and disseminates official statistics and other key government data to support 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 trust corporations, financial institutions, insurance companies and registered private-sector pension plans.

Human Resource Services (HR)

Human Resources 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 as well as the business process reengineering initiatives. The division provides departments and agencies with information, training and resources as well as one-on-one assistance related to the governance of public agencies. The OC also works with departments and agencies to facilitate the government's coordinated approach to enterprise risk management.

Strategic and Business Services (SBS)

Strategic and Business Services is responsible for supporting the ministry's operations through leadership and oversight of the ministry's business planning and annual reporting activities. SBS offers a full range of financial advisory, planning, accounting and reporting services. In addition, SBS provides air transportation services and manages facilities, information and records as well as administers the Freedom of Information and Protection of Privacy processes and establishes departmental technology direction.

Tax and Revenue Administration (TRA)

Tax and Revenue Administration is responsible for administering tax and related programs under the Alberta corporate income, fuel, tobacco tax and tourism levy acts. The focus is to ensure a fair, efficient and effective provincial tax and revenue system. TRA also administers the Unclaimed Personal Property and Vested Property program as well as contributes to the development of Alberta tax policy.

Treasury and Risk Management (TRM)

Treasury and Risk Management provides investment policy advice as well as portfolio planning and evaluation for the investments of 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, the division 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 *Budget 2013: Responsible Change*, which is a prudent fiscal plan outlining the government's decisions in response to a decline in expected revenue mainly from lower oil and gas prices and especially bitumen prices. In making those decisions, the government consulted with Albertans and the budget reflects the priorities identified: building Alberta by investing in families and communities, building our savings by ensuring government lives within its means and building new markets for Alberta's resources – across Canada and around the world.
- Introduced the new *Fiscal Management Act* which sets the stage for Alberta to become less reliant on natural resource revenues through a responsible savings plan. The Act renewed Alberta's fiscal framework and also created the requirement for an operational plan, a savings plan and a capital plan. It legislated a balanced operational budget and retained legislated limits on in-year spending increases. Under the new savings plan, the province's total savings in various funds and endowments will grow to more than $24 billion over the next three years.
- Implemented the RBB process which reviews government programs and services to ensure they meet the outcomes Albertans have identified as priorities. Thirty-one Albertans participated in challenge panels to help ensure the first cycle of reviews were comprehensive. Given the fiscal situation, the RBB process has been fast-tracked from a three-year cycle, outlined in the *Results-based Budgeting: Report to Albertans* released in November 2012, to a May 2014 deadline.
- Maintained the province's tax competitiveness. Albertans and Alberta businesses would pay at least $10.6 billion more in taxes annually if they had the same tax system as other provinces.
- Developed a new full expense disclosure policy for senior executives across government to meet the highest levels of disclosure and transparency as well as implemented the policy in December 2012. The level of detail regarding expenses on the government website makes Alberta a leader among provinces in providing accountability to the public.
- Passed the province's revised *Alberta Employment Pension Plans Act, 2012,* representing the first major changes to private sector pension laws in 25 years. This legislation will provide businesses with the ability to more easily develop pension plans that meet the needs of employers and employees as well as provides more options to help Albertans prepare for retirement.
- 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.
- Continued reviewing Alberta's automobile insurance system including targeted stakeholder consultations on the rate setting process and collected input from Albertans impacted by diagnostic and treatment protocols for sprains, strains and whiplash injuries. The review helped identify improvements to help make Alberta's affordable, accessible and fair automobile insurance system even better.

- Collected $7 billion in revenue from corporate income, fuel, tobacco and insurance taxes as well as the tourism levy.
- Processed more than 293,700 corporate and commodity tax returns and more than 16,500 benefit claims.
- Recovered $38 million in 2012-13 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.
- Increased efficiencies by encouraging use of government's Net File corporate income tax system. The system enables filers to submit returns during extended hours and eliminates the cost of handling, printing and mailing paper returns. In 2012-13, the first full fiscal year of Net File operation, corporate income taxpayers filed a total of 104,719 returns, constituting 47 per cent of all corporate income tax returns.
- Maintained a central listing of 16,000 unclaimed items in the Alberta unclaimed property registry and paid out over $736,000 to more than 420 owners during 2012-13. The registry is a service to Albertans who have lost track of their personal or business property such as uncashed government cheques, utility deposits, securities and matured life insurance policies.
- Generated $1.485 billion from provincial gaming activities for the Lottery Fund and $729 million from liquor operations for the General Revenue Fund. The 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, 13,000 charitable and religious groups benefited from funds raised through charitable gaming activities.
- Changed the Scientific Research and Experimental Development Tax Credit through the *Alberta Corporate Tax Amendment Act, 2012,* which will enhance benefits to Alberta research companies.
- Began a comprehensive review of Alberta's public sector pension plans to ensure that they are sustainable in the long term, while meeting the goal of attracting and retaining a public sector workforce to provide Albertans with high quality services.
- Recorded an 11.6 per cent return on investment for the Alberta Heritage Savings Trust Fund (AHSTF), which also earned $1.4 billion in gross income (third highest income recorded in the past ten years) resulting in a fair value of $16.8 billion, approximately $700 million more than the previous year.
- Earned a rate of return of 9.64 per cent on the $70.95 billion the Alberta Investment Management Corporation (AIMCo) has invested for the GoA and other clients. AIMCo beat its benchmark return by 1.2 per cent, which translates into a value added of $734 million for the GoA and other clients.
- Recorded a significant increase in profits at Alberta Treasury Branches Financial (ATB) last year. For the fiscal year ending March 31, 2013, ATB reported a net income of $244.8 million, an increase of 25.5 per cent over the previous year, on operating revenues of $1.2 billion.

- Changed the presentation in the quarterly reports provided to Albertans to focus on three, six and nine actual fiscal results and add information on the province's economic situation. Produced *Alberta Population Projections by Census Division, for 2012-2041*; and released key economic information and analysis, such as Economic Trends and the Weekly Economic Review, weekly and monthly.
- Released the 2012 Alberta Official Statistics which were enhanced with trusted and authoritative data in open data formats, supporting government's commitment to openness and transparency. These statistics give a snapshot of Alberta and how the province has changed over the years, and serve as a decision-making resource to help government, agencies, businesses and others make well-informed decisions.
- Supported Municipal Affairs in consultations to develop regulations for the *New Home Buyer Protection Act,* 2012. This legislation ensures every new home built in Alberta will have a warranty.
- Required registered securities dealers and advisors to provide investors with clear and meaningful information about the costs and performance of their investments when the Alberta Securities Commission (ASC) announced changes to securities laws along with other provincial/territorial regulators. This important investor protection initiative will enable Alberta investors to better understand the costs and performance of their investments. The amendments will take effect on July 15, 2013, and the changes will take effect over a three-year period, with the first set of changes being implemented on July 15, 2014.

Ministry Financial Highlights

Revenue

(millions of dollars)

2012–13		2011–12
Budget	Actual	Actual
$21,764	$23,285	$20,216

Revenue for the ministry is $3,069 million, or 15.2 per cent, higher than in 2011-12.

(Actual - Actual)

- Revenue for 2012-13 was $23,285 million compared to revenue for 2011-12 of $20,216 million.
- Personal income tax revenue is $1,171 million higher than the prior year due to higher personal incomes in 2012, and adjustments for higher than expected 2011 assessments.
- Corporate income tax revenue was $1,092 million higher than the prior year due to higher corporate income from improved economic conditions.
- Other tax revenue was higher than the prior year by $115 million primarily due to fuel tax revenue that increased $48 million as a result of increased consumption driven by economic recovery. Tobacco tax revenue increased $16 million, insurance tax revenue increased $39 million and tourism levy revenue increased $9 million.
- Net investment income was $439 million higher than the previous year. Market conditions were more favourable this past year compared to the prior year.
- Net income from government business enterprises was $94 million higher from the prior year. The income from Alberta Gaming and Liquor Commission (AGLC) increased by $42 million, ATB by $50 million and Credit Union Deposit Guarantee Corporation (CUDGC) by $2 million.
- Premiums, fees and licences increased by $20 million compared to the prior year. This is a result of higher payment in lieu of taxes and deposit guarantee fee by $17 million from ATB along with a $3 million increase in other premiums, fees and licences.
- Other revenue was higher by $37 million from the prior year due to a $27 million increase in service fee revenue of AIMCo, $9 million from the Risk Management Fund and $1 million in other revenue.

Revenue for the ministry is $1,521 million, or 7.0 per cent, higher than budget.

(Budget - Actual)

- Revenue for 2012-13 of $23,285 million was higher compared to the 2012-13 budgeted revenue of $21,764 million.
- Personal income tax revenue is $307 million higher than budget due to adjustments for higher than expected 2011 assessments.

- Corporate income tax revenue was $242 million higher than budget due to higher than expected corporate profits.
- Other tax revenue was $35 million higher than budget due to a $47 million increase in fuel tax revenue from increased consumption. Tourism levy was $9 million higher than budget as well as interest and penalties and other tax revenue is $4 million higher than budget. These increases were drawn down by shortfalls to budget from tobacco tax of $13 million and insurance tax of $12 million.
- Transfers from Government of Canada were $2 million higher than budget due to a timing difference.
- Net investment income was $714 million higher than budget. The returns from endowment funds were $478 million higher for the AHSTF and $94 million higher for the other endowment funds. Investment income for the Sustainability Fund was $142 million higher than budget.
- Net income from government business enterprises was $208 million higher than budget comprised of $176 million from AGLC, $31 million from ATB and $1 million from CUDGC.
- Premiums, fees and licences were $10 million higher than budget. This was primarily attributed to the higher payment in lieu of taxes and deposit guarantee fee from ATB.
- Other revenue was $84 million higher than budget mainly due to higher service revenue of AIMCo to cover increased investment fees.

Expenses

(millions of dollars)

2012–13		2011–12
Budget	Actual	Actual
$2,138	$2,309	$2,344

Ministry expenses are $35 million, or 1.5 per cent, less than in 2011-12.

(Actual - Actual)

- Expenses for 2012-13 of $2,309 million were less than expenses for 2011-12 of $2,344 million.
- Tax and Revenue Management was $5 million higher than the prior year due to required interest on corporate tax refunds that were anticipated and budgeted for in the current year.
- Financial Sector Regulation and Policy had increased expenses of $2 million from the prior year due to increased expenses in Alberta Pension Services Corporation (APS).
- Investment, Treasury and Risk Management expenses were $98 million higher than the prior year mainly due to increased AIMCo investment costs.
- The Teachers' Pension liability funding was $11 million higher than the prior year.
- Due to changes in accounting policy, tax credits of $179 million were recognized as expenses in the current year on a prospective basis.

- The pension provision amount of $208 million compared to $529 million in the prior year was due to improved investment returns in the pension plans over the prior year.
- Debt servicing costs were $13 million less than the prior year. There were higher debt servicing costs for Alberta Capital Finance Authority (ACFA) of $3 million due to an increase in outstanding debt during the year. This was offset by reduced debt servicing of $13 million for general government and $3 million for school construction debentures due to the repayment of debt during the year.

Expenses for the ministry were $171 million, or 8.0 per cent, over budget.

(Budget - Actual)

- Expenses for 2012-13 of $2,309 million were higher compared to the 2012-13 budgeted expenses of $2,138 million.
- Investment, Treasury and Risk Management expenses were $153 million higher than budget mainly due to AIMCo investment costs that were offset by revenue.
- Financial Sector Regulation and Policy expenses were $17 million under budget mainly due to lower costs at ASC and APS.
- The Teachers' Pension liability funding was $11 million under budget due to fewer than expected retirements.
- Debt servicing costs were $21 million lower than budget as the extent of borrowing was not as high as anticipated and because interest rates remained at lower levels than expected.
- Pension provision of $208 million, subject to the *Fiscal Responsibility Act*, as a non-cash expense of the ministry was not included in the estimates.
- Lapsed $84 million for capital projects provision.

Review Engagement Report

To the Members of the Legislative Assembly

I have reviewed the performance measures identified as reviewed by the Office of the Auditor General in the Ministry of Treasury Board and Finance's Annual Report 2012-2013. The reviewed performance measures are the responsibility of the ministry and are 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 ministry's budget 2012.

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 ministry.

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

Based on my review, nothing has come to my attention that causes me to believe that the performance measures identified as reviewed by Office of the Auditor General in the ministry's annual report 2012-2013 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 16, 2013

Edmonton, Alberta

Performance Measures Summary Table

Goals/Performance Measure(s)	Prior Year's Results				Target	Current Actual
1. Strong and sustainable government finances[1]						
*1.a Alberta's credit rating (blended credit rating for domestic debt)	AAA	AAA	AAA	AAA	AAA	AAA
	2008-09	2009-10	2010-11	2011-12	Target	2012-13
1.b Percentage change in actual government operating expense from authorized budget	-0.4%	-0.3%	-1.1%	-0.4%	Less than 1% increase	-0.9%
	2008-09	2009-10	2010-11	2011-12	Target	2012-13

[1]This goal was consolidated in response to the ministry's new organizational structure.

2. Revenue programs are administered fairly, efficiently and effectively						
Ratio of amounts added to net tax revenue to costs of administration (as a measure of efficiency)[2]	25:1	12:1	13:1	12.5:1	12:1	20:1
	2008-09	2009-10	2010-11	2011-12	Target	2012-13

[2]The ratio for the 2012-13 year was higher than the previous year's results and the current target as a result of significant recoveries made by applying reassessments made by Canada Revenue Agency (CRA) in a similar fashion in Alberta. For example, applying six large reassessments made by CRA in the year to Alberta's tax returns led to incremental Alberta reassessments of over $240 million. 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.

3. Sound investment, treasury and risk management						
* The Alberta Heritage Savings Trust Fund five-year annualized rate of return[3]	2.6% (4.8% below target)	4.4% (2.9% below target)	3.5% (3.8% below target)	2.7% (4.7% below target)	7.3%	5.2% (2.1% below target)
	2008-09	2009-10	2010-11	2011-12	Target	2012-13

[3]The measure was consolidated in 2011 to reflect both policy and active management. Prior year's numbers have been restated to be comparable. The fund was 2.1% below target due to the continued effects of losses suffered during the credit crisis in 2009.

5. Effective and efficient government						
Percentage of corporate internal audit significant recommendations implemented	100%	86%	89%	88%	90%	88%
	2008-09	2009-10	2010-11	2011-12	Target	2012-13

Performance Measures Summary Table, continued

Goals/Performance Measure(s)	Prior Year's Results				Target	Current Actual
6. Accessible financial serivces for Albertans						
6.a ATB Financial return on average assets	0.03%	0.62%	0.99%	0.63%	0.65%	0.76%
	2008-09	2009-10	2010-11	2011-12	Target	2012-13
6.b Cost to Alberta local authorities of borrowing from ACFA compared to other municipality/aggregating agencies for a comparable loan	Met In both cases compared		Met	Met	Lower Rate	Met
	2008-09	2009-10	2010-11	2011-12	Target	2012-13
7. Alberta's gaming and liquor activities are conducted with integrity and in a socially responsible manner						
7.a Public satisfaction with the conduct of the liquor business in Alberta	77%	78%	78%	80%	78%	82%
	2008-09	2009-10	2010-11	2011-12	Target	2012-13
7.b Public satisfaction with the conduct of legal gaming in Alberta	72%	79%	79%	81%	79%	80%
	2008-09	2009-10	2010-11	2011-12	Target	2012-13

Note: For additional detail please refer to the Appendix: Performance Measures Methodology.

* 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

Treasury Board and Finance (TBF) supported Treasury Board Committee and Cabinet financial decision-making by providing economic, tax, revenue and spending forecast updates as well as policy analysis and advice throughout the year. The ministry also prepared and published the budget, quarterly updates and the government annual report. This included the performance measurement report, publishing the weekly and monthly reports on developments and trends in Alberta's economy as well as assisting in the communication of the economic, revenue and spending forecasts.

TBF worked closely with other ministries on capital and operating spending issues including: the assessment of cost drivers, possible pressures and reconciliation of variances as well as assisted in fiscal-planning decisions within the current year and as part of the future-year budget planning cycle. This work resulted in ministries identifying and achieving in-year savings of nearly double the $500 million targeted. The in-year savings target has been increased from the $360 million targeted at budget as a result of a significant decline in resource revenue. The ministry prepared the main investment income, federal transfers and all tax revenue forecasts, and collected forecasts of other revenue sources from ministries.

In 2012-13, the deficit was $2.8 billion, almost $2 billion higher than the *Budget 2012* estimate of $886 million, mainly due to a significant $3.6 billion drop in resource revenue. Most of the decline came from lower bitumen royalties, as the price discount for Alberta bitumen relative to global oil prices was greater than expected mainly due to a combination of insufficient pipeline capacity and strong growth in North American non-conventional oil production. Global oil and gas prices were also lower than expected with the continued sluggish global economic recovery. Other revenue was $1.8 billion higher than expected, reflecting Alberta's strong population growth and solid economic performance. Total expense was $161 million higher than estimated in *Budget 2012*. This was due mainly to achievement of savings in capital and operating expense, offset by the provision of $596 million in-year in disaster/emergency assistance for the agriculture sector, fighting forest fires and municipal flooding. On a year-over-year basis, operating expense grew 6.5 per cent from 2011-12, compared to population growth plus inflation of 3.6 per cent.

The volatility of Alberta's resource-based economy and the government's main revenue sources present challenges for fiscal planning. Swings in commodity prices, financial markets, population growth and infrastructure needs, primarily beyond the government's control, significantly impacted the government's revenue situation and spending pressures. The province's economic growth remained solid in 2012-13, even as the global and U.S. economies remained sluggish. But Alberta's positive growth was led more by the household sector – consumer spending and housing construction – than has been typical, as the business sector suffered from the lower energy prices and as more and more people moved here.

In 2012-13, the province undertook a comprehensive review of its legislated fiscal framework, which set out the rules and limitations the government places on itself for budgeting purposes and the ministry led this review. The review commenced with a series of public consultations including an online survey in which over 3,800 Albertans

participated. Following a review of the public consultation results, TBF led the development of the new fiscal framework, which was announced in *Budget 2013* and enshrined in the *Fiscal Management Act* (FMA). This act replaced the *Fiscal Responsibility Act* and the *Government Accountability Act.*

Alberta's new fiscal framework focused on three distinct areas: an operational plan, a savings plan and a capital plan. The operational plan included delivering day-to-day programs and services. It is only permitted to be in deficit when there are assets in the new Contingency Account to fund the shortfall (FMA replaces the Alberta Sustainability Fund with the Contingency Account). Under the new savings plan, the legislated savings policy required saving a percentage of the province's non-renewable resource revenue (NRR) every year (commending no later than 2015-16). This percentage will increase as the annual NRR surpasses legislatively prescribed thresholds and will save 100 per cent of AHSTF's net income by 2017-18 as well as in all subsequent years. The capital plan reflected the need to build Alberta's infrastructure now, rather than being overtaken by population and economic growth pressures, higher costs and with Alberta's Triple A credit rating. Much of the *Budget 2013* capital plan will be financed by direct borrowing of P3s. The FMA legislated a limit on borrowing for capital by capping capital debt servicing costs to a percentage of revenue and funds will be set aside annually to accumulate for future debt principal repayment.

In addition, the ministry collaborated with Municipal Affairs and Education to review the methodology for determining the education property tax requisition, resulting in a new policy being introduced in *Budget 2013*. The education property tax revenue requirement is now linked to education operating costs in Alberta and the mitigation formula is eliminated, achieving greater equity in the distribution of the education property tax among Alberta municipalities.

Following the internal review of the Scientific Research and Experimental Development (SR&ED) Tax Credit in 2011-12, the government eliminated the grind mechanism. This was the requirement to reduce expenditures eligible for the Alberta credit by the federal investment tax credits received in respect of those expenditures. This enhanced the SR&ED program by about $25 million annually.

Also, the ministry provided analytical support on a number of economic issues, including the effects of losses in meat processing capacity, environmental policy, foreign direct investment and the future of Alberta's labour force. TBF continued working with federal/provincial/territorial counterparts on the renewal of major federal funding transfers.

TBF produced regular analytical reports on demographic issues and trends as well as estimates and annual projections of Alberta's population by geographic region. The ministry also advocated for Alberta's interests at federal/provincial/territorial meetings to achieve a more effective and coordinated statistical system in Canada. This included providing focal point representation for the Consultative Council on Statistical Policy and for economic accounts, census and demography. TBF also consolidated statistical subject-matter expertise across all government departments.

In 2012-13, the ministry co-chaired the Government of Alberta's Demography Working Group (DWG) to review population and demography initiatives that have broad policy implications. The DWG's activities resulted in changes to the *Determination of Population Regulation Act* to improve the quality of municipal population data. The DWG also worked in collaboration with Statistics Canada to produce the first-ever estimates of inter-provincial workers in Alberta, providing new insights into Alberta's shadow population. This data will support long term planning, particularly in Alberta's oil sands regions.

GOAL 2

Revenue programs are administered fairly, efficiently and effectively

TBF designed tax and revenue programs, collected revenue owing under those programs, administered tax and revenue laws, made payments of refunds and rebates as well as provided information to stakeholders, taxpayers and claimants. The ministry also administered the Unclaimed Personal Property and Vested Property program.

In 2012-13, the ministry collected a total of $7 billion in revenue from the corporate income, fuel, tobacco and insurance taxes, and the tourism levy. Corporate and commodity returns processed exceeded 293,700 and more than 16,500 benefit claims were processed in the same period.

The Alberta Farm Fuel Distribution Allowance (AFFDA) portion of the Alberta Farm Fuel Benefit Program (AFFB) was discontinued in *Budget 2013*. The six-cent-per-litre allowance applied to marked diesel, marked renewable diesel and heating fuel for eligible farming operations. The nine-cent-per-litre provincial tax exemption on marked gasoline and diesel under the AFFB program continues to be available to eligible producers.

Alberta adopted the new federal tobacco stamping regime, effective April 1, 2012. This new Alberta stamp replaced the previous red tear tape. The stamp indicates to retailers and consumers that the required provincial tax on the tobacco products has been paid. The sophisticated security features of the new stamp allow law enforcement agencies, retailers and consumers to more easily identify counterfeit tobacco products.

In 2012-13, the ministry recovered $38 million in commodity and corporate tax programs and continued to work cooperatively with tax administrations across Canada to ensure compliance with Alberta's tax laws.

Tax software providers continued to be certified for the Alberta Corporate Income Tax NetFile Return Format for 2008 and subsequent taxation years. Forty-seven per cent of all corporate income tax returns were filed electronically: a total of 104,719 in 2012-13, the first full fiscal year of operation. Filing electronically eliminated the need to handle, print and mail a paper return. NetFile reduced the cost of doing business in Alberta and reduced the burden on Alberta Corporate Income taxpayers. As well, NetFile helped deliver savings for Albertans by reducing internal operating costs. This contributed to the achievement of the ministry's second performance measure that revenue programs are administered fairly, efficiently, and effectively.

In addition, the ministry continued to expand its Tax and Revenue Administration Client Self-service system (TRACS) where claimants and filers can view the status of submitted returns, check account balances and update account information. TRACS is available to claimants and filers in the following programs: Alberta Indian Tax Exemption (AITE), Corporate Income Tax (CIT), fuel tax collectors/remitters, International Fuel Tax Agreement (IFTA), locomotive fuel use, Prescribed Rebate Off-road Percentages (PROP), propane retailers, Tax Exempt Fuel Sales (TEFS), Tax Exempt Fuel User (TEFU), tobacco tax collectors and tourism levy.

GOAL 3

Sound investment, treasury and risk management

The President of Treasury Board and Minister of Finance is ultimately responsible for setting the long term asset allocation policies and guidelines for the funds under his administration. The ministry looks after the long-term strategy, developing investment policy and monitoring investment performance. The purchase and sale of stocks, bonds and other investments for the portfolio is managed by AIMCo.

AIMCo earned a rate of return of 9.64 per cent on the $70.95 billion it invested for the GoA and its other clients. AIMCo exceeded its one-year market-based benchmark return by 1.2 per cent, which translated into a value add of $734 million for the GoA and other clients.

For the fiscal year ending March 31, 2013, the AHSTF recorded an 11.6 per cent return on investment and earned $1.4 million in gross income – the third-highest income recorded in the past ten years. At March 31, 2013, the fund's fair value was $16.8 billion, approximately $700 million more than the previous year. However, the five-year return for AHSTF was 2.1 per cent below its five-year return objective due to the continued effects of losses suffered during the 2009 credit crisis.

During 2012-13, the un-matured debt of the province increased from $836 million to $5,582 million as of March 31, 2013, and the associated debt servicing costs increased by $10 million to $304 million. During 2012-13, $4.2 billion was drawn from the Sustainability Fund to support the operating expenses of the province and meet other cash requirements. The balance in the Sustainability Fund was $3.3 billion as of March 31, 2013.

GOAL 4

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 $35 billion and serve over 600,000 Albertans as well as for five provincial special-purpose trust companies that do not accept deposits.

The ministry provided policy support for the public sector pension system, comprising 10 plans with 230,000 members and 150,000 pensioners. The plans cover employees of provincial and municipal governments, schools, colleges, universities and health care institutions.

TBF monitored 763 private sector pension plans to ensure they comply with the provisions of the Employment Pension Plans Act which includes the obligation to fund promised benefits. Of these plans, 686 are active, six are in the process of being registered, six are suspended and 65 are in the process of winding down. These plans have 242,882 active members. Total contributions for the year were approximately $2.7 billion as of March 31, 2013. The total market value of assets were approximately $30.3 billion for the year ended March 31, 2013.

The ministry licensed and monitored 302 insurance companies and special brokers. Of these, 227 are insurance companies (187 federal, 31 extra provincial and nine provincial), 11 are fraternal societies, 20 are reciprocal insurance exchanges (15 provincial and five extra provincial) and 44 are special brokers.

On March 28, 2013, the ASC (along with regulators from other provinces and territories) announced the adoption of changes to its securities law that will require registered dealers as well as advisors to provide investors with clear and meaningful information on the costs and performance of their investments. The important investor protection initiative will enable Alberta investors to better understand the costs and performance of their investments. The amendments will take effect on July 15, 2013, and the changes will take effect over a three-year period, with the first set of changes being implemented on July 15, 2014.

GOAL 5

Effective and efficient government

TBF was the lead ministry for the review of GoA's Enterprise and Ministry Support Services in the areas of finance and governance. The review plans included the Financial Policy Framework, Purchasing Cycle Payments, Cash, Banking and Treasury Management and the governance of the GoA's Enterprise Resource Planning (ERP). The review plans identified opportunities for significant reengineering and areas of process improvements, which will result in efficiencies and potential savings.

The ministry commenced a project to develop a system to increase the automation of the production of the GoA Details of Expenditure by Payee Report (Blue Book), as it is manually intensive. The automation will result in enhanced reporting, reduced staff time and the elimination of a separate database. TBF also commenced a project to automate the GoA's financial consolidation processes by leveraging delivered system functionality with GoA's ERP system to reduce manual integrations, data entry and reconciliations.

TBF completed an assessment of GoA's current asset management accounting systems to explore opportunities to streamline the current processes and improve the governance of GoA's asset accounting capabilities. The assessment found that there is a 90 per cent fit between the delivered functionality in the GoA ERP and business requirements. A centralized asset accounting system is essential for the GoA as it will streamline many of the manual integrations and processes currently employed. It also leverages other applications already implemented for efficient and timely reporting.

Through the Agency Governance Secretariat (AGS), the ministry was responsible for promoting good agency governance through implementation of the Public Agencies Governance Framework and also supporting the Agency Inventory Database (AID). In 2012-13, TBF offered six workshops on governance topics and four cross government networking sessions, produced the bi-weekly newsletter Agency Update as well as gave four presentations on governance to boards. There was a significant increase in time spent consulting on and monitoring legislation and policy affecting agencies. For example, TBF monitored agency response to and adoption of the *Expense and Disclosure Act* and with Environment and Sustainable Resource Development on the framework for the new single monitoring agency. They also worked with the Policy Coordination Office on the process for potential proclamation of the *Alberta Public Agencies Governance Act.* Effective April 1, 2013, AGS was transferred from TBF to Executive Council.

Enhancement of the AID was a major project in 2012-13. It is now the most comprehensive source of information on all agencies, boards and commissions associated with the GoA and their appointed members. It lists 344 agencies, boards and commissions and close to

3,000 directors. The agencies now included are all those to which government appoints at least one member.

GOAL 6

Accessible financial services for Albertans

Alberta's dynamic economy and entrepreneurial spirit requires readily accessible and technologically advanced financial services and products. In addition to private sector financial institutions, ATB and the ACFA make financial services and products available to Albertans and local authorities. ATB is a full-service financial institution serving over 635,000 Albertans through 170 branches and 130 agencies in Alberta. About 56 per cent of its loans are in residential mortgages and consumer loans, with the balance divided between commercial, agricultural and independent business loans.

ATB continues to contribute to the province's future by providing excellent service to Albertans as well as ensuring stable access to core financial services. In 2012-13, ATB's net income increased from the previous year's results of $195.1 million to $244.8 million. This was an increase of 25.5 per cent over the previous year on operating revenues of $1.2 billion. ATB's return on average assets was 0.76 per cent for the year and as a result, ATB met its target.

ACFA provided financing for capital projects to a variety of local authorities including municipalities, health authorities, school boards, post-secondary institutions and airport authorities throughout the province. The cost to Alberta local authorities of borrowing from ACFA compared to other municipality/aggregating agencies for a comparable loan was the lowest of comparable cases for 2012.

GOAL 7

Alberta's gaming and liquor activities are conducted with integrity and in a socially responsible manner

The AGLC is a crown commercial enterprise and an agent of the GoA. Through the administration of the *Gaming and Liquor Act* and regulation as well as related policy, the AGLC oversees liquor and gaming activities in the province and ensures integrity and social responsibility within those industries. The manufacture, importation, sale, purchase, possession, transportation, use and consumption of liquor in Alberta is controlled by the AGLC.

The AGLC registers liquor agencies, issues liquor licences, inspects liquor licensed premises, as well as oversees the warehousing and distribution of liquor. The AGLC also sets and collects the provincial mark-up from liquor sales.

In 2012-13, $729 million was provided to the provincial General Revenue Fund from liquor operations. In 2012-13, 82 per cent of Albertans indicated they were satisfied with the conduct of the liquor business. This result exceeded the target for 2012-13 and is consistent with the results obtained in previous years. The AGLC will continue its work to ensure liquor activities in Alberta are conducted with high levels of integrity and social responsibility.

The proceeds from gaming are used to benefit Albertans. Alberta's gaming model consists of two components, which are charitable gaming and provincial lotteries. Eligible charitable

and religious groups may apply for and receive licences to conduct gaming activities (casino table games, paper bingo, raffles and pull-tickets). Proceeds from charitable gaming events go directly to the charities that conduct the events. These proceeds are used to support community projects and initiatives for non-profit and volunteer groups throughout Alberta. Charities also receive a portion of the revenues from slot machines, electronic bingo and Keno.

Under the *Canadian Criminal Code*, the AGLC conducts and manages provincial gaming including ticket lotteries and all electronic gaming devices (slot machines, video lottery terminals [vlts] and electronic bingo) in the province. Through retailer agreements, these activities are provided by independent retailers, private operators and bingo associations. The AGLC owns and maintains the electronic gaming equipment used for ticket lotteries, slot machines, vlts and electronic bingo. In 2012-13, the Lottery Fund received almost $1.485 billion of gaming proceeds, which were used to support volunteer groups as well as public and community-based initiatives across the province.

In 2012-13, 80 per cent of Albertans expressed satisfaction with the conduct of legal gaming in the province, which exceeded the target of 79 per cent. This result is consistent with the results obtained in previous years. The AGLC will continue to work towards ensuring that gaming in the province meets the expectations of Albertans and that the gaming industry is conducted with integrity and in a socially responsible manner.

Ministry Expense by Function

Expense by Function
(millions of dollars)

	2012-13 Budget	2012-13 Actual	2011-12 Actual
Health	25	13	23
Education	92	95	91
Agriculture, Resource Management and Economic Development	251	235	153
Regional Planning and Development	1	1	1
Recreation and Culture	9	8	8
Protection of Persons and Property	43	40	37
Social Services	118	114	-
General Government	1,162	1,386	1,601
Debt Servicing	437	417	430
Total Expense by Function	**$2,138**	**$2,309**	**$2,344**

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Financial Information

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Ministry of Treasury Board and Finance

Consolidated Financial Statements

Year Ended March 31, 2013

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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, 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 the Ministry of Treasury Board and Finance as at March 31, 2013, 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 3, 2013

Edmonton, Alberta

Consolidated Statement of Operations

Year ended March 31, 2013

($ millions)

	2013 Budget (Schedule 2)	2013 Actual	2012 Actual (Restated Note 4)
Revenues (Schedules 1 and 2)			
Income taxes	$ 13,910	$ 14,376	$ 12,071
Other taxes	2,192	2,227	2,112
Transfers from Government of Canada	1,315	1,319	1,260
Net investment income	1,723	2,437	1,998
Net income from government business enterprises	2,279	2,487	2,393
Premiums, fees and licences	132	142	122
Other	213	297	260
	21,764	23,285	20,216
Expenses (Schedules 2 and 3)			
Ministry Support Services	14	13	13
Budget Development and Reporting	4	4	3
Fiscal Planning and Economic Analysis	6	6	6
Investment, Treasury and Risk Management	505	658	560
Office of the Controller	5	4	4
Corporate Internal Audit Services	4	4	3
Tax and Revenue Management	46	47	42
Financial Sector Regulation and Policy	186	169	167
Air Services	7	7	6
Gaming	35	31	31
Capital projects	102	-	-
Strategic Capital Planning	4	1	2
Teachers' pre-1992 pension liability funding	447	436	425
Alberta Family Employment / Scientific Research and Experimental Development Tax Credit	210	179	-
Pension provision (Schedule 14)	-	208	529
Corporate income tax provision for doubtful accounts	125	125	123
Debt servicing costs			
School Construction Debenture	9	9	12
Alberta Capital Finance Authority	223	208	205
General government	206	200	213
	2,138	2,309	2,344
Net operating results	$ 19,626	$ 20,976	$ 17,872

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

Consolidated Statement of Financial Position

As at March 31, 2013

($ millions)

	2013	2012 (Restated Note 4)
Assets		
Cash and cash equivalents (Schedule 4)	$ 2,270	$ 1,620
Accrued interest and accounts receivable (Schedule 5)	1,876	1,924
Portfolio investments (Schedule 6)	21,777	25,760
Equity in government business enterprises (Schedule 7)	2,987	2,739
Loans and advances to government entities (Schedule 8)	1,899	1,800
Other loans and advances (Schedule 9)	12,664	11,333
Tangible capital assets (Schedule 10)	123	90
Inventories	2	2
	$ 43,598	$ 45,268
Liabilities		
Accrued interest and accounts payable (Schedule 11)	$ 1,622	$ 1,568
Unmatured debt (Schedule 12)	5,515	4,679
Debt of Alberta Capital Finance Authority (Schedule 13)	12,325	11,045
Pension obligations (Schedule 14)	10,035	9,827
Other accrued liabilities (Schedule 15)	132	136
	29,629	27,255
Net Assets		
Net assets at beginning of year, as restated (Note 4)	18,013	21,061
Adjustment to opening net assets (Schedule 7)	-	(90)
Net operating results	20,976	17,872
Net financing provided for general revenues (Note 3b)	(24,970)	(20,827)
Change in accumulated unrealized losses (Schedule 7)	(50)	(3)
Net assets at end of year	13,969	18,013
	$ 43,598	$ 45,268

Contractual obligations and contingent liabilities (Notes 7 and 8).

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

Consolidated Statement of Cash Flows

Year ended March 31, 2013

($ millions)

	2013	2012 (Restated Note 4)
Operating activities		
Net operating results	$ 20,976	$ 17,872
Non-cash items included in net operating results	(338)	100
	20,638	17,972
(Increase) in receivables	(76)	(185)
Increase / (Decrease) Increase in payables	15	(28)
Other	31	(81)
Cash provided by operating activities	20,608	17,678
Capital activities		
Purchase of tangible capital assets	(44)	(22)
Cash applied to capital activities	(44)	(22)
Investing activities		
Proceeds from disposals, repayments and redemptions of portfolio investments	10,998	10,931
Portfolio investments purchased	(5,875)	(7,507)
Repayments of loans and advances	252	1,105
Loans and advances made	(2,388)	(2,825)
Cash provided by investing activities	2,987	1,704
Financing activities		
Debt issues	16,916	13,021
Debt retirement	(14,821)	(11,635)
Grants for school construction debenture principal repayment	(26)	(32)
Net financing provided for general revenues	(24,970)	(20,827)
Cash applied to financing activities	(22,901)	(19,473)
Increase / (Decrease) in cash	650	(113)
Cash and cash equivalents, beginning of year	1,620	1,733
Cash and cash equivalents, end of year	$ 2,270	$ 1,620

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

Notes to the Consolidated Financial Statements

March 31, 2013

(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

NOTE 1 AUTHORITY CONTINUED

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;
- government air transportation services; and
- strategic capital planning.

Responsibility for strategic capital planning was transferred to the Ministry of Infrastructure as of April 1, 2013.

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 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) CHANGES IN ACCOUNTING POLICY

In 2013 the Ministry adopted two new accounting standards of the Public Sector Accounting Board:

PS 3510 Tax Revenue

Adopted on a prospective basis, there is no change to the net operating results or net assets. The Alberta Family Employment Tax Credit and Scientific Research and Experimental Development tax credit combined totaling $179 million have been reported as an expense rather than netted in tax revenue. Interest and penalties of $42 million on corporate income taxes and $1 million on other taxes are reported separately from the related tax revenue (schedule 1).

PS 3410 Government Transfers

Adopted on a prospective basis, there is no change to the net operating results, net assets, or government transfers reported.

d) FUTURE CHANGES IN ACCOUNTING POLICY

PS 3450 Financial Instruments

All government controlled organizations will adopt this standard in fiscal year 2012-13. Items within the scope of the section are assigned to one of two measurement categories: fair value, or cost or amortized cost. Fair value measurement will apply to derivatives and portfolio investments in equity instruments that are quoted in an active market. Also, when

groups of financial assets and financial liabilities are managed on a fair value basis they may be reported on that basis. Other financial assets and financial liabilities will generally be measured at cost or amortized cost. Until an item is derecognized, gains and losses arising due to fair value remeasurement will be reported in the statement of remeasurement gains and losses.

The Province, in its consolidated financial statements, has the option of adopting this standard in fiscal year 2015-16 or earlier and is currently analyzing the impact of this standard on its financial statements.

e) 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 or deferred revenue.

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.

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.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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 $9,621 million (2012: $8,450 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 personal income growth used in determining personal income tax for the current fiscal year is 7.3% (2012: 6.7%). Based on historical data, there is an uncertainty of plus or minus $503 million in the 2013 personal income tax revenue estimate.

Corporate income tax revenue, totaling $4,713 million (2012: $3,621 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 $10,035 million (2012: $9,827 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 GOVERNMENT REORGANIZATION, PROGRAM TRANSFERS AND OTHER RESTATEMENTS

The Ministry of Treasury Board and Finance was established as a result of restructuring of government ministries announced on May 8, 2012. Comparatives for 2012 have been restated as if the Ministry had always been assigned with its current responsibilities. The combined impact of this government reorganization and program transfers is as follows:

Assets increased by $21 million from $45,247 million to $45,268 million as follows:
- Accrued interest and accounts receivable: $1 million
- Inventory: $2 million
- Tangible capital assets: $18 million

Liabilities increased by $2 million from $27,253 million to $27,255 million as follows:
- Accrued interest and accounts payable: $2 million

Net operating results decreased by $20 million from $17,892 million to $17,872 million.

	($ millions)
Transfers from Treasury Board	$ 54
Transfer to Enterprise & Advanced Education	(18)
Transfer to Executive Council	(16)
	$ 20

The resulting impact to net assets at the beginning of the year for 2012 is a decrease of $15 million from $21,076 million to $21,061 million and net assets at the end of year for 2012 an increase of $19 million from $17,994 to $18,013 million.

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.

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.

NOTE 6 FINANCIAL RISK MANAGEMENT CONTINUED

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, 2013 amounted to $615 million (2012: $549 million), of this $383 million (2012: $317 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)
2013-14	$ 299
2014-15	135
2015-16	83
2016-17	23
2017-18	19
Thereafter	56
	$ 615

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 $5,601 million (2012: $7,738 million) and Alberta Social Housing Corporation of $67 million (2012: $69 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, 2013, credit unions in Alberta held deposits totaling $18,700 million (2012: $17,474 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 $29 million (2012: $27 million) payable by ATB Financial. Payments under the guarantee are under authority of a supply vote. At March 31, 2013, ATB Financial had deposits totalling $26,327 million (2012: $25,053 million).

ATB Financial, at March 31, 2013, had a potential liability under guarantees and letters of credit amounting to $437 million (2012: $358 million).

Payments under guarantees are a statutory charge on the Ministry.

b) LEGAL ACTIONS

At March 31, 2013, 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 sixteen (2012: thirty-one) legal claims. Of the sixteen claims, twelve have specified amounts totaling approximately $111 million (2012: $340 million) and four claims have no specified amount. Four (2012: four) claims totaling less than $1 million (2012: $7 million) are covered by the Alberta Risk Management Fund.

In addition, at March 31, 2013, 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 to equity markets and enhance returns or to manage exposure to interest rate risk, currency risk and credit risk.

NOTE 9 DERIVATIVE CONTRACTS CONTINUED

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

	2013 Fair Value [a][b][c]	2012 Fair Value
Interest rate derivatives [d]	$ (641)	$ (520)
Equity replication derivatives [e]	119	150
Foreign currency derivatives [f]	(39)	(23)
Credit risk derivatives [g]	5	(26)
Commodity derivatives	13	8
Derivative-related receivables, net	(543)	(411)
Deposits in futures contracts margin accounts	32	8
Deposits as collateral for derivative contracts	25	6
Net derivatives	$ (486)	$ (397)

(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 $79 million (2012: $65 million). The exposure to credit risk on these derivatives of $286 million (2012: $324 million) is not reduced by entering into netting agreements (2012: $2 million) and collateral agreements with counterparties of $81 million (2012: $51 million) leaving a residual credit exposure of $205 million (2012: $271 million).

Includes ACFA interest rate derivatives with a net fair value of $(721) million (2012: $(600) million) of which 1% will mature in under one year, 10% in one to three years and 89% 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, 2013, the fair value of trust and other funds under administration were as follows:

	($ millions)	
	2013	**2012**
Local Authorities Pension Plan Fund	$ 23,950	$ 20,838
Public Service Pension Plan Fund	7,692	6,848
Management Employees Pension Plan Fund	3,141	2,814
Universities Academic Pension Plan Fund	3,079	2,786
Special Forces Pension Plan Fund	1,832	1,643
The Workers' Compensation Board Accident Fund	659	622
Other	543	260
	$ 40,896	$ 35,811

NOTE 11 DEFINED BENEFIT PLANS

The Department jointly sponsors and participates in the 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 $7 million for the year ended March 31, 2013 (2012: $5 million). The Department is not responsible for future funding of the plans' deficits other than through contribution increases.

At December 31, 2012, the Management Employees Pension Plan reported a deficiency of $303 million (2011: $518 million), Public Service Pension Plan reported a deficiency of $1,645 million (2011: $1,790 million) and Supplementary Retirement Plan for Public Service Managers reported a deficiency of $52 million (2011: $53 million).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2013, the Bargaining Unit Plan reported a surplus of $51 million (2012: surplus $9 million) and the Management, Opted Out and Excluded Plan reported a surplus of $18 million (2012: surplus $10 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 2013 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, 2013

(All dollar amounts in millions, unless otherwise stated)

REVENUES — SCHEDULE 1

($ millions)

	2013 Budget	2013 Actual	2012 Actual (Restated note 4)
Income taxes			
Personal income tax	$ 9,314	$ 9,621	$ 8,450
Corporate income tax	4,596	4,713	3,621
Interest and penalties on corporate income tax	-	42	-
	13,910	14,376	12,071
Other taxes			
Tobacco tax	925	912	896
Fuel tax	850	897	849
Insurance taxes	337	325	286
Alberta tourism levy	73	82	73
Special broker tax	7	10	8
Interest and penalties on other tax	-	1	-
	2,192	2,227	2,112
Transfers from Government of Canada			
Canada Social Transfer	1,311	1,315	1,256
Unconditional subsidy	4	4	4
	1,315	1,319	1,260
Net investment income	1,723	2,437	1,998
Net income from government business enterprises			
Alberta Gaming and Liquor Commission	2,038	2,214	2,172
ATB Financial	214	245	195
Credit Union Deposit Guarantee Corp.	27	28	26
	2,279	2,487	2,393
Premiums, fees, and licences			
ATB Financial payment in lieu of taxes	64	73	58
ATB Financial deposit guarantee fee	28	29	27
Alberta Securities Commission	29	28	28
Alberta Insurance Council	4	5	5
Other	7	7	4
	132	142	122
Other			
Pensions administration	53	43	43
Service revenue	140	223	196
Insurance services	16	24	15
Securities settlements	-	1	1
Refunds of expenditure and miscellaneous	4	6	5
	213	297	260
	$ 21,764	$ 23,285	$ 20,216

BUDGET

SCHEDULE 2

($ millions)

	2012-13 Estimates (a)	Adjustment to conform to accounting policy (b)	Revised Estimates	Adjustments (c)	2012-13 Budget	Supplementary Estimates	2012-13 Authorized Budget (d)
Revenues							
Income taxes	$ 13,785	$ 125	$ 13,910	$ -	$ 13,910	$ -	$ 13,910
Other taxes	2,192	-	2,192	-	2,192	-	2,192
Transfers from Government of Canada	1,315	-	1,315	-	1,315	-	1,315
Net investment income	1,723	-	1,723	-	1,723	-	1,723
Net income from government business enterprises	2,279	-	2,279		2,279		2,279
Premiums, fees, and licences	132	-	132	-	132	-	132
Other	213	-	213	-	213	-	213
	21,639	125	21,764	-	21,764	-	21,764
Expenses							
Ministry Support Services	14	-	14	-	14	-	14
Budget Development and Reporting	4	-	4	-	4	-	4
Fiscal Planning and Economic Analysis	6	-	6	-	6	-	6
Investment, Treasury and Risk Management	505	-	505	-	505	-	505
Office of the Controller	5	-	5	-	5	-	5
Corporate Internal Audit Services	4	-	4	-	4	-	4
Tax and Revenue Management	46	-	46	-	46	-	46
Financial Sector and Pensions	186	-	186	-	186	-	186
Air Services	7	-	7	-	7	-	7
Gaming	35	-	35	-	35	-	35
Capital projects [(d) (e) (f)]	102	-	102	-	102	(18)	84
Strategic Capital Planning	4	-	4	-	4	-	4
Teachers' pre-1992 pension liability funding	447	-	447	-	447	-	447
Tax Credits	210	-	210	-	210	-	210
Corporate income tax provision for doubtful accounts	-	125	125	-	125	-	125
Debt servicing costs		-	-		-		
School boards	9	-	9	-	9	-	9
ACFA	223	-	223	-	223	-	223
General government	206	-	206	-	206	-	206
	2,013	125	2,138	-	2,138	(18)	2,120
Net operating results	$ 19,626	$ -	$ 19,626	$ -	$ 19,626	$ (18)	$ 19,644

BUDGET — SCHEDULE 2, CONTINUED

(a) Estimates were approved on March 21, 2012.

(b) Adjustment in accordance with PS1200.125 to conform fiscal plan numbers to the accounting policy change adopted for the corporate income tax allowance provision.

(c) There were no adjustments to the Ministry 2013 estimates.

(d) 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 2013 was $177 million.

(e) Capital projects estimates is comprised of $2 million for capital projects development and $100 million for capital projects provision.

(f) Included in the Authorized Supplementary is a transfer of $2 million from capital projects development approved on July 19, 2012. Treasury Board approval is pursuant to section 24(2) of the *Financial Administration Act*. As of April 1, 2013 the capital projects development program will now be administered by the Ministry of Infrastructure.

(g) $16 million from the provision for capital projects was transferred to various ministries under Section 6 (5) of the *Appropriation (Supplementary Supply) Act* 2012, the remaining funds in this program lapsed.

EXPENSE BY OBJECT — SCHEDULE 3

($ millions)

	2013 Budget	2013 Actual	2012 Actual (Restated Note 4)
Salaries, wages and employee benefits	$ 188	$ 197	$ 187
Supplies and services	268	390	300
Grants	579	466	291
Interest and amortization of unrealized exchange gains and losses	-	(26)	(33)
Pension liability funding	525	514	504
Interest payments on corporate tax refunds	-	15	12
Pension provision (Schedule 14)	-	208	529
Corporate income tax allowance provision	125	125	123
Amortization of tangible capital assets	14	11	12
Other financial transactions	2	1	1
Debt servicing costs	437	408	418
	$ 2,138	$ 2,309	$ 2,344

CASH AND CASH EQUIVALENTS — SCHEDULE 4

($ millions)

	2013	2012
Cash	$ 200	$ (75)
Cash equivalents	2,070	1,695
	$ 2,270	$ 1,620

At March 31, 2013, deposits in banks had a time-weighted return of 1.3% (2012: 1.3%) per annum and securities have an average effective yield of 2.2% (2012: 1.3%) per annum.

ACCRUED INTEREST AND ACCOUNTS RECEIVABLE

SCHEDULE 5

($ millions)

	2013	2012 (Restated Note 4)
Corporate income tax	$ 527	$ 463
Personal income tax	763	694
Accrued interest and receivable from sale of investments	206	230
Interest and penalties receivable on taxes	214	270
Receivable from ATB Financial	102	85
Insurance corporations tax	86	79
Fuel tax	76	69
Trade settlement receivable	-	21
Tobacco tax	13	10
Tourism levy	8	7
Financial institutions capital tax	2	2
Other	127	118
	2,124	2,048
Less corporate income tax allowance	(247)	(123)
Less allowance for doubtful accounts	(1)	(1)
	$ 1,876	$ 1,924

PORTFOLIO INVESTMENTS

SCHEDULE 6

($ millions)

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Interest-bearing securitites				
Bonds and mortgages	$ 7,673	$ 7,785	$ 12,148	$ 12,386
	7,673	7,785	12,148	12,386
Equities				
Canadian public equities	1,531	1,633	1,460	1,532
Global developed public equities	6,288	6,963	6,593	6,970
Emerging markets public equities	943	1,059	616	661
Private equities	1,045	1,222	999	1,157
	9,807	10,877	9,668	10,320
Inflation sensitive and alternative investments				
Private real estate	2,487	3,420	2,148	2,959
Inflation sensitive real return bonds	-	-	-	-
Private infastructure investments	1,186	1,285	1,288	1,306
Absolute return strategy hedge funds	-	-	-	-
Timberland	273	333	281	336
Private debt and loan	351	353	227	241
	4,297	5,391	3,944	4,842
Total portfolio investments	$ 21,777	$ 24,053	$ 25,760	$ 27,548
Interest-bearing securitites				
Department [(a)]	$ 3,314	$ 3,305	$ 7,696	$ 7,815
Alberta Heritage Savings Trust Fund [(b)]	3,155	3,259	3,306	3,402
Other entities	1,204	1,221	1,146	1,169
	$ 7,673	$ 7,785	$ 12,148	$ 12,386
Average effective market yield				
Department		2.0%		2.0%
Alberta Heritage Savings Trust Fund		3.9%		4.4%

(a) Of the Department's fixed-income securities, 5% of the securities held had terms to maturity of less than one year.

(b) Fixed-income securities are also held by the Alberta Heritage Savings Trust Fund and had the following term maturities based on the principal amount:

	2013	2012
	%	%
Under 1 year	11	4
1 to 5 years	46	47
Over 5 years	43	49
	100	100

EQUITY IN GOVERNMENT BUSINESS ENTERPRISES

SCHEDULE 7

($ millions)

	2013	2012 (Restated Note 4)
Accumulated surpluses		
Accumulated surpluses at beginning of year	$ 2,626	$ 2,545
Restatement [(a)]	(12)	(107)
Restated opening surpluses	2,614	2,438
Total revenue	5,230	4,943
Total expense [(b)]	2,743	2,550
Net income	2,487	2,393
Change in accumulated unrealized gains [(c)]	(50)	(3)
Transfers from AGLC to Finance	(2,219)	(2,202)
Accumulated surpluses at end of year	$ 2,832	$ 2,626
Represented by		
Assets		
Loans	$ 29,663	$ 26,713
Investments	1,214	2,131
Other assets	2,989	2,899
Total assets	33,866	31,743
Liabilities		
Accounts payable	1,366	1,062
Deposits [(d)]	26,327	25,053
Unmatured debt	3,103	2,764
Capital investment deposits	238	238
Total liabilities	31,034	29,117
	$ 2,832	$ 2,626
Accumulated surpluses at end of year		
ATB Financial	$ 2,256	$ 2,062
Alberta Gaming & Liquor Commission	363	380
Credit Union Deposit Guarantee Corporation	213	184
	2,832	2,626
Subordinated debentures in support of deposit guarantees	155	113
Equity in commercial enterprises at end of year	$ 2,987	$ 2,739

(a) During the year, AGLC had a restatment related to its pension liability. The total impact to equity in government business enterprises is $12 million. In 2012, government business enterprises adopted IFRS, resulting in restatements of $107 million. This consisted of $90 million for ATB Financial and CUDGC resulting in a net decrease of $90 million to opening net assets of 2012 and the balance of $17 million for AGLC resulting in a decrease due to the General Revenue Fund in 2012.

(b) Included in total expense is $32 million (2012: $22 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 in accumulated unrealized losses of $50 million (2012: $3 million) is comprised of changes in other comprehensive income in government business enterprises. At March 31, 2013, the Ministry has $63 million in accumulated unrealized losses (2012: $13 million).

(d) Included in the deposits are ATB Financial wholesale borrowings that include amounts borrowed by the Province on behalf of ATB Financial totaling $2,196 million (2012: $1,990 million).

LOANS AND ADVANCES TO GOVERNMENT ENTITIES

SCHEDULE 8

($ millions)

	2013	2012
Agriculture Financial Services Corporation	$ 1,793	$ 1,667
Alberta Social Housing Corporation	106	133
	$ 1,899	$ 1,800

OTHER LOANS AND ADVANCES

SCHEDULE 9

($ millions)

	2013			2012
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Realizable Value
ACFA loans [(a)]	$ 12,500	$ -	$ 12,500	$ 11,165
Alberta Heritage Savings Trust Fund Act [(b)]	278	(114)	164	168
	$ 12,778	$ (114)	$ 12,664	$ 11,333

(a) The fair value of the ACFA loans as at March 31, 2013 was $13,927 million (2012: $12,495 million). Loans to the municipal and SUCH (schools, universities, colleges and hospitals) sectors on average yield 4.36% per annum (2012: 4.59%).

(b) Other amounts under the *Alberta Heritage Savings Trust Fund Act* include an 11% participating first mortgage bond with principal and deferred interest totaling $161 million (2012: $165 million) due July 31, 2015, non-interest bearing debentures of $114 million due July 2035, and a loan principal of $53 million due July 2046. At March 31, 2013 these investments have carrying values excluding accrued interest of $161 million, $ nil, and $3 million respectively (2012: $165 million, $ nil and $3 million).

TANGIBLE CAPITAL ASSETS — SCHEDULE 10

($ millions)

	2013			
	Equipment	Computer Hardware and Software	Leaseholds	Total
Estimated useful life	10 years	5 years	10 years	
Historical Cost				
Beginning of year	$ 35	$ 84	$ 22	$ 141
Additions	1	42	1	44
Disposals - including write-downs	-	-	-	-
	36	126	23	185
Accumulated Amortization				
Beginning of year	(10)	(38)	(3)	(51)
Amortization expense	(3)	(5)	(3)	(11)
Effect of disposals	-	-	-	-
	(13)	(43)	(6)	(62)
Net book value at March 31, 2013	$ 23	$ 83	$ 17	$ 123
Restated net book value at March 31, 2012	$ 25	$ 46	$ 19	$ 90

ACCRUED INTEREST AND ACCOUNTS PAYABLE — SCHEDULE 11

($ millions)

	2013	2012 (Restated Note 4)
Accrued interest on unmatured debt of the Department and debt of ACFA	$ 196	$ 179
Corporate income tax receipts in abeyance	570	600
Corporate income tax refunds payable	438	419
Other	418	370
	$ 1,622	$ 1,568

UNMATURED DEBT

SCHEDULE 12

($ millions)

	2013				2012	
	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)	4.54	0.55	$ 64	$ 65	$ 266	$ 281
Fixed rate long-term	3.55	7.72	5,451	5,901	4,413	4,798
	3.56	7.64	$ 5,515	$ 5,966	$ 4,679	$ 5,079
Total unmatured debt is comprised of:						
Amounts borrowed on behalf of Government entities: (d)						
Agriculture Financial Services Corporation			1,793	1,931	1,667	1,779
Alberta Social Housing Corporation			106	116	133	146
			$ 1,899	$ 2,047	$ 1,800	$ 1,925
Amounts borrowed for other purposes:						
Teachers' Pension Plan liability			1,187	1,384	1,186	1,351
Capital borrowing			2,429	2,536	1,497	1,593
General purpose borrowing			-	-	196	210
			$ 5,515	$ 5,967	$ 4,679	$ 5,079

(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 $2,196 million (2012: $1,990 million) (see schedule 7) and ACFA totaling $6,724 million (2012: $3,307 million) (see schedule 13).

The consolidated gross debt of the Ministry totaling $20,036 million (2012: $17,714 million) is comprised of direct unmatured of the Ministry totaling $5,515 million (2012: $4,679 million) (schedule 12), unmatured debt of ACFA totaling $12,325 million (2012: $11,045 million) (schedule 13) and unmatured debt of ATB Financial totaling $2,196 million (2012: $1,990 million).

The total debt servicing cost of the Ministry totaling $449 million (2012: $452 million) is comprised of $200 million (2012: $213 million) for general government, $208 million (2012: $205 million) for ACFA, $9 million (2012: $12 million) for school construction debentures, all reported on the statement of operations, as well as $32 million (2012: $22 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 2013-14, and thereafter, are as follows:

	($ millions)
2013-14	$ 111
2014-15	1,224
2015-16	140
2016-17	82
2017-18	69
Thereafter to 2040	3,914
	5,540
Unamortized discount	(25)
	$ 5,515

None of the debt has call provisions (2012: none).

DEBT OF ALBERTA CAPITAL FINANCE AUTHORITY — SCHEDULE 13

($ millions)

	2013		2012	
	Book Value	**Fair Value**	**Book Value**	**Fair Value**
ACFA Canadian dollar and foreign currency fixed rate debt [(a)]	$ 8,788	$ 9,429	$ 5,990	$ 6,596
ACFA Canadian dollar floating rate debt	3,537	3,557	5,055	5,075
Total [(b)]	$ 12,325	$ 12,986	$ 11,045	$ 11,671
Effective rate per annum	4.4%		4.9%	

(a) Includes fixed note US dollar debt of $600 million (fair value: $607 million) in Canadian dollar amount.

(b) Included in the total ACFA debt are amounts borrowed directly by the Province on behalf of ACFA totaling $6,724 million (2012: $3,307 million).

Debt principal repayment requirements in each of the next five years, including short-term debt maturing in 2012-13 and thereafter are as follows:

	($ millions)
2013-14	$ 3,471
2014-15	657
2015-16	800
2016-17	1,500
2017-18	2,559
Thereafter	3,346
	12,333
Unamortized discount	(8)
	$ 12,325

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, 2012 year end or March 31, 2013 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, 2013:

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	147,153	47	49,767	$ 899	$ 1,035	$ 1,010	27,831
PSPP	41,234	46	22,178	260	285	412	15,677
MEPP	5,330	52	3,957	65	107	159	1,044
MSRP	1,069	56	710	3	3	3	125
PJMCPP [(a)]	128	65	136	1	2	7	3
PSMC [(a)]	-	-	1,976	-	-	56	123
SFPP [(a)]	4,129	42	2,278	52	61	92	185

(a) These four plans also received during the year contributions, primarily related to pre-1992 commitments, from the Province of Alberta as follows: PJMCPP $1 million, PSMC $60 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)		
	2013 Pension Obligation	2013 Pension Provision (Recovery)	2012 Pension Obligation
Liability for pension obligations for the Province as a participating employer (Table A)			
Local Authorities Pension Plan [a]	$ 494	$ 44	$ 450
Management Employees Pension Plan [b]	139	10	129
Public Service Pension Plan [c]	250	74	176
Supplementary Retirement Plan for Public Service Managers [d]	52	(1)	53
Provincial Judges and Masters in Chambers Pension Plan [e]	6	6	-
	941	133	808
Liability for pension obligations for Province's commitment towards pre-1992			
Teachers' Pension Plan [f]	8,014	98	7,916
Public Service Management (Closed Membership) Pension Plan [g]	584	(30)	614
Universities Academic Pension Plan [h]	328	13	315
Special Forces Pension Plan [h]	123	(6)	129
	9,049	75	8,974
Obligations to the Members of the Legislative Assembly [i]	45	-	45
	$ 10,035	$ 208	$ 9,827

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]	$ 33,458	$ 22,862	$ 2,986	$ 7,300	$ 310
Pension obligation	40,441	27,839	3,289	8,945	368
Pension plan deficit [2]	$ 6,983	$ 4,977	$ 303	$ 1,645	$ 58
Employee and non-Province employer	(4,308)				
Unamortized losses [3]	(1,700)				
Timing differences [4]	(34)				
Pension obligation at March 31, 2013	$ 941				

(1) These are the net assets reported on the 2012 financial statements of the pension plan.

(2) This is the pension obligation reported on the 2012 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, 2013 to March 31, 2013 for payments and interest expense.

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 6.96% of pensionable earnings shared equally between employers and employees until December 31, 2025. 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 9.4% of pensionable earnings shared between employees and employers until December 31, 2014, 7.3% until December 31, 2016, 2.5% until December 31, 2017 and 2.1% until 2024. 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 6.94% of pensionable earnings shared equally between employees and employers until December 31, 2025. 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, 2012 were at 11.16% (2011: 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, 2013 are 7.00% of capped salary for plan members and 14.65% 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 $1,186 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, 2011
Management Employees Pension Plan	Aon Consulting Inc.	Dec. 31, 2009
Supplementary Retirement Plan	Aon Consulting Inc.	Dec. 31, 2009
Provincial Judges and Masters in Chambers Pension Plan	Aon Consulting Inc.	Dec. 31, 2008
Public Service Pension Plan	Aon Consulting Inc.	Dec. 31, 2011
Teachers' Pre-1992 Pension Plan	Aon Consulting Inc.	Aug. 31, 2012
Public Service Management (Closed Membership) Pension Plan	Aon Consulting Inc.	Dec. 31, 2011
Universities Academic Pension Plan	Aon Consulting Inc.	Dec. 31, 2010
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, 2012 or March 31, 2013 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, 2012	3.50	2.25	5.80
Management Employees Pension Plan	Dec. 31, 2012	3.50	2.25	6.30
Provincial Judges and Masters in Chambers Pension Plan	Mar. 31, 2012	3.50	2.25	5.80
Public Service Management (Closed Membership) Pension Plan	Dec. 31, 2012	N/A	2.25	4.25
Public Service Pension Plan	Dec. 31, 2012	3.50	2.25	6.40
Special Forces Pension Plan	Dec. 31, 2012	3.50	2.25	6.20
Supplementary Retirement Plan for Public Service Managers	Dec. 31, 2012	3.50	2.25	5.50
Universities Academic Pension Plan	Mar. 31, 2013	3.50	2.25	6.20
Teachers' Pre-1992 Pension Plan	Mar. 31, 2013	3.50	2.25	4.25
Members of the Legislative Assembly Pension Plan	Mar. 31, 2013	N/A	2.25	4.25

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 $185 million (2012: $195 million) comprised of $148 million (2012: $124 million) for employees in PSPP, MEPP and MSRP and $37 million (2012: $71 million) in other pension plans.

OTHER ACCRUED LIABILITIES — SCHEDULE 15

($ millions)

	2013	2012
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 66	$ 92
AIMCo employee benefits liability	59	37
Vacation entitlements	7	7
	$ 132	$ 136

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)

	2013	2012
Revenues		
Interest from loans and advances to government entities	$ 77	$ 69
Interest from loans and advances to SUCH sector	59	58
Charges for services	18	14
	$ 154	$ 141
Expenses		
Debt servicing costs - school boards debt	$ 9	$ 12
Transfers	223	226
Cost of services	3	2
	$ 235	$ 240
Assets		
Accounts receivable	$ 57	$ 33
Accrued interest receivable from government entities	15	15
Accrued interest receivable from SUCH sector	13	15
Loans and advances to government entities	1,899	1,800
Loans and advances to SUCH sector	1,112	1,113
	$ 3,096	$ 2,976
Liabilities		
Other accrued liabilities -		
Accounts and accrued interest payable	$ -	$ 13
Future funding of school boards debt	66	92
	$ 66	$ 105

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	
	2013	2012 (Restated Note 4)	2013	2012 (Restated Note 4)
Accommodations	$ -	$ -	$ 7	$ 6
Corporate services	-	-	3	1
Legal services	-	-	3	1
Air travel	5	4	-	-
Internal audit services	1	1	-	-
	$ 6	$ 5	$ 13	$ 8

Department of Treasury Board and Finance

Financial Statements

Year Ended March 31, 2013

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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 Department of Treasury Board and Finance, which comprise the statement of financial position as at March 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 the Department of Treasury Board and Finance as at March 31, 2013, 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 3, 2013

Edmonton, Alberta

Statement of Operations

Year ended March 31, 2013

($ millions)

	2013 Budget (Schedule 3)	2013 Actual	2012 Actual (Restated Note 3)
Revenues (Schedule 1)			
Internal government transfers	$ 2,635	$ 3,373	$ 2,520
Income taxes	13,910	14,376	12,071
Other taxes	2,192	2,227	2,112
Transfers from Government of Canada	1,315	1,319	1,260
Investment income	510	534	715
Premiums, fees and licences	99	109	89
Other revenues	4	5	5
	20,665	21,943	18,772
Expenses - Directly Incurred (Note 2c and Schedule 16)			
Program (Schedules 2 and 4)			
Ministry Support Services	14	13	14
Budget Development and Reporting	4	4	3
Fiscal Planning and Economic Analysis	6	6	6
Investment, Treasury and Risk Management	67	62	60
Office of the Controller	5	4	4
Corporate Internal Audit Services	4	4	4
Tax and Revenue Management	46	47	42
Financial Sector Regulation and Policy	86	84	85
Air Services	7	7	6
Strategic Capital Planning	4	1	2
Capital projects	102	-	-
Gaming	35	31	31
Alberta Family Employment Tax Credit / Scientific Research and Experimental Development Tax Credit	210	179	-
Teachers' pre-1992 pension liability funding	447	436	425
Pension provision	-	208	529
Corporate income tax allowance provision	125	125	123
Total program expense	1,162	1,211	1,334
Debt servicing			
School Construction Debenture	9	9	12
General government	428	316	257
Total debt servicing	437	325	269
Total Expense	1,599	1,536	1,603
Net operating results	$ 19,066	$ 20,407	$ 17,169

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

Statement of Financial Position

As at March 31, 2013

($ millions)

	2013	2012 (Restated Note 3)
Assets		
Cash and cash equivalents (Schedule 7)	$ 1,988	$ 1,343
Accounts and accrued interest receivable (Schedule 8)	2,688	2,570
Inventory	2	2
Portfolio investments (Schedule 9)	3,314	7,696
Loans and advances to government entities (Schedule 10)	10,877	7,131
Tangible capital assets (Schedule 11)	30	29
	$ 18,899	$ 18,771
Liabilities		
Accounts and accrued interest payable (Schedule 12)	$ 1,239	$ 1,191
Unmatured debt (Schedule 13)	14,435	9,976
Pension obligations (Schedule 14)	10,035	9,827
Other accrued liabilities (Schedule 15)	72	96
	25,781	21,090
Net Assets		
Net assets at beginning of year, as restated (Note 3)	(2,319)	1,436
Net operating results	20,407	17,169
Net financing provided for general revenues (Note 2b)	(24,970)	(20,924)
Net assets at end of year	(6,882)	(2,319)
	$ 18,899	$ 18,771

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, 2013

	($ millions) 2013	2012 (Restated Note 3)
Operating transactions		
Net operating results	$ 20,407	$ 17,169
Non-cash items included in net operating results		
Amortization, gains and losses on investments and debt, net	(117)	(123)
Amortization of tangible capital assets (Schedule 2)	2	3
Pension provision	208	529
Corporate income tax allowance provision	125	123
	20,625	17,701
Increase in receivables	(239)	(209)
Increase in payables	48	23
Cash provided by operating transactions	20,434	17,515
Capital transactions		
Acquisition of tangible capital assets (Schedule 11)	(4)	(3)
Proceeds from disposal of tangible capital assets	-	-
Cash applied to capital transactions	(4)	(3)
Investing transactions		
Disposals of portfolio investments	5,310	5,763
Portfolio investments purchased	(808)	(2,009)
Repayments of loans and advances		
Government entities	9,591	8,235
Other	-	-
Loans and advances - Government entities	(13,320)	(13,803)
Cash provided by (applied to) investing transactions	773	(1,814)
Financing transactions		
Debt issues	19,535	18,497
Debt retirement	(15,097)	(13,182)
Grants for school construction debenture principal repayment (Schedule 4)	(26)	(32)
Net financing provided for general revenues	(24,970)	(20,924)
Cash applied to financing transactions	(20,558)	(15,641)
Increase in cash and cash equivalents	645	57
Cash and cash equivalents, beginning of year	1,343	1,286
Cash and cash equivalents, end of year	$ 1,988	$ 1,343

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

Notes to the Financial Statements

March 31, 2013

(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.

Treasury Board and Finance'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
- government air transportation services; and
- strategic capital planning.

Responsibility for strategic capital planning was transferred to the department of Infrastructure as of April 1, 2013.

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.,

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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) CHANGES IN ACCOUNTING POLICY

In 2013 the Department adopted two new accounting standards of the Public Sector Accounting Board:

PS 3510 Tax Revenue

Adopted on a prospective basis, there is no change to the net operating results or net assets. The Alberta Family Employment Tax Credit and Scientific Research and Experimental Development tax credit combined totaling $179 million have been reported as an expense rather than netted in tax revenue. Interest and penalties of $42 million on corporate income taxes and $1 million on other taxes are reported separately from the related tax revenue (schedule 1).

PS 3410 Government Transfers

Adopted on a prospective basis, there is no change to the net operating results, net assets, or government transfers reported.

d) FUTURE CHANGES IN ACCOUNTING POLICY

PS 3450 Financial Instruments

All government controlled organizations will adopt this standard in fiscal year 2012-13. Items within the scope of the section are assigned to one of two measurement categories: fair value, or cost or amortized cost. Fair value measurement will apply to derivatives and portfolio investments in equity instruments that are quoted in an active market. Also,

when groups of financial assets and financial liabilities are managed on a fair value basis they may be reported on that basis. Other financial assets and financial liabilities will generally be measured at cost or amortized cost. Until an item is derecognized, gains and losses arising due to fair value remeasurement will be reported in the Statement of Remeasurement Gains and Losses.

The Province, in its consolidated financial statements, has the option of adopting this standard in fiscal year 2015-16 or earlier and is currently analyzing the impact of this standard on its financial statements.

e) 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 8). 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Internal Government Transfers - Alberta Heritage Savings Trust Fund

Pursuant to Section 8(2) of the *Heritage 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 or unearned revenue.

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 14).
- A corporate income tax allowance provision for the change in the corporate income tax allowance (schedule 8).
- 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 16 and allocated to programs in schedule 17.

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.

Loans

Loans are recorded at cost less any allowance for credit loss. 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 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.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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 $9,621 million (2012: $8,450 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 personal income growth used in determining personal income tax for the current fiscal year is 7.3% (2012: 6.7%). Based on historical data, there is an uncertainty of plus or minus $503 million in the 2013 personal income tax revenue estimate.

Corporate income tax revenue, totaling $4,713 million (2012: $3,621 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 $10,035 million (2012: $9,827 million), see Schedule 14, 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 GOVERNMENT REORGANIZATION AND PROGRAM TRANSFERS

The Department of Treasury Board and Finance was established as a result of restructuring of government ministries announced on May 8, 2012. Comparatives for 2012 have been restated as if the Department had always been assigned with its current responsibilities. The combined impact of this government reorganization and program transfers is as follows:

Assets increased by $21 million from $18,750 million to $18,771 million as follows:
- Accrued interest and accounts receivable: $1 million
- Inventory: $2 million
- Tangible capital assets: $18 million

Liabilities increased by $2 million from $21,088 million to $21,090 million as follows:
- Accounts and accrued interest payable: $2 million

Net operating results decreased by $20 million from $17,189 million to $17,169 million as follows:

	($ millions)
Transfers from Treasury Board	$ 54
Transfer to Enterprise & Advanced Education	(18)
Transfer to Executive Council	(16)
	$ 20

The resulting impact to net assets at the beginning of the year for 2012 is a decrease of $15 million from $1,451 million to $1,436 million and net assets at the end of year for 2012 an increase of $19 million from $(2,338) million to $(2,319) million.

NOTE 4 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.

NOTE 4 VALUATIONS OF FINANCIAL ASSETS AND LIABILITIES CONTINUED

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 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)	
	2013	2012
Obligations under Operating Leases, Contracts and Programs	$106,892	$123,918

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

Obligations under Operating Leases, Contracts and Programs

	($ thousands)
	Total
2013-14	41,277
2014-15	32,912
2015-16	31,347
2016-17	1,356
	$106,892

NOTE 7 CONTINGENT LIABILITIES

a) GUARANTEES AND INDEMNITIES

The Province ensures the debt of Alberta Capital Finance Authority of $5,601 million (2012: $7,738 million) and Alberta Social Housing Corporation of $67 million (2012: $69 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, 2013 credit unions in Alberta held deposits totaling $18,700 million (2012: $17,474 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 $29 million (2012: $27 million) by ATB Financial. Payments under the guarantee are under authority of a supply vote. At March 31, 2013, ATB Financial had deposits totalling $26,327 million (2012: $25,053 million).

b) LEGAL ACTIONS

At March 31, 2013, 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, 2013, the Department is jointly or separately named as a defendant in sixteen (2012: thirty) legal claims. Of the sixteen claims, twelve have specified amounts totaling approximately $111 million (2012: $339 million) and four claims have no specified amount. Four (2012: four) claims totaling less than $1 million (2012: $7 million) are covered by the Alberta Risk Management Fund.

In addition, at March 31, 2013, 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, 2013, the fair value of trust and other funds under administration were as follows:

($ millions)

	2013	2012
Local Authorities Pension Plan Fund	$ 23,950	$ 20,838
Public Service Pension Plan Fund	7,692	6,848
Management Employees Pension Plan Fund	3,141	2,814
Special Forces Pension Plan Fund	1,832	1,643
Other	543	260
	$ 37,158	$ 32,403

NOTE 9 DEFINED BENEFIT PLANS

The Department jointly sponsors and participates in the 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 $7 million for the year ended March 31, 2013 (2012: $5 million). The Department is not responsible for future funding of the plans' deficits other than through contribution increases.

At December 31, 2012, the Management Employees Pension Plan reported a deficiency of $303 million (2012: $518 million), Public Service Pension Plan reported a deficiency of $1,645 million (2012: $1,790 million) and Supplementary Retirement Plan for Public Service Managers reported a deficiency of $52 million (2012: $53 million).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2013, the Bargaining Unit Plan reported a surplus of $51 million (2012: surplus $9 million) and the Management, Opted Out and Excluded Plan reported a surplus of $18 million (2012: surplus $10 million). The expense for these two plans is limited to the employer's annual contributions for the year.

NOTE 10 COMPARATIVE FIGURES

Certain 2012 figures have been reclassified to conform to the 2013 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)

	2013 Budget	2013 Actual	2012 Actual (Restated Note 3)
Internal government transfers			
Transfer from Alberta Heritage Savings Trust Fund	$ 595	$ 1,155	$ 344
Transfer from Alberta Gaming and Liquor Commission	701	729	700
Transfer from Alberta Lottery Fund	1,339	1,489	1,476
	2,635	3,373	2,520
Income taxes			
Personal income tax	9,314	9,621	8,450
Corporate income tax	4,596	4,713	3,621
Interest and penalties on corporate income tax	-	42	-
	13,910	14,376	12,071
Other taxes			
Tobacco tax	925	912	896
Fuel tax	850	897	849
Insurance taxes	337	325	286
Alberta tourism levy	73	82	73
Special broker tax	7	10	8
Interest and penalties on other tax	-	1	-
	2,192	2,227	2,112
Transfers from Government of Canada			
Canada Social Transfer	1,311	1,315	1,256
Unconditional Grant	4	4	4
	1,315	1,319	1,260
Investment income	510	534	715
Premiums, fees and licences			
ATB Financial payment in lieu of taxes	64	73	58
ATB Financial deposit guarantee fees	28	29	27
Other	7	7	4
	99	109	89
Other revenues	4	5	5
Total revenues	$ 20,665	$ 21,943	$ 18,772

EXPENSES – DIRECTLY INCURRED DETAILED BY OBJECT

SCHEDULE 2

($ millions)

	2013 Budget	2013 Actual	2012 Actual (Restated Note 3)
Salaries, wages and employee benefits	$ 70	$ 63	$ 63
Supplies and services	40	31	31
Grants	396	276	92
Financial transactions and other	1	1	-
Amortization of tangible capital assets	5	2	3
Pension liability funding	78	78	79
Corporate income tax allowance provision	125	125	123
Teachers' Pre-1992 pension liability funding	447	436	426
Debt servicing costs	437	316	257
Pension provision	-	208	529
	$ 1,599	$ 1,536	$ 1,603

BUDGET

SCHEDULE 3

($ millions)

	2012-13 Estimates (a)	Adjustment to conform to accounting policy (b)	Revised Estimates	Adjustments (c)	2012-13 Budget	Supplementary Estimates	2012-13 Authorized Budget (d)
Revenues							
Internal government transfers	$ 2,635	$ -	$ 2,635	$ -	$ 2,635	$ -	$ 2,635
Income taxes	13,785	125	13,910	-	13,910	-	13,910
Other taxes	2,192	-	2,192	-	2,192	-	2,192
Transfers from Government of Canada	1,315	-	1,315	-	1,315	-	1,315
Investment income	510	-	510	-	510	-	510
Premiums, fees and licences	99	-	99	-	99	-	99
Other revenues	4	-	4	-	4	-	4
	20,540	125	20,665	-	20,665	-	20,665
Expenses - Directly Incurred							
Ministry Support Services	14	-	14	-	14	-	14
Budget Development and Reporting	4	-	4	-	4	-	4
Fiscal Planning and Economic Analysis	6	-	6	-	6	-	6
Investment, Treasury and Risk Management	67	-	67	-	67	-	67
Office of the Controller	5	-	5	-	5	-	5
Corporate Internal Audit Services	4	-	4	-	4	-	4
Tax and Revenue Management	46	-	46	-	46	-	46
Financial Sector Regulation and Policy	86	-	86	-	86	-	86
Air Services	7	-	7	-	7	-	7
Gaming	35	-	35	-	35	-	35
Capital projects [(d) (e) (f)]	102	-	102	-	102	(18)	84
Strategic Capital Planning	4	-	4	-	4	-	4
Corporate income tax allowance provision	-	125	125	-	125	-	125
Alberta Family Employment Tax Credit / Scientific Research and Experimental Development Tax Credit	210	-	210	-	210	-	210
Teachers' pre-1992 pension - liability funding	447	-	447	-	447	-	447
Debt servicing costs - school construction	9	-	9	-	9	-	9
Debt servicing costs	428	-	428	-	428	-	428
	1,474	125	1,599	-	1,599	(18)	1,581
Net operating results	$ 19,066	$ -	$ 19,066	$ -	$ 19,066	$ (18)	$ 19,084
Equipment/inventory purchases	$ 3	$ -	$ 3	$ -	$ 3	$ -	$ 3

(a) Estimates were approved on March 21, 2012.

(b) Adjustment in accordance with PS1200.125 to conform fiscal plan numbers to the accounting policy change adopted for the corporate income tax allowance provision.

(c) There were no adjustments to the Department 2013 estimates.

(d) 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 2013 was $177 million.

(e) Capital projects estimates is comprised of $2 million for capital projects development and $100 million for capital projects provision.

(f) Included in the Authorized Supplementary is a transfer of $2 million from capital projects development approved on July 19, 2012. Treasury Board approval is pursuant to section 24(2) of the *Financial Administration Act*. As of April 1, 2013 the capital projects development program will now be administered by the Ministry of Infrastructure.

(g) $16 million from the provision for capital projects was transferred to various ministries under Section 6 (5) of the *Appropriation (Supplementary Supply) Act* 2012, the remaining funds in this program lapsed.

($ thousands)

	Voted Estimates (1)	Adjustments (2)	Supplementary Estimate (3)	Adjusted Voted Estimate	Actuals (4)	Unexpended (Over Expended)
Program Expenses						
Ministry Support Services						
Minister's Office	$ 672	$ -	$ -	$ 672	$ 648	$ 24
Associate Minister's Office	267	-	-	267	232	35
Deputy Minister's Office	689	-	-	689	731	(42)
Strategic and Business Services	10,889	-	-	10,889	10,352	537
Communications	763	-	-	763	720	43
	13,280	-	-	13,280	12,683	597
Investment, Treasury and Risk Management						
Treasury Management	14,059	-	-	14,059	9,523	4,536
Risk Management and Insurance	1,659	-	-	1,659	1,566	93
	15,718	-	-	15,718	11,089	4,629
Financial Sector Regulation and Policy						
ADM's Office	1,610	-	-	1,610	898	712
Regulation of PIFI	3,589	-	-	3,589	3,357	232
Public Sector Pensions	1,412	-	-	1,412	1,144	268
Automobile Insurance Rate Board	1,450	-	-	1,450	1,091	359
	8,061	-	-	8,061	6,490	1,571
Budget Development and Reporting	4,062	-	-	4,062	4,075	(13)
Fiscal Planning and Economic Analysis	6,518	-	-	6,518	5,500	1,018
Office of the Controller	5,129	-	-	5,129	4,266	863
Corporate Internal Audit Services	4,136	-	-	4,136	3,714	422
Tax and Revenue Management	34,781	-	-	34,781	31,839	2,942
Gaming	34,700	-	-	34,700	30,702	3,998
Strategic Capital Planning	3,812	-	-	3,812	1,389	2,423
Capital projects		-	-	-	-	-
Capital projects development (5)	1,600	-	(1,600)	-	-	-
Provision for capital projects (6)	100,000	-	(16,340)	83,660	-	83,660
Air Services	4,540	-	-	4,540	6,726	(2,186)
Debt Servicing-School construction	8,695	-	-	8,695	8,695	-
	207,973	-	(17,940)	190,033	96,906	93,127
Total	245,032	-	(17,940)	227,092	127,168	99,924
Lapse/(Encumbrance)						99,924

($ thousands)

	Voted Estimates (1)	Adjustments (2)	Supplementary Estimate (3)	Adjusted Voted Estimate	Actuals (4)	Unexpended (Over Expended)
Capital / Inventory Purchases (7)						
Ministry Support Services	$ 280	$ -	$ -	$ 280	$ 546	$ (266)
Tax and Revenue Management	2,082	-	-	2,082	1,453	629
Financial Sector and Pensions	250	-	-	250	11	239
Air Services	391	-	-	391	952	(561)
Total	3,003	-	-	3,003	2,962	41
Lapse/(Encumbrance)						41
Non-Budgetary Disbursements						
Grants for school construction debenture principal repayment	25,698	-	-	25,698	25,697	1
Total	$ 25,698	$ -	$ -	$ 25,698	$ 25,697	$ 1
Lapse/(Encumbrance)						$ 1

(1) As per "Voted expense by Program" and "Voted Capital Investment by Program" page 110-112 of 2012-13 Government Estimates.

(2) 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.

(3) Per the Supplementary Supply Estimates.

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

(5) Included in the Authorized Supplementary is a transfer of $1.6 million from Capital projects development approved on July 19, 2012. Treasury Board approval is pursuant to section 24(2) of the *Financial Administration Act* . As of April 1, 2013 the Capital projects development program will now be administered by the Ministry of Infrastructure.

(6) $16.34 million from the Provision for capital projects was transferred to various ministries under Section 6 (5) of the *Appropriation (Supplementary Supply) Act* 2012, the remaining funds in this program lapsed.

(7) Capital Investment consists of investments in capital projects, equipment purchases and inventory purchases.

ACTUAL VS BUDGET

SCHEDULE 5

($ thousands)

	Estimate (1)	Actual Voted	Actual Not Voted (2)	Actual Total	Difference
Program Expenses					
Ministry Support Services	$ 14,124	$ 12,311	$ 371	$ 12,682	$ 1,442
Budget Development and Reporting	4,062	4,075	-	4,075	(13)
Fiscal Planning and Economic Analysis	6,518	5,500	-	5,500	1,018
Investment, Treasury and Risk Management	66,715	11,089	51,245	62,334	4,381
Office of the Controller	5,129	4,266	-	4,266	863
Corporate Internal Audit Services	4,136	3,714	-	3,714	422
Tax and Revenue Management	46,239	31,839	15,113	46,952	(713)
Financial Sector Regulation and Policy	86,061	84,331	-	84,331	1,730
Air Services	6,833	6,726	-	6,726	107
Strategic Capital Planning	3,812	1,389	-	1,389	2,423
Capital Projects	101,600	-	-	-	101,600
Gaming	34,700	30,702	-	30,702	3,998
Alberta Family Employment Tax Credit / Scientific Research and Experimental Development Tax Credit	209,759	-	178,883	178,883	30,876
		-	-	-	-
Teachers' pre-1992 pension liability funding	447,000	-	435,870	435,870	11,130
Pension provision	-	-	208,157	208,157	(208,157)
Debt servicing	437,310	8,695	316,265	324,960	112,350
Corporate income tax allowance provision	124,756	-	124,756	124,756	-
	$ 1,598,754	$ 204,637	$ 1,330,660	$ 1,535,297	$ 63,457
Expense by fiscal plan category					
Operating Expense	$ 1,594,156	$ 204,637	$ 1,328,342	$ 1,532,979	$ 61,177
Capital Grants and Support	-	-	-	-	-
Amortization of Tangible Capital Assets	4,598	-	2,318	2,318	2,280
	$ 1,598,754	$ 204,637	$ 1,330,660	$ 1,535,297	$ 63,457
Capital Investment by program					
Ministry Support Services	$ 280	$ 546	$ -	$ 546	$ (266)
Tax and Revenue Management	2,082	1,453	-	1,453	629
Financial Sector Regulation and Policy	250	11	-	11	239
Air Services	391	952	-	952	(561)
	$ 3,003	$ 2,962	$ -	$ 2,962	$ 41

1. As per page 119 of 2012-13 Government Estimates
2. These amounts are not included in any supply vote because no cash disbursement is required or because the Legislative Assembly has already provided funding authority pursuant to a statute other than an appropriation act.

SALARY AND BENEFITS DISCLOSURE — SCHEDULE 6

($ thousands)

	2013				2012
	Base Salary (a)	Other Cash Benefits (b)	Other Non-Cash Benefits (c)	Total	Total
Senior Officials					
Deputy Minister of Finance (d)	$ 274	$ -	$ 84	$ 358	$ 449
Controller (d)(f)	101	-	31	132	238
Chief Internal Auditor	180	-	53	233	219
Executives					
Assistant Deputy Minister, Budget Development and Reporting	192	-	55	247	226
Assistant Deputy Minister, Financial Sector Regulation and Policy	162	-	44	206	190
Assistant Deputy Minister, Fiscal Planning & Economic Analysis	189	-	52	241	238
Assistant Deputy Minister, Strategic & Business Services (e)	183	-	31	214	226
Assistant Deputy Minister, Strategic Capital Planning	189	-	54	243	227
Assistant Deputy Minister, Tax and Revenue Administration	181	-	52	233	216
Assistant Deputy Minister, Treasury and Risk Management	227	-	66	293	274
Executive Director, Human Resources	134	-	34	168	153

Prepared in accordance with Treasury Board Directive 12/98 as amended.

(a) Base salary includes pensionable base pay.

(b) Other cash benefits include vacation payouts and lump sum payments. There were no bonuses paid in 2013.

(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.

(f) The position was vacant until July 27, 2012.

CASH AND CASH EQUIVALENTS — SCHEDULE 7

($ millions)

	2013	2012
Cash	$ (82)	$ (351)
Cash equivalents	2,070	1,694
	$ 1,988	$ 1,343

At March 31, 2013, deposits in banks had a time-weighted return of 1.3% (2012: 1.3%) per annum and securities have an average effective yield of 2.2% (2012: 1.3%) per annum.

ACCOUNTS AND ACCRUED INTEREST RECEIVABLE — SCHEDULE 8

($ millions)

	2013	2012 (Restated Note 3)
Corporate income tax	$ 527	$ 463
Personal income tax	763	694
Interest and penalties receivable on taxes	214	270
Alberta Gaming and Liquor Commission	270	279
Alberta Lottery Fund	169	104
Receivable from the Alberta Heritage Savings Trust Fund	385	344
Accrued interest receivable	70	88
ATB Financial	258	198
Insurance corporations tax	86	79
Fuel Tax	76	69
Tobacco tax	13	10
Alberta tourism levy	8	7
Other	98	89
	2,937	2,694
Less corporate income tax allowance	(248)	(123)
Less allowance for other doubtful accounts	(1)	(1)
	$ 2,688	$ 2,570

PORTFOLIO INVESTMENTS — SCHEDULE 9

($ millions)

	2013		2012	
	Book Value	Fair Value	Book Value	Fair Value
Fixed-income securities				
Corporate	$ 1,888	$ 1,883	$ 3,457	$ 3,494
Provincial, direct and guaranteed	561	563	1,531	1,573
Government of Canada, direct and guaranteed	812	807	2,589	2,628
Municipal	53	52	119	120
	$ 3,314	$ 3,305	$ 7,696	$ 7,815

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 securities held have an average effective market yield of 2.0% (2012: 2.0%) per annum and the following remaining terms to maturity: under one year: 5%; one to five years: 88%; five to ten years: 5%; over ten years: 2%. The Department may use derivatives to manage financial risk. At March 31, 2013, there were no derivative contracts outstanding.

LOANS AND ADVANCES TO GOVERNMENT ENTITIES — SCHEDULE 10

($ millions)

Amounts borrowed and loaned to government entities [(a)] (see Schedule 13)	**2013**	**2012**
ATB Financial	$ 2,196	$ 1,990
Alberta Capital Finance Authority	6,724	3,307
Agriculture Financial Services Corporation	1,793	1,667
Alberta Social Housing Corporation	106	133
	10,819	7,097
Other loans		
Alberta Investment Management Corporation	56	32
Other	2	2
	$ 10,877	$ 7,131

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 11

($ millions)

	2013		
	Computer Hardware & Software	**Equipment**	**Total**
Estimated useful life	5 years	10 years	
Historical Cost			
Beginning of year	$ 33	$ 27	$ 60
Additions	3	1	4
	36	28	64
Accumulated Amortization			
Beginning of year	22	9	31
Amortization expense	1	2	3
	23	11	34
Net book value at March 31, 2013	$ 13	$ 17	$ 30
Net book value at March 31, 2012	$ 11	$ 18	$ 29

ACCOUNTS AND ACCRUED INTEREST PAYABLE — SCHEDULE 12

($ millions)

	2013	**2012 (Restated Note 3)**
Corporate income tax receipts in abeyance	$ 570	$ 600
Corporate income tax refunds payable	438	419
Accrued interest on unmatured debt	87	57
Other	144	115
	$ 1,239	$ 1,191

UNMATURED DEBT

SCHEDULE 13

($ millions)

	2013				2012	
	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	1.30	0.16	$ 3,807	$ 3,819	$ 5,051	$ 5,060
Fixed rate long-term debt	2.82	6.74	10,628	11,137	4,925	5,314
	2.42	5.06	$ 14,435	$ 14,956	$ 9,976	$ 10,374
Total unmatured debt is comprised of:						
Amounts borrowed on behalf of Government entities: [d]						
ATB Financial			$ 2,196	$ 2,213	$ 1,990	$ 1,985
Alberta Capital Finance Authority			6,724	6,777	3,307	3,310
Agriculture Financial Services Corporation			1,793	1,931	1,667	1,779
Alberta Social Housing Corporation			106	115	133	146
			10,819	11,036	7,097	7,220
Amounts borrowed for other purposes:						
Teachers' Pension Plan liability			1,187	1,384	1,186	1,351
Capital borrowing			2,429	2,536	1,497	1,593
General purpose borrowing			-	-	196	210
			$ 14,435	$ 14,956	$ 9,976	$ 10,374

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 10) 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 2012-13, and thereafter are as follows:

	($ millions)
2012-13	$ 2,257
2013-14	1,539
2014-15	140
2015-16	1,882
2016-17	2,936
Thereafter	5,709
	14,463
Unamortized discount	(28)
	$ 14,435

None of the debt has call provisions (2012: 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, 2013, the net fair value of these contracts totaled $(2) million (2012: $(2) million).

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). 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, 2012 year end or March 31, 2013 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 14, CONTINUED**

The following is a summary of the plans for the year ended March 31, 2013:

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	147,153	46.94	49,767	$ 899	$ 1,035	$ 1,010	27,831
PSPP	41,234	46.06	22,178	260	285	412	15,677
MEPP	5,330	52.40	3,957	65	107	159	1,044
MSRP	1,069	56.05	710	3	3	3	125
PJMCPP [(a)]	128	64.56	136	1	2	7	3
PSMC [(a)]	-	-	1,976	-	-	56	123
SFPP [(a)]	4,129	41.96	2,278	52	61	92	185

(a) These four plans also received during the year contributions, primarily related to pre-1992 commitments, from the Province of Alberta as follows: PJMCPP $1 million, PSMC $60 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)		
	2013 Pension Obligation	2013 Pension Provision (Recovery)	2012 Pension Obligation
Liability for pension obligations for the Province as a participating employer (Table A)			
Local Authorities Pension Plan [a]	$ 494	$ 44	$ 450
Management Employees Pension Plan [b]	139	10	129
Public Service Pension Plan [c]	250	74	176
Supplementary Retirement Plan for Public Service Managers [d]	52	(1)	53
Provincial Judges and Masters in Chambers Pension Plan [e]	6	6	-
	941	133	808
Liability for the Province's commitment towards pre-1992 pension obligations			
Teachers' Pension Plan [f]	8,014	98	7,916
Public Service Management (Closed Membership) Pension Plan [g]	584	(30)	614
Universities Academic Pension Plan [h]	328	13	315
Special Forces Pension Plan [h]	123	(6)	129
	9,049	75	8,974
Obligations to the Members of the Legislative Assembly [i]	45	-	45
	$ 10,035	$ 208	$ 9,827

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]	$ 33,458	$ 22,862	$ 2,986	$ 7,300	$ 310
Pension obligation	40,441	27,839	3,289	8,945	368
Pension plan deficit [2]	$ 6,983	$ 4,977	$ 303	$ 1,645	$ 58
Employee and non-Provincial employer	(4,308)				
Unamortized losses [3]	(1,700)				
Timing differences [4]	(34)				
Pension obligation at March 31, 2013	$ 941				

(1) These are the net assets reported on the 2012 financial statements of the pension plan.

(2) This is the pension obligation reported on the 2012 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, 2013 to March 31, 2013 for payments and interest expense.

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 6.96% of pensionable earnings shared equally between employers and employees until December 31, 2025. 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 9.4% of pensionable earnings shared between employees and employers until December 31, 2014, 7.3% until December 31, 2016, 2.5% until December 31, 2017 and 2.1% until 2024. 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 6.94% of pensionable earnings shared equally between employees and employers until December 31, 2025. 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, 2012 were at 11.16% (2011: 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, 2013 are 7.00% of capped salary for plan members and 14.65% 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 $1,186 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, 2011
Management Employees Pension Plan	Aon Consulting Inc.	Dec. 31, 2009
Supplementary Retirement Plan	Aon Consulting Inc.	Dec. 31, 2009
Provincial Judges and Masters in Chambers Pension Plan	Aon Consulting Inc.	Dec. 31, 2008
Public Service Pension Plan	Aon Consulting Inc.	Dec. 31, 2011
Teachers' Pre-1992 Pension Plan	Aon Consulting Inc.	Aug. 31, 2012
Public Service Management (Closed Membership) Pension Plan	Aon Consulting Inc.	Dec. 31, 2011
Universities Academic Pension Plan	Aon Consulting Inc.	Dec. 31, 2010
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, 2012 or March 31, 2013, 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 14, 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, 2012	3.50	2.25	5.80
Management Employees Pension Plan	Dec. 31, 2012	3.50	2.25	6.30
Provincial Judges and Masters in Chambers Pension Plan	Mar. 31, 2012	3.50	2.25	5.80
Public Service Management (Closed Membership) Pension Plan	Dec. 31, 2012	N/A	2.25	4.25
Public Service Pension Plan	Dec. 31, 2012	3.50	2.25	6.40
Special Forces Pension Plan	Dec. 31, 2012	3.50	2.25	6.20
Supplementary Retirement Plan for Public Service Managers	Dec. 31, 2012	3.50	2.25	5.50
Universities Academic Pension Plan	Mar. 31, 2013	3.50	2.25	6.20
Teachers' Pre-1992 Pension Plan	Mar. 31, 2013	3.50	2.25	4.25
Members of the Legislative Assembly Pension Plan	Mar. 31, 2013	N/A	2.25	4.25

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 15

($ millions)

	2013	2012
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 65	$ 92
Vacation entitlements	7	4
	$ 72	$ 96

RELATED PARTY TRANSACTIONS — SCHEDULE 16

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, 2012, there is an accumulated surplus before changes in fair value of derivatives of $185 million (2012: $134 million). There is a deficit of $628 million (2012: $705 million) including accumulated changes in fair value. During the 2013 fiscal year, the Department paid

$36 million (2012: $44 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	
	2013	2012 (Restated Note 3)	2013	2012 (Restated Note 3)
Revenues				
Transfers	$ 3,373	$ 2,520	$ -	$ -
Interest - government entities	122	45	77	69
Charges for services	102	85	-	-
	$ 3,597	$ 2,650	$ 77	$ 69
Expenses				
Cost of services	$ 5	$ 17	$ 63	$ 63
Assets				
Accounts receivable	$ 1,081	$ 925	$ 57	$ 33
Accrued interest receivable - government entities	31	5	15	15
Loans and advances to government entities	8,979	5,332	1,899	1,800
	$ 10,091	$ 6,262	$ 1,971	$ 1,848
Liabilities				
Accounts and accrued interest payable	$ 1	$ 1	$ -	$ -
School construction debentures	-	-	66	91
	$ 1	$ 1	$ 66	$ 91

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 16.

($ millions)

	Revenue		Expense	
	2013	2012 (Restated Note 3)	2013	2012 (Restated Note 3)
Accommodations	$ -	$ -	$ 7	$ 6
Air travel	4	4	-	-
Corporate services	-	-	1	1
Internal audit services	1	1	-	-
Legal services	-	-	2	1
	$ 5	$ 5	$ 10	$ 8

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

ALLOCATED COSTS BY PROGRAM — SCHEDULE 17

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 16.

Total allocated costs of $1,546 million are comprised of total expenses per statement of operations amounting to $1,536 million and expenses incurred by others amounting to $10 million.

($ millions)

Program	Expenses [1]	Expenses Incurred by Others [2]	Pension provision [3]	Total 2013	Total 2012 (Restated Note 3)
Ministry Support Services	$ 13	$ 1	$ -	$ 14	$ 15
Budget Development and Reporting	4	-	-	4	3
Fiscal Planning and Economic Analysis	6	-	-	6	6
Investment, Treasury and Risk Management	62	2	-	64	61
Office of the Controller	4	-	-	4	4
Corporate Internal Audit Services	4	-	-	4	4
Tax and Revenue Management	47	3	-	50	43
Financial Sector and Pensions	84	3	-	87	88
Air Services	7	-	-	7	6
Strategic Capital Planning	1	-	-	1	2
Capital projects	-	-	-	-	-
Gaming	31	1	-	32	32
Alberta Family Employment Tax Credit / Scientific Research and Experimental Development Tax	179	-	-	179	-
Teachers' pre-1992 pension liability funding	436	-	-	436	425
Debt servicing & Pension Provision	325	-	208	533	798
Corporate income tax allowance provision	125	-		125	123
	$ 1,328	$ 10	$ 208	$ 1,546	$ 1,610

[1] Expenses – directly incurred as per the statement of operations.

[2] Includes accommodations of $7 million, corporate services of $1 million, and legal services of $2 million.

[3] Includes pension provision of $208 million.

ALBERTA CANCER PREVENTION LEGACY FUND

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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 Cancer Prevention Legacy Fund, which comprise the statement of financial position as at March 31, 2013, 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, 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

June 3, 2013

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2013

	($ thousands)	
	2013	**2012**
	(See Note 2a)	
Financial assets		
Investments (Notes 2 and 3)	$ 499,801	$ 491,953
Liabilities		
Administration expense payable	$ -	$ 33
Net financial assets (Note 5)		
Accumulated surplus from operations	504,639	491,920
Accumulated remeasurement losses	(4,838)	-
	499,801	491,920
	$ 499,801	$ 491,953

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2013

($ thousands)

	2013		2012
	Budget	**Actual**	**Actual**
Investment income (Note 6)	$ 15,000	$ 25,598	$ 23,861
Investment expenses (Note 7)	-	(379)	(436)
Net income from operations	15,000	25,219	23,425
Transfers on behalf of the Ministry of Health (Note 5b)	(25,000)	(12,500)	(22,481)
Net operating surplus	(10,000)	12,719	944
Accumulated operating surplus at beginning of year		491,920	490,976
Accumulated operating surplus at end of year		$ 504,639	$ 491,920

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2013

($ thousands)

	2013
	(See Note 2a)
Accumulated remeasurement gains, beginning of year	$ -
Accumulated remeasurement gains upon adoption of PS3450, April 1, 2012	3,544
Unrealized loss on investments	(8,475)
Less: Amounts reclassified to the Statement of Operations - realized loss on investments	93
Accumulated remeasurement losses, end of year	$ (4,838)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2013

	($ thousands) 2013	2012
Operating transactions		
Net income from operations	$ 25,219	$ 23,425
Non-cash items included in net income	93	(492)
	25,312	22,933
Decrease in accounts payable	(33)	(974)
Cash provided by operating transactions	25,279	21,959
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	12,000	17,200
Purchase of investments	(25,332)	(23,083)
Cash used in investing transactions	(13,332)	(5,883)
Transfers		
Transfers on behalf of the Ministry of Health	(12,500)	(22,481)
Cash applied to transfers	(12,500)	(22,481)
Decrease in cash	(553)	(6,405)
Cash at beginning of year	825	7,230
Cash at end of year	$ 272	$ 825
Consisting of Deposit in the Consolidated Cash Investment Trust Fund	$ 272	$ 825

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2013
(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, Revised 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) CHANGE IN ACCOUNTING POLICY

Effective April 1, 2012, management implemented PSAB Standard 3450 required for government organization with fiscal years beginning on or after April 1, 2012. The new standard is applied prospectively. Comparative results have not been restated. The primary changes to the Fund's financial statements from the previous year are as follows:

i) The carrying value of all financial instruments included in investments are measured at fair value to correspond with how they are evaluated and managed. Prior to April 1, 2012, investments were recorded at cost.

ii) Unrealized gains and losses are recorded in the new statement of remeasurement gains and losses. Prior to April 1, 2012, unrealized gains and losses were not recorded in the financial statements. This accounting change increased the April 1, 2012 opening balance of investments and accumulated remeasurement gains by $3,544.

iii) 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 assumptions are observable in the market or quoted prices for similar but identical assets.

(c) Level three: fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 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 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 provided by AIMCo at the close of the sixth 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.

c) 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.

d) INVESTMENT EXPENSES

i) Investment expenses include all amounts, including transaction costs, charged to the Fund by AIMCo (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.

e) 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.

f) 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)

At March 31, 2013, the carrying amounts of the Fund's investments are recorded on a fair value basis, and on a cost basis at March 31, 2012. 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).

NOTE 3 INVESTMENTS (in thousands) CONTINUED

Asset class	Fair Value Hierarchy [a] Level 1	Level 2	Level 3	2013 At Fair Value (See Note 2a)	2012 At Cost
Interest-bearing securities					
Deposits and short-term securities	$ -	$ 272	$ -	$ 272	$ 825
Bonds and mortgages	-	499,529	-	499,529	491,128
Total Carrying Amount of Investments	$ -	$499,801	$ -	$ 499,801	$ 491,953

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. 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. 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.

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, 2013:

Credit rating	2013	2012
Investment Grade (AAA to BBB-)	98%	98%
Speculative Grade (BB+ or lower)	-	-
Unrated	2%	2%
	100%	100%

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 2.5% of total investments (2012: 2.6%).

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at March 31, 2013:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market
Deposits and short-term securities	91%	9%	-	1.3%
Bonds and mortgages	4%	90%	6%	2.4%

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

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 and Wellness for the purposes of the Act and payables related to purchase of units.

d) 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. At March 31, 2013, the Fund's exposure to derivative contracts, at net fair value, totalled $nil (2012: $(82)).

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	
	2013	2012
	(see Note 2a)	
Accumulated net income from operations	$ 149,501	$ 124,282
Transfers from the General Revenue Fund [a]	500,000	500,000
Accumulated transfers to Ministry [b]	(144,862)	(132,362)
Accumulated surplus from operations	504,639	491,920
Accumulated net remeasurement gains	(4,838)	-
Carrying value of net financial assets	$ 499,801	$ 491,920

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

[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:

	2013	2012
Interest-bearing securities	$ 25,598	$ 23,861

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

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2013	2012
Amounts charged by:		
AIMCo [a]	$ 349	$ 406
Alberta Treasury Board and Finance [b]	30	30
Total investment expenses	$ 379	$ 436
Average fair value of investments	$497,649	$496,549
Per cent of investments at average fair value	0.08%	0.09%

a) For investment management services.

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]	2013	2012	4 years	5 years
Estimated return [b]	3.4%	4.3%	3.7%	4.1%
Estimated policy benchmark return [b]	2.2%	4.1%	2.6%	3.6%
Value added by investment manager	1.2%	0.2%	1.1%	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 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 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Treasury Board and Finance approved these financial statements.

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ALBERTA HERITAGE FOUNDATION

FOR MEDICAL RESEARCH ENDOWMENT FUND

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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 Foundation for Medical Research Enowment Fund, which comprise the statement of financial position as at March 31, 2013, 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 Enowment Fund as at March 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

June 3, 2013

Edmonton, Alberta

Statement of Financial Postion

As at March 31, 2013

	($ thousands)	
	2013 (see Note 2a)	2012
Financial assets		
Investments (Notes 2 and 3)	$ 1,436,338	$ 1,253,091
Receivable from sale of investments	-	3,000
	$ 1,436,338	$ 1,256,091
Liabilities		
Administration expense payable	$ -	$ 116
Payable from purchase of investments	154	936
	154	1,052
Net financial assets (Note 5)		
Accumulated surplus from operations	1,282,905	1,255,039
Accumulated remeasurement gains	153,279	-
	1,436,184	1,255,039
	$ 1,436,338	$ 1,256,091

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2013

($ thousands)

	2013 Budget	2013 Actual	2012 Actual
Investment income (Note 6)	$ 83,507	$ 119,397	$ 75,290
Investment expenses (Note 7)	(7,307)	(12,481)	(8,158)
Net income from operations	76,200	106,916	67,132
Transfers to the Ministry of Enterprise and Advanced Education (Note 5b)	(79,050)	(79,050)	(75,950)
Net operating surplus (deficit)	$ (2,850)	27,866	(8,818)
Accumulated operating surplus at beginning of year		1,255,039	1,263,857
Accumulated operating surplus at end of year		$ 1,282,905	$ 1,255,039

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2013

($ thousands)

	2013 *(see Note 2a)*
Accumulated remeasurement gains, beginning of year	$ -
Accumulated remeasurement gains upon adoption of PS3450, April 1, 2012	109,042
Unrealized gain on investments	64,539
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(20,302)
Accumulated remeasurement gains, end of year	$ 153,279

The accompanying notes are part of these financial statements.

Statement of Changes in Cash Flows

Year Ended March 31, 2013

	($ thousands)	
	2013	**2012**
Operating transactions		
Net income from operations	$ 106,916	$ 67,132
Non-cash items included in net income	(20,302)	(21,298)
	86,614	45,834
Decrease (Increase) in accounts receivable	3,000	(3,000)
(Decrease) increase in accounts payable	(898)	1,010
Cash provided by operating transactions	88,716	43,844
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	401,048	424,874
Purchase of investments	(414,309)	(402,343)
Cash (used in) provided by investing transactions	(13,261)	22,531
Transfers		
Transfers to the Ministry of Enterprise and Advanced Education	(79,050)	(75,950)
Cash applied to transfers	(79,050)	(75,950)
Decrease in cash	(3,595)	(9,575)
Cash at beginning of year	11,950	21,525
Cash at end of year	$ 8,355	$ 11,950
Consisting of Deposit in the Consolidated Cash Investment Trust Fund	$ 8,355	$ 11,950

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2013
(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 Enterprise 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) CHANGE IN ACCOUNTING POLICY

Effective April 1, 2012, management implemented PSAB Standard 3450 required for government organizations with fiscal years beginning on or after April 1, 2012. The new standard is applied prospectively. Comparative results have not been restated. The primary changes to the Fund's financial statements from the previous year are as follows:

i) The carrying value of all financial instruments included in investments are measured at fair value to correspond with how they are evaluated and managed. Prior to April 1, 2012, investments were recorded at cost.

ii) Unrealized gains and losses are recorded in the new statement of remeasurement gains and losses. Prior to April 1, 2012, unrealized gains and losses were not recorded in the financial statements. This accounting change increased the April 1, 2012 opening balance of investments and accumulated remeasurement gains by $109,042.

iii) 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 assumptions are observable in the market or quoted prices for similar but not identical assets.

(c) Level three: fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 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.

The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations provided by AIMCo at the close of the sixth 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.

c) 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.

d) INVESTMENT EXPENSES

i) Investment expenses include all amounts, including transaction costs, charged to the Fund by AIMCo (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.

e) 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.

f) 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)

At March 31, 2013, the carrying amounts of the Fund's investments are recorded on a fair value basis, and on a cost basis at March 31, 2012. 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).

NOTE 3 INVESTMENTS (in thousands) CONTINUED

Asset class	Fair Value Hierarchy [a] Level 1	Level 2	Level 3	2013 At Fair Value (see Note 2a)	2012 At Cost
Interest-bearing securities					
Deposits and short-term securities	$ -	$ 8,355	$ -	$ 8,355	$ 11,950
Bonds and mortgages	-	193,813	82,304	276,117	272,348
	-	202,168	82,304	284,472	284,298
Equities					
Canadian	72,292	40,426	-	112,718	102,660
Global developed	293,458	83,021	127,734	504,213	472,608
Emerging markets	59,059	12,165	6,612	77,836	43,474
Private	-	-	56,623	56,623	46,879
	424,809	135,612	190,969	751,390	665,621
Inflation sensitive					
Real estate	-	-	230,194	230,194	145,659
Infrastructure	-	-	121,739	121,739	121,875
Timberland	-	-	21,794	21,794	18,367
Private debt and loan	-	-	26,749	26,749	17,271
	-	-	400,476	400,476	303,172
Total Carrying Amount of Investments	$424,809	$337,780	$673,749	$ 1,436,338	$ 1,253,091

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.
- ***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. 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.

Reconciliation of Level 3 Investments

	2013
Balance, beginning of period	$ 591,192
Unrealized gains	30,882
Purchases of Level 3 pooled fund units	248,632
Sale of Level 3 pooled fund units	(196,957)
Balance, end of period	$ 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. 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. 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 (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:

	Target	Actual Asset Mix			
		2013		2012	
Asset Class	**Asset Policy**				
Interest-bearing securities	15 - 45%	$ 284,472	19.8%	$ 292,892	21.5%
Equities	35 - 70%	751,390	52.3%	705,937	51.8%
Inflation sensitive	15 - 40%	400,476	27.9%	363,304	26.7%
		$ 1,436,338	100.0%	$ 1,362,133	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, 2013:

Credit rating	**2013**	**2012**
Investment Grade (AAA to BBB-)	73%	79%
Speculative Grade (BB+ or lower)	2%	-
Unrated	25%	21%
	100%	100%

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. 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 42% of the Fund's investments, or $609 million, are denominated in currencies other that 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 in fair value to the Fund would be approximately 4.2% of total investments (2012: 4.1%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2013:

($ millions)

	2013		2012	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 321	$ (32)	$ 293	$ (29)
Euro	56	(6)	68	(7)
Japanese yen	43	(4)	43	(4)
British pound sterling	43	(4)	44	(4)
Australian dollar	16	(2)	25	(3)
Swiss franc	18	(2)	15	(2)
Other foreign currency	112	(11)	75	(7)
Total foreign currency investments	$ 609	$ (61)	$ 563	$ (56)

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

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 1.1% of total investments (2012: 1.2%)

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at March 31, 2013:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market
Deposits and short term securities	91%	9%	-	1.3%
Bonds and mortgages	5%	40%	55%	4.4%

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 pooled investment funds 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 6.3% of total investments (2012: 5.9%). 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 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 Enterprise and Advanced Education 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	2013	2012
Contracts in favourable position (current credit exposure)	40	$ 11,743	$ 14,608
Contracts in unfavourable position	17	(6,729)	(6,462)
Net fair value of derivative contracts	57	$ 5,014	$ 8,146

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 $11,743 (2012: $14,608) 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	2013	2012
Structured equity replication	$ 8,595	$ 10,728
Foreign currency derivatives	(4,218)	(1,751)
Interest rate derivatives	1,024	738
Credit risk derivatives	(387)	(1,569)
Net fair value of derivative contracts	$ 5,014	$ 8,146

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) Contractual maturities: Structured equity replication derivatives and foreign currency derivatives primarily mature within one year. For interest rate derivatives approximately 13% mature within one year; 21% between 1 and 3 years and 66% over 3 years. For credit risk derivatives approximately 32% mature within one year; 1% between 1 and 3 years and 67% over 3 years.
vi) Deposits: At March 31, 2013 deposits in futures contracts margin accounts totalled $2,295 (2012: $1,041) and deposits as collateral for derivative contracts totalled $1,878 (2012: $416).

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	
	2013	2012
	(see Note 2a)	
Accumulated net income from operations	$ 1,912,905	$ 1,805,989
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)]	(1,430,000)	(1,350,950)
Accumulated surplus from operations	1,282,905	1,255,039
Accumulated remeasurement gains	153,279	-
Carrying value of net financial assets	$ 1,436,184	$ 1,255,039

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

(b) In accordance with section 8(1) of the *Alberta Heritage Foundation for Medical Research Act*, the Fund paid out $76 million to the Alberta Heritage Foundation for Medical Research prior to December 31, 2009. That act was repealed on January 1, 2010, and the Fund was continued under the *Alberta Research and Innovation Act* (the Act). Section 12 of the Act limits the annual payments from the Fund to the Ministry of Enterprise and Advanced Education. Payments to the Ministry of Enterprise and Advanced Education 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.

NOTE 6 NET INVESTMENT INCOME (in thousands)

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

	2013	2012
Interest-bearing securities	$ 19,762	$ 20,439
Equities		
Canadian	6,929	3,806
Global	59,799	31,324
Private	6,292	3,423
	73,020	38,553
Inflation sensitive		
Real estate	20,500	15,428
Infrastructure	3,643	(242)
Timberland	(483)	663
Private debt and loan	2,955	380
Inflation sensitive real return bonds	-	69
	26,615	16,298
	$ 119,397	$ 75,290

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)

	2013	2012
Amount charged by:		
AIMCo [(a)]	$ 12,433	$ 8,110
Alberta Treasury Board and Finance [(b)]	48	48
Total investment expenses	$ 12,481	$ 8,158
Average fair value of investments	$ 1,399,236	$ 1,352,907
Per cent of investments at average fair value	0.89%	0.60%

a) For investment management services.

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)]	2013	2012	5 years	10 years
Estimated return [(b)]	11.6%	7.6%	4.7%	7.9%
Estimated policy benchmark return [(b)]	10.2%	5.2%	4.7%	7.6%
Value added by investment manager	1.4%	2.4%	0.0%	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.

NOTE 9 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Treasury Board and Finance approved these financial statements.

ALBERTA HERITAGE SAVINGS TRUST FUND

Financial Statements

March 31, 2013

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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 Savings Trust Fund, which comprise the statement of financial position as at March 31, 2013, 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, 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

June 3, 2013

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2013
(in millions)

	2013	2012
	(See Note 2a)	
Financial assets		
Investments (Notes 2 and 3)	$ 17,156	$ 15,015
Receivable from sale of investments and accrued income	13	13
	$ 17,169	$ 15,028
Liabilities		
Due to the General Revenue Fund	$ 385	$ 344
Payable from purchase of investments and accounts payable	5	32
	390	376
Net financial assets (Note 5)		
Accumulated surplus from operations	14,813	14,652
Accumulated remeasurement gains	1,966	-
	16,779	14,652
	$ 17,169	$ 15,028

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2013
(in millions)

	2013 Budget	2013 Actual	2012 Actual
Investment income (Note 6)	$ 986	$ 1,464	$ 897
Investment expenses (Note 7)	(85)	(148)	(99)
Net income from operations	901	1,316	798
Transfers to the General Revenue Fund (Note 5b)	(595)	(1,155)	(344)
Net surplus retained in the Fund for inflation-proofing (Note 5b)	$ 306	161	454
Accumulated operating surplus at beginning of year		14,652	14,198
Accumulated operating surplus at end of year		$ 14,813	$ 14,652

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2013
(in millions)

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

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2013
(in millions)

	2013	2012
Operating transactions		
Net income from operations	$ 1,316	$ 798
Non-cash items included in net income	(265)	(219)
	1,051	579
Decrease in accounts receivable	-	6
(Decrease) increase in accounts payable	(27)	32
Cash provided by operating transactions	1,024	617
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	4,804	4,243
Purchase of investments	(4,769)	(4,590)
Cash provided by (used in) investing transactions	35	(347)
Transfers		
Transfers to the General Revenue Fund	(1,155)	(344)
Increase in amounts due to the General Revenue Fund	41	68
Cash used in transfers	(1,114)	(276)
Decrease in cash	(55)	(6)
Cash at beginning of year	99	105
Cash at end of year	$ 44	$ 99
Consisting of Deposits in the Consolidated Cash Investment Trust Fund	$ 44	$ 99

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2013
(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) CHANGE IN ACCOUNTING POLICY

Effective April 1, 2012, management implemented PSAB Standard 3450 required for government organizations with fiscal years beginning on or after April 1, 2012. The new standard is applied prospectively. Comparative results have not been restated. The primary changes to the Fund's financial statements from the previous year are as follows:

i) The carrying value of all financial instruments included in investments are measured at fair value to correspond with how they are evaluated and managed. Prior to April 1, 2012, investments were recorded at cost.

ii) Unrealized gains and losses are recorded in the new statement of remeasurement gains and losses. Prior to April 1, 2012, unrealized gains and losses were not recorded in the financial statements. This accounting change increased the April 1, 2012 opening balance of investments and accumulated remeasurement gains by $1.440 billion.

iii) 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 assumptions are observable in the market or quoted prices for similar but not identical assets.

(c) Level three: fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING.... CONTINUED

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 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 provided by AIMCo at the close of the sixth 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.

c) 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.

d) INVESTMENT EXPENSES

i) Investment expenses include all amounts, including transaction costs, charged to the Fund by AIMCo (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.

e) 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.

f) 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)

At March 31, 2013, the carrying amounts of the Fund's investments are recorded on a fair value basis, and on a cost basis at March 31, 2012. 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).

NOTE 3 INVESTMENTS (in millions) CONTINUED

Asset class	Fair Value Hierarchy [a] Level 1	Level 2	Level 3	2013 At Fair Value (See Note 2a)	2012 At Cost
Interest-bearing securities					
Deposits and short-term securities	$ -	$ 44	$ -	$ 44	$ 99
Bonds and mortgages	-	2,457	965	3,422	3,474
	-	2,501	965	3,466	3,573
Equities					
Canadian	870	486	-	1,356	1,209
Global developed	3,421	968	1,403	5,792	5,505
Emerging markets	673	139	78	890	523
Private	-	-	1,099	1,099	901
	4,964	1,593	2,580	9,137	8,138
Inflation sensitive					
Real estate	-	-	2,928	2,928	1,829
Infrastructure	-	-	1,026	1,026	1,030
Timberland	-	-	294	294	248
Private debt and loan	-	-	305	305	197
	-	-	4,553	4,553	3,304
Total Carrying Amount of Investments	$ 4,964	$ 4,094	$ 8,098	$ 17,156	$ 15,015

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.
- ***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. 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.

Reconciliation of Level 3 Investments

	2013
Balance, beginning of year	$ 7,144
Unrealized gains	375
Purchases of Level 3 pooled fund units	2,978
Sale of Level 3 pooled fund units	(2,399)
Balance, end of year	$ 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. 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***.***

- ***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. 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 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:

	Target	Actual Asset Mix			
		2013		2012	
Asset Class	**Asset Policy**				
Interest-bearing securities	15 - 45%	$ 3,466	20.2%	$ 3,669	22.3%
Equities	35 - 70%	9,137	53.3%	8,705	52.9%
Inflation sensitive	15 - 40%	4,553	26.5%	4,081	24.8%
		$ 17,156	100.0%	$ 16,455	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, 2013:

Credit rating	**2013**	**2012**
Investment Grade (AAA to BBB-)	71%	76%
Speculative Grade (BB+ or lower)	2%	-
Unrated	27%	24%
	100%	100%

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. 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 43% of the Fund's investments, or $7,391 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 (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 in fair value to the Fund would be approximately 4.3% of total investments (2012: 4.2%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2013:

	2013		2012	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 3,899	$ (390)	$ 3,679	$ (368)
Euro	724	(72)	828	(83)
Japanese yen	526	(53)	503	(50)
British pound sterling	541	(54)	532	(53)
Australian dollar	200	(20)	289	(29)
Swiss franc	221	(22)	183	(18)
Other foreign currency	1,280	(128)	875	(87)
Total foreign currency investments	$ 7,391	$ (739)	$ 6,889	$ (688)

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions) CONTINUED

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 1.1% of total investments (2012: 1.2%).

The following table summarizes the terms to maturity of interest-bearing securities held in the pools at March 31, 2013:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market
Deposits and short term securities	91%	9%	-	1.3%
Bonds and mortgages	11%	46%	43%	3.9%

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 6.4% of total investments (2012: 6.0%). 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	2013	2012
Contracts in favourable position (current credit exposure)	43	$ 146	$ 175
Contracts in unfavourable position	14	(68)	(70)
Net fair value of derivative contracts	57	$ 78	$ 105

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 $146 (2012: $175) 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	2013	2012
Structured equity replication derivatives	$ 100	$ 127
Foreign currency derivatives	(30)	(12)
Interest rate derivatives	13	9
Credit risk derivatives	(5)	(19)
Net fair value of derivative contracts	$ 78	$ 105

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) Contractual maturities: Structured equity replication derivatives and foreign currency derivatives primarily mature within one year. For interest rate derivatives approximately 15% mature within one year; 21% between 1 and 3 years and 64% over 3 years. For credit risk derivatives approximately 32% mature within one year; 1% between 1 and 3 years and 67% over 3 years.
vi) Deposits: At March 31, 2013 deposits in futures contracts margin accounts totalled $27 (2012: $13) and deposits as collateral for derivative contracts totalled $21 (2012: $5).

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	
	2013	2012
Accumulated net income	$ 33,420	$ 32,104
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	(33,625)	(32,309)
Amount Retained for Inflation-proofing	2,537	2,376
	(31,088)	(29,933)
Capital Expenditures (1976-1995) [c]	(3,486)	(3,486)
	(34,574)	(33,419)
Accumulated surplus from operations	14,813	14,652
Accumulated remeasurement gains	1,966	-
Carrying value of net financial assets	$ 16,779	$ 14,652

[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 $1,316 million of which, $161 million was retained in the Fund for inflation proofing and $1,155 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:

	2013	2012
Interest-bearing securities	$ 254	$ 275
Equities		
Canadian	89	41
Global	715	319
Private	104	44
	908	404
Inflation sensitive		
Real estate	259	205
Infrastructure	16	(1)
Timberland	(7)	9
Private debt and loan	34	4
Inflation sensitive real return bonds	-	1
	302	218
	$ 1,464	$ 897

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)

	2013	2012
Total investment expenses charged by AIMCo [(a)]	$ 148	$ 99
Average fair value of investments	$ 16,806	$ 15,951
Per cent of investments at average fair value	0.88%	0.62%

(a) Includes $137 thousand (2012: $135 thousand) charged to the Fund by Alberta Treasury Board and Finance for investment accounting and reporting services, and $50 thousand (2012: nil) 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]	2013	2012	5 years	10 years
Estimated return [b]	11.6%	8.2%	5.2%	8.1%
Estimated policy benchmark return [b]	10.1%	5.5%	4.9%	7.6%
Value added by investment manager [c]	1.5%	2.7%	0.3%	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 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, 2013

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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 Scholarhship Fund, which comprise the statement of financial position as at March 31, 2013, 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 Scholarhship Fund as at March 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

June 3, 2013

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2013

	($ thousands)	
	2013	2012
	(see Note 2a)	
Financial assets		
Investments (Note 3)	$ 819,923	$ 717,489
	$ 819,923	$ 717,489
Liabilities		
Payable from purchase of investments and amounts payable	$ 192	$ 2,007
Net financial assets (Note 5)		
Accumulated surplus from operations	737,375	715,482
Accumulated remeasurement gains	82,356	-
	819,731	715,482
	$ 819,923	$ 717,489

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2013

($ thousands)

	2013 Budget	2013 Actual	2012 Actual
Investment income (Note 6)	$ 44,824	$ 66,018	$ 35,119
Investment expenses (Note 7)	(3,424)	(6,547)	(4,215)
Net income from operations	41,400	59,471	30,904
Other contributions	90	48	541
Transfers for Scholarships to the Ministries of:			
Enterprise and Advanced Education	(36,073)	(37,568)	(36,643)
Culture and Community Spirit	-	(58)	(60)
	(36,073)	(37,626)	(36,703)
Net surplus	$ 5,417	21,893	(5,258)
Accumulated operating surplus, beginning of year		715,482	720,740
Accumulated operating surplus, end of year		$ 737,375	$ 715,482

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2013

($ thousands)

	2013 *(See Note 2a)*
Accumulated remeasurement gains, beginning of year	$ -
Accumulated remeasurement gains upon adoption of PS3450, April 1, 2012	54,094
Unrealized gain on investments	39,242
Less: Amounts reclassified to the Statement of Operations	
- realized gains on investments	(10,980)
Accumulated remeasurement gains, end of year	$ 82,356

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2013

	($ thousands)	
	2013	**2012**
Operating transactions		
Net income from operations	$ 59,471	$ 30,904
Non-cash items included in net investment income	(10,980)	(6,698)
	48,491	24,206
(Decrease) increase in accounts payable	(1,815)	1,981
Cash provided by operating transactions	46,676	26,187
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	227,744	244,066
Purchase of investments	(239,247)	(240,298)
Cash (applied to) provided by investing transactions	(11,503)	3,768
Transfers		
Other contributions	48	541
Transfers for Scholarships	(37,626)	(36,703)
Cash applied to transfers	(37,578)	(36,162)
Decrease in cash	(2,405)	(6,207)
Cash at beginning of year	6,777	12,984
Cash at end of year	$ 4,372	$ 6,777
Consisting of Deposits in the Consolidated Cash Investment Trust Fund	$ 4,372	$ 6,777

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2013
(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

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) CHANGE IN ACCOUNTING POLICY

Effective April 1, 2012, management implemented PSAB Standard 3450 required for government organizations with fiscal years beginning on or after April 1, 2012. The new standard is applied prospectively. Comparative results have not been restated. The primary changes to the Fund's financial statements from the previous year are as follows:

i) The carrying value of all financial instruments included in investments are measured at fair value to correspond with how they are evaluated and managed. Prior to April 1, 2012, investments were recorded at cost.

ii) Unrealized gains and losses are recorded in the new statement of remeasurement gains and losses. Prior to April 1, 2012, unrealized gains and losses were not recorded in the financial statements. This accounting change increased the April 1, 2012 opening balance of investments and accumulated remeasurement gains by $54,094.

iii) 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 assumptions are observable in the market or quoted prices for similar but not identical assets.

(c) Level three: fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 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 provided by AIMCo at the close of the sixth 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.

c) 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.

d) INVESTMENT EXPENSES

i) Investment expenses include all amounts, including transaction costs, charged to the Fund by AIMCo (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.

e) 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.

f) 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)

At March 31, 2013, the carrying amounts of the Fund's investments are recorded on a fair value basis, and on a cost basis at March 31, 2012. 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).

NOTE 3 INVESTMENTS (in thousands) CONTINUED

Asset class	Fair Value Hierarchy [a] Level 1	Level 2	Level 3	2013 At Fair Value (see Note 2a)	2012 At Cost
Interest-bearing securities					
Deposits and short-term securities	$ -	$ 4,372	$ -	$ 4,372	$ 6,777
Bonds and mortgages	-	125,512	46,641	172,153	164,919
	-	129,884	46,641	176,525	171,696
Equities					
Canadian	40,593	22,700	-	63,293	57,056
Global developed	181,984	51,138	65,973	299,095	283,833
Emerging markets	35,358	7,283	3,726	46,367	24,778
Private	-	-	34,654	34,654	25,170
	257,935	81,121	104,353	443,409	390,837
Inflation sensitive					
Real estate	-	-	125,353	125,353	83,508
Infrastructure	-	-	66,572	66,572	65,639
Timberland	-	-	3,054	3,054	2,574
Private debt and loan	-	-	5,010	5,010	3,235
	-	-	199,989	199,989	154,956
Total Carrying Amount of Investments	$257,935	$211,005	$350,983	$ 819,923	$ 717,489

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.
- ***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. 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.

Reconciliation of Level 3 Fair Value Measurements

	2013
Balance, beginning of year	$ 305,784
Unrealized gains	18,466
Purchases of Level 3 pooled fund units	135,465
Sale of Level 3 pooled fund units	(108,732)
Balance, end of year	$ 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. 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. 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 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:

	Target	Actual Asset Mix			
		2013		2012	
Asset Class	**Asset Policy**				
Interest-bearing securities	15 - 45%	$ 176,525	21.5%	$ 176,658	22.9%
Equities	35 - 70%	443,409	54.1%	412,325	53.4%
Inflation sensitive	15 - 40%	199,989	24.4%	182,600	23.7%
		$ 819,923	100.0%	$ 771,583	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, 2013:

Credit rating	2013	2012
Investment Grade (AAA to BBB-)	78%	82%
Speculative Grade (BB+ or lower)	2%	-
Unrated	20%	18%
	100%	100%

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. 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 $363 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 (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 in fair value to the Fund would be approximately 4.4% of total investments (2012: 4.3%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2013:

($ millions)

	2013		2012	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 190	$ (19)	$ 177	$ (18)
Euro	33	(3)	39	(4)
Japanese yen	25	(2)	26	(3)
British pound sterling	26	(3)	27	(3)
Australian dollar	10	(1)	13	(1)
Swiss franc	11	(1)	9	(1)
Other foreign currency	68	(7)	43	(4)
Total foreign currency investments	$ 363	$ (36)	$ 334	$ (34)

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

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 1.2% of total investments (2012: 1.3%).

The following table summarizes the terms to maturity of interest-bearing securities held in the pools at March 31, 2013:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market
Deposits and short term securities	91%	9%	-	1.3%
Bonds and mortgages	5%	40%	55%	4.4%

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 pooled investment funds 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 6.1% of total investments (2012: 5.8%). 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	2013	2012
Contracts in favourable position (current credit exposure)	40	$ 7,223	$ 8,896
Contracts in unfavourable position	17	(4,127)	(3,894)
Net fair value of derivative contracts	57	$ 3,096	$ 5,002

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 $7,223 (2012: $8,896) 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	2013	2012
Structured equity replication derivatives	$ 5,245	$ 6,601
Foreign currency derivatives	(2,587)	(1,118)
Interest rate derivatives	689	486
Credit risk derivatives	(251)	(967)
Net fair value of derivative contracts	$ 3,096	$ 5,002

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) Contractual maturities: Structured equity replication derivatives and foreign currency derivatives primarily mature within one year. For interest rate derivatives approximately 11% mature within one year; 21% between 1 and 3 years and 68% over 3 years. For credit risk derivatives approximately 32% mature within one year; 1% between 1 and 3 years and 67% over 3 years.
vi) Deposits: At March 31, 2013 deposits in futures contracts margin accounts totalled $1,338 (2012: $608) and deposits as collateral for derivative contracts totalled $1,147 (2012: $245).

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	
	2013	2012
	(see Note 2a)	
Accumulated net income from operations	$ 681,894	$ 622,423
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	20,480	20,432
Accumulated scholarship payments [(a)]	(561,999)	(524,373)
Accumulated surplus from operations	737,375	715,482
Accumulated net remeasurement gains	82,356	-
Carrying value of net financial assets	$ 819,731	$ 715,482

(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:

	2013	2012
Interest-bearing securities	$ 11,929	$ 12,398
Equities		
Canadian	4,467	1,704
Global	34,113	12,380
Private	1,990	474
	40,570	14,558
Inflation sensitive		
Real estate	11,289	8,043
Infrastructure	1,744	(79)
Timberland	(68)	93
Private debt and loan	554	71
Inflation sensitive real return bonds	-	35
	13,519	8,163
	$ 66,018	$ 35,119

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)

	2013	2012
Amount charged by:		
AIMCo [(a)]	$ 6,498	$ 4,166
Alberta Treasury Board and Finance [(b)]	49	49
Total investment expenses	$ 6,547	$ 4,215
Average fair value of investments	$ 795,753	$ 763,320
Per cent of investments at average fair value	0.82%	0.55%

(a) For investment management services.

(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)]	2013	2012	5 years	10 years
Estimated return [(b)]	11.7%	7.2%	5.2%	8.3%
Estimated policy benchmark return [(b)]	10.0%	5.3%	5.0%	8.0%
Value added by investment manager	1.7%	1.9%	0.2%	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.

NOTE 9 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Treasury Board and Finance approved these financial statements.

ALBERTA HERITAGE SCIENCE AND ENGINEERING

RESEARCH ENDOWMENT FUND

Financial Statements

March 31, 2013

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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 Science and Engineering Research Endowment Fund, which comprise the statement of financial position as at March 31, 2013, 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, 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

June 3, 2013

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2013

	($ thousands)	
	2013	2012
	(See Note 2a)	
Financial assets		
Investments (Notes 2 and 3)	$ 826,382	$ 719,773
Receivable from sale of investments	-	2,000
	$ 826,382	$ 721,773
Liabilities		
Payable from purchase of investments and amounts payable	$ 72	$ 596
Net financial assets (Note 5)		
Accumulated surplus from operations	739,740	721,177
Accumulated remeasurement gains	86,570	-
	826,310	721,177
	$ 826,382	$ 721,773

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2013

($ thousands)

	2013 Budget	2013 Actual	2012 Actual
Investment income (Note 6)	$ 47,773	$ 68,175	$ 40,521
Investment expense (Note 7)	(4,173)	(7,112)	(4,656)
Net income from operations	43,600	61,063	35,865
Transfers to the Ministry of Enterprise and Advanced Education (Note 5b)	(42,500)	(42,500)	(41,500)
Net operating surplus	$ 1,100	18,563	(5,635)
Accumulated operating surplus at beginning of year		721,177	726,812
Accumulated operating surplus at end of year		$ 739,740	$ 721,177

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2013

($ thousands)

	2013 *(See Note 2a)*
Accumulated remeasurement gains, beginning of year	$ -
Accumulated remeasurement gains upon adoption of PS3450, April 1, 2012	60,668
Unrealized gain on investments	37,225
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(11,323)
Accumulated remeasurement gains, end of year	$ 86,570

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2013

	($ thousands)	
	2013	**2012**
Operating transactions		
Net income from operations	$ 61,063	$ 35,865
Non-cash items included in net income	(11,323)	(9,484)
	49,740	26,381
Decrease (increase) in accounts receivable	2,000	(2,000)
(Decrease) increase in accounts payable	(524)	570
Cash provided by operating transactions	51,216	24,951
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	225,602	238,501
Purchase of investments	(235,854)	(227,088)
Cash (applied to) provided by investing transactions	(10,252)	11,413
Transfers		
Transfers to the Ministry of Enterprise and Advanced Education	(42,500)	(41,500)
Cash applied to transfers	(42,500)	(41,500)
Decrease in cash	(1,536)	(5,136)
Cash at beginning of year	6,550	11,686
Cash at end of year	$ 5,014	$ 6,550
Consisting of Deposits in the Consolidated Cash Investment Trust Fund	$ 5,014	$ 6,550

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2013
(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 Enterprise 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) CHANGE IN ACCOUNTING POLICY

Effective April 1, 2012, management implemented PSAB Standard 3450 required for government organizations with fiscal years beginning on or after April 1, 2012. The new standard is applied prospectively. Comparative results have not been restated. The primary changes to the Fund's financial statements from the previous year are as follows:

i) The carrying value of all financial instruments included in investments are measured at fair value to correspond with how they are evaluated and managed. Prior to April 1, 2012, investments were recorded at cost.

ii) Unrealized gains and losses are recorded in the new statement of remeasurement gains and losses. Prior to April 1, 2012, unrealized gains and losses were not recorded in the financial statements. This accounting change increased the April 1, 2012 opening balance of investments and accumulated remeasurement gains by $60,668.

iii) 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 assumptions are observable in the market or quoted prices for similar but not identical assets.

(c) Level three: fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 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 provided by AIMCo at the close of the sixth 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.

c) 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.

d) INVESTMENT EXPENSES

i) Investment expenses include all amounts, including transaction costs, charged to the Fund by AIMCo (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.

e) 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.

f) 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)

At March 31, 2013, the carrying amounts of the Fund's investments are recorded on a fair value basis, and on a cost basis at March 31, 2012. 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).

NOTE 3 INVESTMENTS (in thousands) CONTINUED

Asset class	Fair Value Hierarchy [a] Level 1	Level 2	Level 3	2013 At Fair Value (see Note 2a)	2012 At Cost
Interest-bearing securities					
Deposits and short-term securities	$ -	$ 5,014	$ -	$ 5,014	$ 6,550
Bonds and mortgages	-	114,321	46,528	160,849	158,047
	-	119,335	46,528	165,863	164,597
Equities					
Canadian	41,480	23,196	-	64,676	59,038
Global developed	174,379	49,122	72,091	295,592	275,063
Emerging markets	33,965	6,997	3,774	44,736	24,907
Private	-	-	30,024	30,024	24,492
	249,824	79,315	105,889	435,028	383,500
Inflation sensitive					
Real estate	-	-	130,342	130,342	83,769
Infrastructure	-	-	66,985	66,985	67,141
Timberland	-	-	13,099	13,099	11,039
Private debt and loan	-	-	15,065	15,065	9,727
	-	-	225,491	225,491	171,676
Total Carrying Amount of Investments	$249,824	$198,650	$377,908	$ 826,382	$ 719,773

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.
- ***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. 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.

Reconciliation of Level 3 Investments

	2013
Balance, beginning of year	$ 330,745
Unrealized gains	17,281
Purchases of Level 3 pooled fund units	142,143
Sale of Level 3 pooled fund units	(112,261)
Balance, end of year	**$ 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. 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. 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 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:

	Target	Actual Asset Mix			
		2013		2012	
Asset Class	**Asset Policy**				
Interest-bearing securities	15 - 45%	$ 165,863	20.1%	$ 169,470	21.7%
Equities	35 - 70%	435,028	52.6%	406,620	52.1%
Inflation sensitive	15 - 40%	225,491	27.3%	204,351	26.2%
		$ 826,382	100.0%	$ 780,441	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, 2013:

Credit rating	2013	2012
Investment Grade (AAA to BBB-)	74%	80%
Speculative Grade (BB+ or lower)	2%	-
Unrated	24%	20%
	100%	100%

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. 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 43% of the Fund's investments, or $354 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 (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 in fair value to the Fund would be approximately 4.3% of total investments (2012: 4.2%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2013:

	($ millions)			
	2013		**2012**	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 186	$ (19)	$ 169	$ (17)
Euro	33	(3)	39	(4)
Japanese yen	25	(2)	25	(3)
British pound sterling	25	(3)	26	(3)
Australian dollar	10	(1)	15	(1)
Swiss franc	11	(1)	9	(1)
Other foreign currency	64	(6)	43	(4)
Total foreign currency investments	$ 354	$ (35)	$ 326	$ (33)

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

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 1.1% of total investments (2012: 1.2%).

The following table summarizes the terms to maturity of interest-bearing securities held in the pools at March 31, 2013:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market
Deposits and short term securities	91%	9%	-	1.3%
Bonds and mortgages	5%	40%	55%	4.4%

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 6.3% of total investments (2012: 5.9%). 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 Enterprise 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	2013	2012
Contracts in favourable position (current credit exposure)	40	$ 6,916	$ 8,609
Contracts in unfavourable position	17	(3,843)	(3,722)
Net fair value of derivative contracts	57	$ 3,073	$ 4,887

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 $6,916 (2012: $8,609) 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	2013	2012
Structured equity replication derivatives	$ 5,048	$ 6,312
Foreign currency derivatives	(2,349)	(942)
Interest rate derivatives	602	435
Credit risk derivatives	(228)	(918)
Net fair value of derivative contracts	$ 3,073	$ 4,887

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) Contractual maturities: Structured equity replication derivatives and foreign currency derivatives primarily mature within one year. For interest rate derivatives approximately 13% mature within one year; 21% between 1 and 3 years and 66% over 3 years. For credit risk derivatives approximately 32% mature within one year; 1% between 1 and 3 years and 67% over 3 years.
vi) Deposits: At March 31, 2013 deposits in futures contracts margin accounts totalled $1,299 (2012: $591) and deposits as collateral for derivative contracts totalled $1,095 (2012: $239).

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	
	2013	2012
	(see Note 2a)	
Accumulated net income from operations	$ 303,796	$ 242,733
Transfers from the General Revenue Fund [(a)]	721,430	721,430
Accumulated transfers for research and innovation [(b)]	(285,486)	(242,986)
Accumulated surplus from operations	739,740	721,177
Accumulated net remeasurement gains	86,570	-
Carrying value of net financial assets	$ 826,310	$ 721,177

(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 Enterprise and Advanced Education (EAE), pay from the Endowment Fund to EAE, money that, in the opinion of the Alberta Research and Innovation Authority is required by EAE for the furtherance of its objectives. Section 12 of the Act limits annual payments from the Fund to EAE. Payments to EAE 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.

	2013
Accumulated unused spending limit at March 31, 2012	$ 16,486
4.5% of average market value on March 31, 2010-12	34,183
Spending limit for year ended March 31, 2013	50,669
Transfers to EAE during 2012-13	(42,500)
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

NOTE 6 INVESTMENT INCOME (in thousands)

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

	2013	2012
Interest-bearing securities	$ 11,392	$ 12,011
Equities		
Canadian	3,959	2,191
Global	34,549	15,393
Private	3,315	1,773
	41,823	19,357
Inflation sensitive		
Real estate	11,601	8,639
Infrastructure	1,985	(133)
Timberland	(290)	399
Private debt and loan	1,664	214
Inflation sensitive real return bonds	-	34
	14,960	9,153
	$ 68,175	$ 40,521

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)

	2013	2012
Amount charged by:		
AIMCo [(a)]	$ 7,063	$ 4,607
Alberta Treasury Board and Finance [(b)]	49	49
Total investment expenses	$ 7,112	$ 4,656
Average fair value of investments	$ 803,411	$ 774,531
Per cent of investments at average fair value	0.89%	0.60%

(a) For investment management services.

(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	
	2013	2012	5 years	10 years
Estimated return [b]	11.6%	7.5%	4.8%	7.5%
Estimated policy benchmark return [b]	10.1%	5.3%	4.7%	7.2%
Value added by investment manager	1.5%	2.2%	0.1%	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.

NOTE 9 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Treasury Board and Finance approved these financial statements.

ALBERTA LOTTERY FUND

Financial Statements

Year Ended March 31, 2013

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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, 2013, 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, 2013, 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, 2013

Edmonton, Alberta

Balance Sheet

At March 31

(thousands of dollars)	2013	2012
ASSETS		
Cash and cash equivalents (Note 3)	$ 131,115	$ 59,257
Due from Alberta Gaming and Liquor Commission (Note 5)	93,585	100,451
	$ 224,700	$ 159,708
LIABILITIES AND FUND EQUITY		
Accounts payable (Note 6)	$ 171,925	$ 106,933
Fund equity	52,775	52,775
	$ 224,700	$ 159,708

The accompanying notes are part of these financial statements.

Approved by:

BOARD

[original signed by]

Marguerite J. Trussler
Chairperson of the Board
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 2013 (Note 8)	Actual 2013	Actual 2012
REVENUE			
Proceeds from lottery operations (Note 7)	$ 1,336,405	$ 1,485,205	$ 1,471,014
Interest	2,000	4,164	4,520
	1,338,405	1,489,369	1,475,534
EXPENDITURE			
Lottery Fund expenditures (Note 1)	1,338,405	1,489,369	1,475,534
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, 2013

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 there from in the public interest in order to support thousands of volunteer, public and community-based initiatives.

The *Appropriation Act, 2012* authorized transfers from the Lottery Fund as presented in the 2012-2013 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, 2013.

The transfer of funds to certain programs is based on 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, 2013, securities held by the Fund had a time-weighted return of 1.25% per annum (March 31, 2012: 1.29% 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 the revenues from lottery operations which has not been transferred by the Alberta Gaming and Liquor Commission (AGLC) to the Alberta Lottery Fund at year end.

(thousands of dollars)	2013	2012
Due from AGLC, beginning of year	$ 100,451	$ 80,549
Proceeds from lottery operations	1,485,205	1,471,014
Transfers from AGLC	(1,492,071)	(1,451,112)
Due from AGLC, end of year	$ 93,585	$ 100,451

NOTE 6 ACCOUNTS PAYABLE

Accounts payable consists primarily of outstanding payments to the Department of Treasury Board and Finance.

NOTE 7 PROCEEDS FROM LOTTERY OPERATIONS

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)	2013	2012
Income from gaming terminals	$ 873,835	$ 857,428
Income from video lottery terminals	484,451	499,573
Income from ticket lottery	324,614	299,382
Income from electronic bingo	8,390	8,500
Less operating expenses	(206,085)	(193,869)
Proceeds from lottery operations	$ 1,485,205	$ 1,471,014

NOTE 8 BUDGET

The 2013 budgeted expenditures were authorized in total by the *Appropriation Act, 2012* on March 21, 2012.

ALBERTA RISK MANAGEMENT FUND

Financial Statements

Year Ended March 31, 2013

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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 Risk Management Fund, which comprise the statement of financial position as at March 31, 2013, 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, 2013, and the results of its operations, remeasurement gains and losses, and 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 3, 2013

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2013

	($ thousands) 2013	2012
Assets		
Cash (Note 3)	$ 8,867	$ 42,300
Investments (Note 3)	45,458	-
Receivable from Province of Alberta	196	154
Accrued recoveries (Note 5)	2,488	2,551
Computer software	101	151
	$ 57,110	$ 45,156
Liabilities		
Accounts payable (Note 6)	$ 1,254	$ 977
Liability for accrued claims (Note 7)	37,027	30,544
	38,281	31,521
Net assets		
Accumulated surplus from operations	18,825	13,635
Accumulated remeasurement gains	4	-
	18,829	13,635
	$ 57,110	$ 45,156

The accompanying notes are part of these financial statements.

Statement of Operations

Year Ended March 31, 2013

($ thousands)

	2013 Budget	2013 Actual	2012 Actual
Revenues			
Insurance services			
Province of Alberta departments, funds and agencies	$ 12,900	$ 17,900	$ 13,925
Other entities	1,590	590	573
Subrogation and salvage	300	674	161
Recoveries	-	4,732	40
Investment income	800	938	567
	15,590	24,834	15,266
Expenses			
Insurance claims (Note 8)	13,027	13,755	4,552
Insurance premiums to insurers	3,275	3,464	3,018
Administration	1,659	1,565	1,529
Investment expenses	-	9	-
Other services	850	801	811
Amortization of computer software	40	50	50
	18,851	19,644	9,960
Net revenue (expense)	$ (3,261)	5,190	5,306
Accumulated surplus at beginning of year		13,635	8,329
Accumulated surplus at end of year		$ 18,825	$ 13,635

Statement of Remeasurement Gains and (Losses)

Year Ended March 31, 2013

($ thousands)

	2013
Accumulated remeasurement gains and (losses), beginning of year	$ -
Unrealized gain on investments	4
Accumulated remeasurement gains, end of year	$ 4

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2013

	($ thousands) 2013	2012
Operating transactions		
Net revenue	$ 5,190	$ 5,306
Amortization of tangible capital assets	50	50
Decrease (increase) in accrued recoveries	63	(48)
Increase in receivables	(42)	(13)
Increase in payables	277	196
Increase (decrease) in liabilities for accrued claims	6,483	(2,902)
Cash provided by operating transactions	12,021	2,589
Investing transactions		
Purchase of investments	(45,454)	-
Cash applied to investing transactions	(45,454)	-
(Decrease) increase in cash	(33,433)	2,589
Cash and cash equivalents, beginning of year	42,300	39,711
Cash and cash equivalents, end of year	$ 8,867	$ 42,300
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 8,867	$ 42,300

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2013

(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 $37.0 million (2012: $30.5 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 $48.8 million as at March 31, 2013 or $11.8 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) Management implemented PSAB Standard 3450 for the fiscal year ended March 31, 2013. The new standard is applied prospectively. Comparative results have not been restated. The main impact of adopting PS3450 is as follows:

i) Financial instruments classified as investments are recorded at fair value in accordance with how they are evaluated and managed.

ii) Unrealized gains of $4 is recorded in the new statement of re-measurement gains and losses.

g) The Fund's investment portfolio is recorded at fair value (see Note 3). Investments are recognized on a trade date basis.

h) Investment expenses include all amounts including transaction costs charged to the Fund's investment manager, AIMCo. Investment expenses are recognized on an accrual basis.

i) 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 CASH AND INVESTMENTS

	($ thousands)	
	2013	**2012**
Cash		
Deposits in the Consolidation Cash Investment Trust Fund [(a)]	$ 8,867	$ 42,300
Investments		
Deposits in the Consolidation Cash Investment Trust Fund [(a)]	$ 4	$ -
General Revenue Short-Term Bond Fund	45,454	-
Total investments [(b) (c)]	$ 45,458	$ -

NOTE 3 CASH AND INVESTMENTS CONTINUED

a) 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 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, 2013, securities held by the CCITF have a time-weighted return of 1.3% (2012: 1.3%).

b) Statement of Investment Policies and Goals (SIP&G): Effective September 1, 2012, a new SIP&G came into force for the Fund, 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, AIMCo. According to the new 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 4 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 3 is directly or indirectly impacted by credit risk to some degree.

The table below summarizes debt securities by counterparty credit rating at March 31, 2013:

Credit rating	2013
Investment Grade (AAA to BBB-)	98%
Speculative Grade (BB+ or lower)	0%
Unrated	2%
	100%

b) 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 2.5% of total investments. The terms to maturity of the interest-bearing securities held in the GRST pool at March 31, 2013 are as follows: under 1 year 4%, 1-5 years 90% Over 5 Years 6%. The average effective market yield is 2.4%.

NOTE 5 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 6 ACCOUNTS PAYABLE

	($ thousands)	
	2013	2012
Payable to Department of Treasury Board and Finance	$ 381	$ 402
Other	873	575
	$ 1,254	$ 977

NOTE 7 LIABILITY FOR ACCRUED CLAIMS

The total liability for accrued claims of $37,027 (2012: $30,544) is comprised of outstanding claims case reserves and incurred but not reported (IBNR) losses.

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.

NOTE 7 LIABILITY FOR ACCRUED CLAIMS CONTINUED

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, 2013 was carried out by KPMG LLP taking into account the historical claims through March 31, 2013.

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:

	2013	2012
Trend rate		
General liability	7.0%	7.0%
Automobile liability	3.0%	3.0%
Property	0.0%	0.0%
Auto physical damage	6.0%	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)*	$ 1.10	$ 1.20
Automobile liability: *Loss per vehicle*	$ 90	$ 95
Property: *Loss per $million property values*	$ 370	$ 370
Auto physical damage: *Loss per vehicle*	$ 200	$ 185
Crime: *Loss per class A and B employee*	$ 30	$ 40

The following is a summary of the impact of various sensitivity tests on the Fund's net liability at March 31, 2013:

Sensitivity Tests	Increase in Net Liabilities *($ million)*
Increase the confidence level of the liability for accrued claims estimate to 90% from 50%.	$ 7.4
Increase the loss development factor assumption by changing the tail factor (time period to final claim settlement) to between 1.01and 1.10 depending on coverage type, and increasing the trend factor assumption to between 8% and 20%, depending on coverage type.	$ 10.4
Statistical analysis of general liability loss development factors instead of judgmentally selecting loss development factors.	$ 11.8

NOTE 8 INSURANCE CLAIMS

	($ thousands) 2013	2012
Total claims payments during the year	$ 7,272	$ 7,454
Change in claims reserves	6,483	(2,902)
	$ 13,755	$ 4,552

NOTE 9 CONTRACTUAL OBLIGATIONS

The aggregate amounts payable for the unexpired terms of contractual obligations in respect of contracts entered into before March 31, 2013 are as follows:

	($ thousands)
2013-14	190
2014-15	52
	$ 242

NOTE 10 RELATED PARTY TRANSACTIONS

As disclosed in the financial statements, the Fund has revenues from the Province of Alberta departments, funds, and agencies of $17,900 (2012: $13,925) and an accounts payable to the Department of Finance of $381 (2012: $402).

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.

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PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

Financial Statements

Year Ended March 31, 2013

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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 Provincial Judges and Masters in Chambers Reserve Fund, which comprise the statement of financial position as at March 31, 2013, 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, 2013, 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 3, 2013

Edmonton, Alberta

Statement of Financial Position

As at March 31

($ thousands)

	2013	2012
Assets		
Investments (Note 3)	$ 111,237	$ 90,671
Receivable from the Province of Alberta	1,090	4,332
Receivable from sale of investments	-	1,300
	112,327	96,303
Liabilities		
Liability for investment purchases	-	209
	112,327	96,094
Amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Note 8)	112,327	96,094
Net Assets	$ -	$ -

Statement of Changes in Net Assets

Year Ended March 31

($ thousands)

	2013	2012
Increase in assets		
Employer contributions	$ 6,470	$ 9,008
Investment income (Note 5)	10,037	4,458
	16,507	13,466
Decrease in assets		
Investment expenses (Note 7)	274	220
	274	220
Increase in amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	(16,233)	(13,246)
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, 2013
(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 provided by AIMCo at the close of the sixth 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.

Investment income is recorded on an accrual basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts, including transaction costs, charged to the Fund by AIMCo (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, 2013, current service contributions rates are 31.76% 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 Minister of Finance.

The unfunded liability arising as a result of judicial salary increases recommended by the 2003 Judicial Compensation Commission is financed by additional contributions from the Province of Alberta. The contribution rate is set on the basis that the additional contributions will eliminate the unfunded liability over 15 years.

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)				
	Fair Value Hierarchy [a]			2013	2012
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest bearing securities					
Deposits and short-term securities	$ -	$ 14,267	$ -	$ 14,267	$ 10,340
Bonds and mortgages	-	32,513	2,615	35,128	30,336
	-	46,780	2,615	49,395	40,676
Public equities					
Canadian	11,607	6,490	-	18,097	14,630
Global developed	27,984	7,554	3,089	38,627	30,676
	39,591	14,044	3,089	56,724	45,306
Alternatives					
Real estate	-	-	3,174	3,174	2,762
Real return bonds	-	283	-	283	367
Infrastructure and private debt and loans	-	-	1,661	1,661	1,560
	-	283	4,835	5,118	4,689
Total investments	$ 39,591	$ 61,107	$ 10,539	$ 111,237	$ 90,671

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 $39,591 (2012: $31,044).
- ***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 $61,107 (2012: $49,800). 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 $10,539 (2012: $9,827).

*** Reconciliation of Level 3 Fair Value Measurement**

	($ thousands)	
	2013	**2012**
Balance, beginning of year	$ 9,827	$ 8,815
Investment income	1,247	1,235
Purchases of Level 3 pooled fund units	3,455	2,273
Sale of Level 3 pooled fund units	(3,990)	(2,496)
Balance, end of year	$ 10,539	$ 9,827

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			
		2013		2012	
		($ thousands)	*%*	*($ thousands)*	*%*
Interest bearing securities	43 - 53%	$ 49,395	44.4	$ 40,676	44.8
Public equities	40 - 55%	56,724	51.0	45,306	50.0
Alternatives	0 - 10%	5,118	4.6	4,689	5.2
		$ 111,237	100.0	$ 90,671	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, 2013:

Credit rating	2013	2012
Investment Grade (AAA to BBB-)	95%	95%
Speculative Grade (BB+ or lower)	2%	0%
Unrated	3%	5%
	100%	100%

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. 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 32% of the Fund's investments, or $35 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (18%) 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 Fund would be approximately 3.2% (2012: 3.1%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2013:

($ millions)

	2013		2012	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 20	$ (2.0)	$ 15	$ (1.5)
Euro	4	(0.4)	4	(0.4)
Japanese yen	3	(0.3)	3	(0.3)
British pound	3	(0.3)	3	(0.3)
Australian dollar	1	(0.1)	1	(0.1)
Swiss franc	1	(0.1)	1	(0.1)
Other foreign currencies	3	(0.3)	2	(0.2)
Total foreign currency investments	$ 35	$ (3.5)	$ 29	$ (2.9)

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 2.0% (2012: 2.2%) of total investments.

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at March 31, 2013:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market Yield
Deposits and short term securities	91%	9%	0%	1.3%
Bonds and mortgages	3%	38%	59%	4.6%
Real return bonds	3%	6%	91%	5.1%

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 4.9% (2012: 5.0%). 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 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	**2013**	**2012**
Contracts in favourable position (current credit exposure)	39	$ 1,200	$ 1,245
Contracts in unfavourable position	15	(429)	(525)
Net fair value of derivative contracts	54	$ 771	$ 720

(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 $1,200 (2012: $1,245) 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	**2013**	**2012**
Structured equity replication derivatives	$ 617	$ 800
Foreign currency derivatives	(30)	(21)
Interest rate derivatives	249	145
Credit risk derivatives	(65)	(204)
Net fair value of derivative contracts	$ 771	$ 720

(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) Contractual maturities: Structured equity replication derivatives and foreign currency derivatives primarily mature within one year. For interest rate derivatives approximately 3% mature within one year; 18% between 1 and 3 years and 79% over 3 years. For credit risk derivatives approximately 33% mature within one year; 1% between 1 and 3 years and 66% over 3 years.

(vi) Deposits: At March 31, 2013 deposits in futures contracts margin accounts totalled $402 (2012: $105) and deposits as collateral for derivative contracts totalled $120 (2012: $11).

NOTE 5 INVESTMENT INCOME

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

	($ thousands)	
	2013	**2012**
Interest bearing securities	$ 2,650	$ 2,766
Public equities		
Canadian	1,542	(814)
Foreign	5,287	1,735
	6,829	921
Alternatives		
Real estate	420	595
Real return bonds	10	62
Infrastructure and private debt and loans	128	114
	558	771
	$ 10,037	$ 4,458

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):

	2013	2012	2011	2010	2009
	in per cent				
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return (loss) on investments	8.1	4.2	8.8	15.8	(12.9)
Value added return (loss) by investment manager	1.5	0.6	-	3.1	(3.9)
Total return (loss) on investments [(a)]	**9.6**	**4.8**	**8.8**	**18.9**	**(16.8)**

(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 4.3% (PBR: 4.3%) and seven years is 4.1% (PBR: 4.3%).

NOTE 7 INVESTMENT EXPENSES

	($ thousands) 2013	2012
Total investment expenses [(a)]	$ 274	$ 220
Average fair value of investments	$ 100,954	$ 86,689
Percent of investments at average fair value	0.27%	0.25%
Investment expenses per member	$ 1,026	$ 836

(a) For investment management services, charged by AIMCo.

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, 2013.

As at March 31, 2013 the Unregistered Plan reported an actuarial deficit of $14 million (2012: deficit of $5.0 million), taking into account the amounts owing from the Reserve Fund.

NOTE 9 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2013 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, 2013

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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 Supplementary Retirement Plan Reserve Fund, which comprise the statement of financial position as at March 31, 2013, 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 Fund Reserve Fund as at March 31, 2013, 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 3, 2013

Edmonton, Alberta

Statement of Financial Position

As at March 31

	($ thousands) 2013	2012
Assets		
Investments (Note 3)	$ 63,977	$ 51,125
Receivable from participating employers	20	197
Receivable from sale of investments	-	100
	63,997	51,422
Liabilities		
Liability for investment purchases	(15)	(438)
Amounts owing to the Supplementary Retirement Plan for Public Service Managers	(63,982)	(50,984)
Net Assets	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets

Year Ended March 31

	($ thousands) 2013	2012
Increase in assets		
Employer contributions	$ 6,625	$ 5,213
Investment income (Note 5)	6,621	2,782
	13,246	7,995
Decrease in assets		
Investment expenses (Note 7)	249	188
	249	188
Increase in amounts owing to the Supplementary Retirement Plan for Public Service Managers	(12,997)	(7,807)
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, 2013

(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 provided by AIMCo at the close of the sixth 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.

Investment income is recorded on an accrual basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts, including transaction costs, charged to the Fund by AIMCo (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, 2013 was 22.6% (2012: 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*.

These amounts represent assets held by the Reserve Fund, which are available to meet future benefit payments of the SRP 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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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]			2013	2012
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest bearing securities					
Deposits and short-term securities	$ -	$ 542	$ -	$ 542	$ 904
Bonds and mortgages	-	6,583	3,471	10,054	7,020
	-	7,125	3,471	10,596	7,924
Equities					
Canadian	7,323	4,095	-	11,418	9,467
Global	24,180	6,597	2,588	33,365	26,488
Private	-	-	1,986	1,986	1,672
	31,503	10,692	4,574	46,769	37,627
Alternatives					
Real estate	-	-	3,278	3,278	2,436
Infrastructure and private debt and loans	-	-	2,659	2,659	2,457
Timberland	-	-	675	675	681
	-	-	6,612	6,612	5,574
Total investments	$ 31,503	$ 17,817	$ 14,657	$ 63,977	$ 51,125

At March 31, 2013, investments were allocated to various asset classes, with interest bearing securities comprising 16.5% (2012: 15.5%) of total investments, equities comprise 73.2% (2012: 73.6%) and alternatives comprise 10.3% (2012: 10.9%).

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 $31,503 (2012: $25,000).
- ***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 $17,817 (2012: $14,055). 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 $14,657 (2012: $12,070).

*** Reconciliation of Level 3 Fair Value Measurement**

	($ thousands)	
	2013	**2012**
Balance, beginning of year	$ 12,070	$ 8,927
Investment income	1,301	1,274
Purchases of Level 3 pooled fund units	4,677	4,434
Sale of Level 3 pooled fund units	(3,391)	(2,565)
Balance, end of year	**$ 14,657**	**$ 12,070**

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.
- ***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. Private debt and loans is valued similar to private mortgages. 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, 2013:

Credit rating	2013	2012
Investment Grade (AAA to BBB-)	80%	91%
Speculative Grade (BB+ or lower)	1%	0%
Unrated	19%	9%
	100%	100%

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. 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 52% of the Fund's investments, or $33 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 (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 5.2% (2012: 5.3%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2013:

($ millions)

	2013		2012	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 17	$ (1.7)	$ 15	$ (1.5)
Euro	4	(0.4)	3	(0.3)
Japanese yen	2	(0.2)	2	(0.2)
British pound	2	(0.2)	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)	3	(0.3)
Total foreign currency investments	$ 33	$ (3.3)	$ 27	$ (2.7)

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 0.9% (2012: 0.9%) of total investments.

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at March 31, 2013:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market Yield
Deposits and short term securities	91%	9%	0%	1.3%
Bonds and mortgages	6%	42%	52%	4.3%

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 7.0% (2012: 7.1%). 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 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.

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	2013	2012
Contracts in favourable position (current credit exposure)	40	$ 851	$ 952
Contracts in unfavourable position	17	(362)	(415)
Net fair value of derivative contracts	57	$ 489	$ 537

(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 $851 (2012: $952) 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	2013	2012
Structured equity replication derivatives	$ 573	$ 613
Foreign currency derivatives	(77)	(26)
Interest rate derivatives	6	87
Credit risk derivatives	(13)	(137)
Net fair value of derivative contracts	$ 489	$ 537

(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) Contractual maturities: Structured equity replication derivatives and foreign currency derivatives primarily mature within one year. For interest rate derivatives approximately 21% mature within one year; 30% between 1 and 3 years and 49% over 3 years. For credit risk derivatives approximately 32% mature within one year; 1% between 1 and 3 years and 67% over 3 years.

(vi) Deposits: At March 31, 2013 deposits in futures contracts margin accounts totalled $251 (2012: $36) and deposits as collateral for derivative contracts totalled $118 (2012: $21).

NOTE 5 INVESTMENT INCOME

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

	($ thousands)	
	2013	**2012**
Interest bearing securities	$ 600	$ 815
Equities		
Canadian	951	(570)
Global	4,288	1,654
Private	211	152
	5,450	1,236
Alternatives		
Real estate	370	523
Infrastructure and private debt and loans	205	102
Timberland	(4)	106
	571	731
	$ 6,621	$ 2,782

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):

	2013	2012	2011	2010	2009
	in per cent				
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return (loss) on investments	8.6	6.5	9.8	16.9	(13.3)
Value added return (loss) by investment manager	1.6	-	(0.1)	3.1	(4.4)
Total return (loss) on investments [(a)]	**10.2**	**6.5**	**9.7**	**20.0**	**(17.7)**

(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 4.9% (PBR: 5.2%) and nine years is 5.8% (PBR: 5.9%).

NOTE 7 INVESTMENT EXPENSES

	($ thousands)	
	2013	**2012**
Total investment expenses [(a)]	$ 249	$ 188
Average fair value of investments	$ 57,551	$ 47,100
Percent of investments at average fair value	0.43%	0.40%
Investment expenses per member	$ 139	$ 106

[(a)] For investment management services, charged by AIMCo.

NOTE 8 SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS (SRP)

An actuarial valuation of the SRP was carried out as at December 31, 2009 by Aon Consulting Inc. and was then extrapolated to December 31, 2012.

As at December 31, 2012 the SRP reported an actuarial deficit of $51.9 million (2011: deficit of $53.5 million), taking into account the amounts receivable from Reserve Fund.

NOTE 9 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2013 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

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These Alberta Capital Finance Authority (ACFA) Financial Statements are a copy from the ACFA 2012 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, 2012, 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, 2012, 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

March 25, 2013

Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

As at December 31, 2012
(in thousands of dollars)

	2012	2011
Assets:		
Cash	$ 13,254	$ 40,027
Accounts receivable	8	4
Accrued interest receivable	104,373	104,924
Prepaid expenses	15	—
Loans to local authorities (Note 4)	12,388,235	10,841,652
Derivatives in favorable position (Note 6)	462,305	514,742
	$ 12,968,190	$ 11,501,349
Liabilities:		
Accounts payable	$ 651	$ 733
Accrued interest payable	29,418	29,418
Debt (Note 5)	12,233,965	10,786,470
Derivatives in unfavorable position (Note 6)	1,313,374	1,389,779
Deferred foreign exchange gain	18,726	—
	13,596,134	12,206,400
Share Capital and Accumulated (Deficit) Surplus:		
Share Capital (Note 7):		
Issued and fully paid	64	64
Accumulated (deficit) surplus (Note 8):		
Accumulated surplus before changes in fair value of derivatives	184,979	134,293
Accumulated changes in fair value of derivatives	(812,987)	(839,408)
Accumulated (deficit) and accumulated changes in fair value of derivatives	(628,008)	(705,115)
Share capital and accumulated (deficit)	(627,944)	(705,051)
	$ 12,968,190	$ 11,501,349

Contractual obligations and commitments are found in Note 11.
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 Lawrence R. Gordon, Chair] **[Original signed by Troy Holinski, President]**

STATEMENT OF OPERATIONS AND ACCUMULATED DEFICIT

For the year ended December 31, 2012
(in thousands of dollars)

	Budget	2012	2011
	(Note 13)		
Interest Income:			
Loans	$ 483,876	$ 504,820	$ 467,927
Loan swaps (pay fixed receive floating)	(229,986)	(250,923)	(225,304)
Investments	300	1,019	521
	254,190	254,916	243,144
Interest Expense:			
Debt	304,081	282,098	288,870
Debt swaps (receive fixed pay floating)	(85,992)	(89,351)	(88,927)
Amortization of net discounts on debt	1,586	13,930	6,086
Amortization of commission fees	3,242	2,715	2,459
Amortization of deferred foreign exchange gain	—	(1,734)	—
	222,917	207,658	208,488
Net interest income	31,273	47,258	34,656
Other Income:			
Loan prepayment fees	—	4,378	513
Net interest income and other income	31,273	51,636	35,169
Non-Interest Expense:			
Administration and office expenses (Note 9)	1,031	950	952
Income before unrealized change in fair value of derivatives	30,242	50,686	34,217
Unrealized change in fair value of derivatives	—	26,421	(700,839)
Surplus (deficit)	30,242	77,107	(666,622)
Accumulated deficit, beginning of year	133,466	(705,115)	(38,493)
Accumulated deficit, end of year	$ 163,708	$ (628,008)	$ (705,115)

The accompanying notes and schedule are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2012
(in thousands of dollars)

	2012	2011
Operating Activities:		
Interest received:		
Loans	$ 505,371	$ 460,439
Investments	1,017	521
Debt swaps (receive fixed pay floating)	87,924	95,561
Loan prepayment fees	4,378	513
Interest paid:		
Debt	(282,098)	(304,733)
Discounts paid at debt maturity	(15,042)	(7,420)
Premiums received at debt issue	33,792	—
Commission fees	(11,108)	(594)
Loan swaps (pay fixed receive floating)	(247,043)	(218,225)
Administration and office expenses	(1,049)	(869)
Cash flows from operating activities	76,142	25,193
Investing Activities:		
Loan principal repayments	748,646	558,690
Loans issued	(2,295,229)	(1,875,591)
Cash flows used in investing activities	(1,546,583)	(1,316,901)
Financing Activities:		
Debt issued	10,194,626	6,342,634
Debt redemptions	(8,750,958)	(5,041,780)
Cash flows from financing activities	1,443,668	1,300,854
Net (decrease) increase in cash	(26,773)	9,146
Cash, beginning of year	40,027	30,881
Cash, end of year	$ 13,254	$ 40,027

The accompanying notes and schedule are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012
(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 – Future Changes to Accounting Policies

In June 2011, the Public Sector Accounting Board issued a new accounting standard *PS 3450 – Financial Instruments* (PS 3450). It is effective for government organizations for fiscal years beginning on or after April 1, 2012. PS 3450 is to be applied prospectively without restatement of prior years. In the fiscal year ACFA adopts PS 3450, it must also adopt *PS 2601 – Foreign Currency Translation* and *PS 1201 – Financial Statement Presentation*. The primary changes of these new accounting standards are: changes in the fair value of derivative contracts would be included in a new statement of remeasurement gains and losses; any deferred unamortized foreign exchange gain or loss is accounted for as an adjustment in the balance of accumulated remeasurement gains and losses at the transition date; embedded derivatives are accounted for; and when a derivative is derecognized at settlement, the cumulative amount of remeasurement gains and losses is reversed and a gain or loss on disposal is recognized in the statement of operations. Management is in the process of assessing the impact of adopting the new accounting standards for the fiscal year ending December 31, 2013.

Note 3 – Significant Accounting Policies and Reporting Practices

The financial statements have been prepared in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. 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. Measurement uncertainty exists in the collectability of the loans to local authorities and the estimate of fair value of derivative contracts.

(b) Cash

Cash includes cash on hand, demand deposits and cash equivalents, which are short-term highly liquid investments readily convertible to known amounts of cash and subject to an insignificant risk of change in value. Cash equivalents have a maturity of three months or less at acquisition and are held for the purpose of meeting short-term cash commitments rather than for investing. ACFA's cash is on demand deposit with the Province of Alberta in the Consolidated Cash Investment Trust Fund (CCITF) whose investments include primarily short-term and mid-term interest bearing securities which have a maximum term to maturity of less than three years. For the year ended December 31, 2012, deposits in CCITF had a time-weighted return of 1.29% per annum (2011 – 1.26% per annum).

(c) 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.

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 is recognized on loans when earned. Interest revenue ceases to be accrued on loans when the collectability of either principal or interest is not reasonably assured.

(d) Debt

The carrying value of debt, including transaction costs, is recorded at cost or amortized cost. Accrued interest payable on debt is reported separately from the carrying value on the statement of financial position. Debt premiums and discounts, including underwriting commissions, arising from the issue of debt are deferred and amortized over the term of the debt using the effective interest method, and are included in the carrying value.

Interest expense on debt is recorded on an accrual basis.

(e) Derivative Contracts

Derivative contracts for 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 operations. When a financial instrument is derecognized, a gain or loss is recognized in the statement of operations. Any transaction costs are expensed.

Fair value is the only relevant basis for measurement of 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 models based on third party valuation software which takes into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

Fair values have been segregated between those contracts which are in a favourable position (positive fair value) and those contracts which are in an unfavourable position (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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012
(in thousands of dollars, except share amounts)

(f) 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 issue and interest paid are presented in the statement of cash flows as operating activities.

(g) 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 deferred on the statement of financial position, and are amortized to the statement of operations over the remaining life of the monetary item on a straight line basis.

Note 4 – Loans to Local Authorities

	2012	2011
Amortized cost	$ 12,388,235	$ 10,841,652

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.

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 nearly 72% (2011 – 76%) of all loan assets held by ACFA. This borrower category is regulated by the *Municipal Government Act* that 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 lending agreement.

(b) Regional airport authorities account for 19% (2011 – 14%) 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.

(c) Educational and health authorities account for the remaining 9% (2011 – 10%) of loan assets, each with terms and conditions specific to their respective loan agreements.

As at and for the year ended December 31, 2012, all loans were performing in accordance with related terms and conditions and none were in arrears, nor were any loans considered impaired. Additional detail on the contractual pricing and effective interest rates of outstanding loans is provided in Note 10 (b).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012
(in thousands of dollars, except share amounts)

Note 5 – Debt

	2012	2011
Contractual principal [(a)]	$ 12,234,586	$ 10,798,646
Unamortized net premiums (discounts)	15,289	(4,659)
Unamortized commission fees	(15,910)	(7,517)
	$ 12,233,965	$ 10,786,470

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 (2011 – $61,000) 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 or not extend 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 or 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, with the assumption all debt is redeemed at the maturity date, are as follows:

	Debt Redemptions
2013	$ 4,135,000
2014	656,500
2015	800,000
2016	1,500,000
2017 [(a)]	1,796,940
	8,888,440
Thereafter	3,346,146
	$ 12,234,586

[(a)] Includes $600,000 USD translated at the foreign exchange rate as of the reporting date.

Additional detail on the contractual pricing and effective interest rates of outstanding debt is provided in Note 10 (b).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012
(in thousands of dollars, except share amounts)

Note 6 – 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, equity index price, foreign exchange rate or credit rating; it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market; and it is settled in the future.

To minimize its interest rate risk on loans and debt issued after January 1, 2004, interest rate swaps are 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 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.

An interest rate swap with an outstanding notional value of $15,000 (2011 – $61,000) related to the 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 their option to call or redeem the interest rate swap at the predetermined extension or call date, ACFA will in turn exercise its option to call or redeem the corresponding debt instrument and there will be no gain or loss to ACFA.

Interest rate swaps include cross currency swaps that receive fixed on an original notional value of $600,000 USD (2011 – Nil) and pay floating on an original notional value of $617,400 CAD (2011 – Nil).

The outstanding notional amounts of loan and debt interest rate swaps by maturity date are summarized as follows:

Maturities	Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	Total
Interest rate swaps, December 31, 2012	$ 12,931	$ 295,946	$ 3,524,549	$ 2,652,646	$ 10,230,644	$ 16,716,716
Interest rate swaps, December 31, 2011	$ 88,173	$ 31,038	$ 1,803,057	$ 1,668,868	$ 8,294,577	$ 11,885,713

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012
(in thousands of dollars, except share amounts)

The outstanding notional amounts 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, 2012, derivatives in a favourable and unfavourable position, as reported on the statement of financial position, include contractual amounts of accrued interest receivable and payable, respectively, as follows:

	2012	2011
Accrued interest receivable on debt swaps	$ 6,874	$ 5,447
Accrued interest payable on loan swaps	$ 44,956	$ 41,076

The fair value of interest rate swaps has been calculated using valuation methodologies that take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions. The determination of fair value also considers the impact of the counterparty's credit worthiness on the fair value of derivatives. As at the reporting date, the estimated sensitivity of the net fair value of derivatives to a 50 basis point increase in interest rates is an increase in fair value of $311,662 (2011 – $333,006).

Current credit exposure is limited to the amount of loss ACFA would suffer if every counterparty to which ACFA was 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.

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 a counterparty. In addition, under the agreement, several Credit Support Annexes (CSA) 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, 2012, ACFA was required to post cash collateral on multiple occasions. The maximum amount of collateral outstanding at any given time was $15,440 (2011 – $9,688). As of December 31, 2012, there were no posted collateral amounts outstanding (2011 – 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 $423,214 at December 31, 2012 (2011 – $473,208) are subject to master netting arrangements against unfavourable positions of $1,250,515 (2011 – $1,323,480) which reduces ACFA's credit exposure by an equivalent amount.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012
(in thousands of dollars, except share amounts)

Note 7 – Share Capital

Share capital is valued at $10 per share. Voting rights, 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:

Class	Restricted to	Number of Shares Authorized	2012 Issued and Fully Paid	2012 Total Dollar Amount	2011 Issued and Fully Paid	2011 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	896	8,960	895	8,950
C	Cities	750	588	5,880	588	5,880
D	Town and villages	750	283	2,830	284	2,840
E	Educational authorities	500	83	830	83	830
Total		7,500	6,350	$ 63,500	6,350	$ 63,500

During the year, two Class B shares were issued and one was cancelled (2011 – five issued), and one Class D share was cancelled (2011 – one cancelled).

Note 8 – 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 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 equity. Net assets for capital management purposes are defined as accumulated surplus excluding cumulative changes in the fair value of derivatives. ACFA has operated effectively in accordance with its capital objective as net assets for capital management purposes as at December 31, 2012 were $184,979 (2011 – $134,293). Capital management objectives, policies and procedures are unchanged since the preceding year.

As almost all loans, debt and interest rate swaps are held to maturity or to the earliest call date and operate in accordance with the terms of the contract, no gains and losses are expected to be realized over the lives of these financial instruments. Normally, ACFA would not terminate swaps unless there was a valid business reason to do so.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012
(in thousands of dollars, except share amounts)

As such, ACFA's net assets for capital management purposes are comprised of the following:

	2012	2011
Accumulated deficit, end of year	$ (628,008)	$ (705,115)
Less: Cumulative changes in fair value of derivatives in closing accumulated deficit	(812,987)	(839,408)
Net assets for capital management purposes	$ 184,979	$ 134,293

Note 9 – Directors' and Audit Committee Fees and Related Party Transactions

Directors' and Audit Committee fees paid by ACFA are as follows:

	2012		2011	
	Number of Individuals	Total	Number of Individuals	Total
Board/ Audit Committee Chairs	2	$ 11	2	$ 17
Board/ Audit Committee Members	6	29	6	35
	8	$ 40	8	$ 52

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 dedicated 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 Enterprise 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.

ACFA has advanced loans to local authorities under the ME*first!* Municipal Energy Efficiency Assistance Program (the "Program") on behalf of Alberta Municipal Affairs and Alberta Environment and Sustainable Resource Development. Under the Program, principal was advanced to qualifying municipalities by ACFA and repayments of principal are made by municipalities. However, the interest is paid by the Province of Alberta. The Program has been discontinued but the loans will continue until they are paid out. Included in the balance of loans to local authorities at December 31, 2012 is principal of $Nil (2011 – $1,525), upon which interest of $13 (2011 – $132) has been recorded in interest income on loans.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012
(in thousands of dollars, except share amounts)

Included in administration and office expenses is the amount of $705 (2011 – $672) 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 $145 (2011 – $229) due to related parties at December 31, 2012.

Note 10 – Financial Risk Management

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 equity. 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.

ACFA's management is responsible for monitoring performance and reporting to the Board of Directors and recommending changes to the Derivative Policy. The Board of Directors is responsible for governance and strategic direction through its annual review and approval of the policy.

(a) Credit Risk

Credit risk is related to the possibility the borrower or the counterparty to a financial instrument cannot fulfill its contractual obligation to ACFA.

Credit risk from borrowers is fully described in Note 4 and ACFA does not believe it has any significant credit exposure on loans.

Credit exposure with derivative counterparties is further described in Note 6.

(b) Interest Rate Risk

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 debt. 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: trade accounts receivable, prepaid expenses and trade accounts payable.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012
(in thousands of dollars, except share amounts)

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:

Maturity/ Repricing	Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	Total
Assets:						
Cash	$ 13,254	$ —	$ —	$ —	$ —	$ 13,254
Accrued interest receivable on loans	104,373	—	—	—	—	104,373
Accrued interest receivable on debt swaps [(a)]	6,874	—	—	—	—	6,874
Loans to local authorities	352,419	1,064,810	2,658,011	2,545,918	5,767,077	12,388,235
December 31, 2012	$ 476,920	$ 1,064,810	$ 2,658,011	$ 2,545,918	$ 5,767,077	$ 12,512,736
Loan effective rate, 2012	4.28%	4.29%	4.37%	4.37%	4.42%	4.41%
December 31, 2011	$ 689,290	$ 550,787	$ 2,418,031	$ 2,409,522	$ 4,924,420	$ 10,992,050

[(a)] Included in derivatives in favourable position on the statement of financial position.

Maturity/ Repricing	Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	Total
Liabilities:						
Accrued interest payable on debt	$ 29,418	$ —	$ —	$ —	$ —	$ 29,418
Accrued interest payable on loan swaps [(a)]	44,956	—	—	—	—	44,956
Debt [(b) (c) (d)]	5,688,456	15,000	3,196,940	2,017,367	1,313,779	12,231,542
December 31, 2012	$ 5,762,830	$ 15,000	$ 3,196,940	$ 2,017,367	$ 1,313,779	$ 12,305,916
Debt effective rate, 2012	2.81%	3.53%	3.54%	4.04%	5.22%	4.47%
December 31, 2011	$ 6,811,494	$ 300,000	$ 1,521,500	$ 1,022,367	$ 1,213,779	$ 10,869,140
Cumulative gap 2012	$ (5,285,910)	$ 1,049,810	$ (538,929)	$ 528,551	$ 4,453,298	$ 206,820
Cumulative gap 2011	$ (6,122,204)	$ 250,787	$ 896,531	$ 1,387,155	$ 3,710,641	$ 122,910

[(a)] Included in derivatives in unfavourable position on the statement of financial position.

[(b)] Included "within one year" are various floating rate notes in the aggregate amount of $4,161,500 (2011 – $5,055,000) with rates of Canadian Deposit Offered Rate (CDOR) plus predetermined spreads.

[(c)] "Total" comprised of contractual principal of $12,234,586 net of discounts on short-term notes of $3,044.

[(d)] Included in "three to five years" is $600,000 USD translated at the foreign exchange rate as of the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012
(in thousands of dollars, except share amounts)

Loan interest rate swaps (pay fixed receive floating) and debt interest rate swaps (receive fixed pay floating) with outstanding notional amounts of $11,184,037 and $5,532,679 respectively (2011 – $9,094,434 and $2,791,279 respectively) have not been included in the above table.

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 are: floating rate debt loan repayments or debt maturities due with within one year; near-term cash flows; and cash.

The potential impact of an immediate and sustained increase of 50 basis points in interest rates throughout the year with all other variables held constant would impact interest income by $56,714 (2011 – $46,650) and interest expense by $55,431 (2011 – $47,255).

(c) Liquidity Risk

Liquidity risk is the risk ACFA will not have sufficient cash to meet its obligations as they become due while meeting the loan requirements of local authorities.

ACFA manages its liquidity risk by monitoring its cash flows on a daily basis. Surplus funds are invested in or the 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 the Canadian market.

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.

The maturities of ACFA's contractual cash flows for financial liabilities at December 31, 2012 are as follows:

Future Cash Out Flows	2013	2014	2015	2016 and Beyond	Total
Accounts payable	$ 651	$ —	$ —	$ —	$ 651
Debt, contractual repayments of principal [a]	4,131,956	656,500	800,000	6,643,086	12,231,542
Debt, contractual payments of interest [b]	291,793	251,983	229,730	1,190,521	1,964,027
Loan swaps (pay fixed receive floating) [b]	254,376	247,043	233,418	2,202,329	2,937,166
Commitments for leases	37	97	98	248	480
Commitments for loans	281,500	30,000	—	—	311,500
Total	$ 4,960,313	$ 1,185,623	$ 1,263,246	$ 10,036,184	$ 17,445,366

[a] Cash flows for debt contractual repayments of principal are determined with the assumption all debt is redeemed at the maturity date, and are presented net of discounts on short-term notes of $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. Foreign currencies are translated at the foreign exchange rate as of 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:

Future Cash In Flows	2013	2014	2015	2016 and Beyond	Total
Accounts receivable	$ 8	$ —	$ —	$ —	$ 8
Loans, contractual repayments of principal [a]	352,419	1,064,810	988,528	9,982,478	12,388,235
Loans, contractual payments of interest [a]	522,150	493,879	454,139	3,991,876	5,462,044
Debt swaps (receive fixed pay floating) [a] [b]	100,423	100,144	97,967	581,603	880,137
Total	$ 975,000	$ 1,658,833	$ 1,540,634	$ 14,555,957	$ 18,730,424

[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. Foreign currencies are translated at the foreign exchange rate as of the reporting date.

(d) Foreign Exchange Risk

Foreign exchange risk is the potential risk of loss resulting from fluctuations in foreign exchange rates. This risk arises from the existence of debt denominated in foreign currencies. ACFA manages its foreign currency exposure by entering into cross currency swaps. During 2012, ACFA issued $600,000 in US dollar denominated debt and concurrently entered into $600,000 in US dollar denominated cross currency interest rate swaps to mitigate the foreign exchange risk.

Note 11 – Contractual Obligations and Commitments

(a) Lease

ACFA has obligations under an operating lease expiring in July 2013, and under another operating lease commencing in July 2013 and expiring in July 2018, for the rental of premises. The aggregate amounts payable for the unexpired terms of these contractual obligations are as follows:

	Lease
2013	$ 37
2014	97
2015	98
2016	99
2017	99
2018	50
Total	$ 480

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012
(in thousands of dollars, except share amounts)

(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 certain conditions, and are recently authorized loans not yet drawn down or awaiting further draw down.

These loans are subject to ACFA's normal credit standards and collateral is obtained where appropriate. The loan commitments represent the maximum credit risk exposure to ACFA should the loans be fully drawn, represent future cash requirements and as at December 31, 2012 were:

	2012
2013	$ 281,500
2014	30,000
Total	$ 311,500

Note 12 – Comparative Figures

Certain 2011 figures have been reclassified to conform to the 2012 presentation.

Note 13 – Budget

The 2012 budget was approved by the Board of Directors on December 8, 2011. Budget amounts for 2012 were prepared on an amortized cost basis except that amortization of deferred foreign exchange gains (losses) and changes in fair value of derivative contracts were not budgeted.

Note 14 – Approval of Financial Statements

The financial statements were recommended by the Audit Committee on March 18, 2013 for approval and subsequently approved by the Board of Directors on March 25, 2013.

SCHEDULE 1 – DEBT

As at December 31, 2012
(in thousands of dollars)

Maturity Date	First Extendible Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Private – Canada Pension Plan Investment Fund/ CPP Investment Board:					
01-Oct-2020		6.2800%	Fixed		$ 222,367
01-Jun-2022		6.0600%	Fixed		100,000
05-Apr-2023		5.8900%	Fixed		50,000
01-Dec-2023		5.5000%	Fixed		150,000
03-Dec-2024		5.1800%	Fixed		78,000
03-Nov-2026		4.4900%	Fixed		200,000
03-Nov-2031		4.5000%	Fixed		125,396
02-Nov-2032		4.8300%	Fixed		190,383
					1,116,146
Public – Short-term:					
04-Jan-2013		0.9850%	Short-term		150,000
07-Jan-2013		0.9900%	Short-term		200,000
08-Jan-2013		0.9900%	Short-term		200,000
14-Jan-2013		0.9950%	Short-term		100,000
04-Feb-2013		1.0050%	Short-term		125,000
14-Mar-2013		0.9876%	Short-term		130,000
20-Mar-2013		0.9800%	Short-term		125,000
21-Mar-2013		0.9800%	Short-term		200,000
				(iv)	1,230,000
Public – Fixed, Floating and Step-up/ Extendible:					
05-Feb-2013		1.3658%	Floating	(ii)	625,000
26-Apr-2013		1.3658%	Floating	(ii)	500,000
15-Jun-2013		1.2958%	Floating	(ii) (iv)	480,000
15-Jun-2013		1.2958%	Floating	(ii) (iv)	480,000
01-Oct-2013		1.4058%	Floating	(ii)	520,000
02-Dec-2013		5.0000%	Fixed		300,000
02-Jul-2014		1.6858%	Floating	(ii)	106,500
02-Jul-2014		1.6858%	Floating	(ii)	550,000
01-Jun-2015		4.9000%	Fixed		100,000
01-Jun-2015		4.9000%	Fixed		100,000
15-Jun-2015		3.0500%	Fixed		600,000
27-May-2016		1.4058%	Floating	(ii) (iv)	900,000
15-Jun-2016		4.3500%	Fixed		300,000
15-Jun-2016		4.3500%	Fixed		300,000

SCHEDULE 1 – DEBT

As at December 31, 2012
(in thousands of dollars)

Maturity Date	First Extendible Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
15-Jun-2017		4.6500%	Fixed		400,000
15-Jun-2017		4.6500%	Fixed		300,000
15-Jun-2017		1.7500%	Fixed	(iv)	500,000
21-Jun-2017		1.0000%	Fixed	(iii) (iv)	596,940
01-Jun-2018		5.1500%	Fixed		50,000
01-Jun-2018		5.1500%	Fixed		50,000
01-Dec-2019		4.0000%	Fixed	(iv)	275,000
15-Dec-2022		2.5500%	Fixed	(iv)	720,000
15-Dec-2022		2.5500%	Fixed	(iv)	600,000
28-Apr-2023	28-Apr-2014	3.0000%	Step-up/ Extendible	(i) (iv)	15,000
01-Dec-2023		5.1000%	Fixed		20,000
15-Dec-2025		4.4500%	Fixed		100,000
15-Dec-2025		4.4500%	Fixed		100,000
15-Dec-2025		4.4500%	Fixed		100,000
20-Sep-2029		2.9000%	Fixed	(iv)	30,000
20-Sep-2029		2.9000%	Fixed	(iv)	170,000
					9,888,440
Total contractual principal outstanding – 2012					**12,234,586**
Plus unamortized net premiums					15,289
Less unamortized commission fees					(15,910)
Total amortized debt – 2012					**$ 12,233,965**
Total contractual principal outstanding – 2011					10,798,646
Less unamortized net discounts					(4,659)
Less unamortized commission fees					(7,517)
Total amortized debt – 2011					$ 10,786,470

Notes:

(i) Step-up note extendible at ACFA's option that pays interest periodically at a predetermined rate with principal paid on termination.

(ii) 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.

(iii) Note issued as $600,000 USD and translated to $596,940 CAD using the foreign exchange rate as of the reporting date. ACFA is mitigating foreign exchange rate fluctuations using cross currency interest rate swaps such that the $617,400 CAD due at maturity equals the $617,400 CAD received at issuance.

(iv) Notes were on-lent from the Province of Alberta.

ALBERTA INSURANCE COUNCIL

Financial Statements

December 31, 2012

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April 18, 2013

Independent Auditor's Report

To the Members of
Alberta Insurance Council

We have audited the accompanying financial statements of Alberta Insurance Council, which comprise the statements of financial position as at December 31, 2012, December 31, 2011 and January 1, 2011 and the statements of operations and cash flows for the years ended December 31, 2012 and December 31, 2011, and the statement of remeasurement gains and the related notes, which comprise 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
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 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.

PricewaterhouseCoopers LLP
TD Tower, 10088 102 Avenue NW, Suite 1501, Edmonton, Alberta, Canada T5J 3N5
T: +1 780 441 6700, F: +1 780 441 6776

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Insurance Council as at December 31, 2012, December 31, 2011 and January 1, 2011 and the results of its operations and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Accountants

Statements of Financial Position

As at December 31, 2012 and 2011

	December 31, 2012 $	December 31, 2011 $	January 1, 2011 $
Assets			
Current assets			
Cash (note 3)	5,688,251	5,618,188	5,937,146
Accounts receivable (note 5)	42,684	67,470	28,938
Prepaid expenses	106,040	110,688	67,406
	5,836,975	5,796,346	6,033,490
Capital assets (note 4)	1,213,745	1,346,616	1,239,426
	7,050,720	7,142,962	7,272,916
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	365,223	310,697	401,071
Deferred license and assessment fee revenue	1,820,795	1,485,939	1,390,928
	2,186,018	1,796,636	1,791,999
Asset retirement obligation (note 5)	63,020	62,410	61,800
Deferred rent and tenant inducements (note 6)	568,358	631,960	547,938
	2,817,396	2,491,006	2,401,737
Commitments (note 9)			
Net Assets (note 11)			
Net assets			
Accumulated operations	4,233,324	4,651,956	4,871,179
Accumulated remeasurement gains	-	-	-
	4,233,324	4,651,956	4,871,179
	7,050,720	7,142,962	7,272,916

Recommended by the Audit Committee and
Approved by the Alberta Insurance Council

[Original signed by]
Dr. Doug MacRae, Director
Chair, Audit Committee

[Original signed by]
Ron Gilbertson, Director
Chair, Alberta Insurance Council

The accompanying notes are an integral part of these financial statements.

Statements of Operations

For the years ended December 31, 2012 and 2011

	Budget 2012 $ (Unaudited)	2012 $	2011 $
Revenue			
License, assessment, examination and continuing education fees	4,525,000	4,829,984	4,567,614
Interest and other	60,000	67,941	76,544
	4,585,000	4,897,925	4,644,158
Expenditures			
Salaries and benefits (note 7)	2,975,000	2,815,275	2,669,357
Occupancy and premises	667,000	671,603	646,662
Amortization of capital assets	422,000	355,333	294,964
Councils, boards and committees (note 8)	336,000	296,284	307,450
Office and administration	259,500	279,111	249,073
Software and computer	240,000	343,466	209,711
Professional fees	210,000	229,175	185,404
Communications	207,000	197,034	190,386
Travel	120,000	127,088	109,107
Loss on disposal of capital assets	-	2,188	1,265
Total expenditures for the year	5,436,500	5,316,557	4,863,379
Revenue less than expenditures	(851,500)	(418,632)	(219,221)

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

For the years ended December 31, 2012 and 2011

	2012 $	2011 $
Cash provided by (used in)		
Operating activities		
Revenue less than expenditures as previously stated	(418,632)	(219,221)
Items not affecting cash		
Accretion expense	610	610
Amortization of capital assets	355,333	294,964
Amortization of deferred tenant inducement	(70,207)	(61,472)
Deferred rent adjustment	6,605	79,396
Loss on disposal of capital assets	2,188	1,265
	(124,103)	95,542
Net changes in non-cash working capital items		
Decrease (increase) decrease in accounts receivable	24,786	(38,533)
Decrease (increase) in prepaid expenses	4,648	(43,281)
Increase (decrease) in accounts payable and accrued liabilities	54,526	(90,375)
Increase in deferred license and assessment fee revenue	334,856	95,010
	294,713	18,363
Capital activities		
Purchase of capital assets	(224,650)	(403,421)
Receipt of tenant inducements	-	66,100
	(224,650)	(337,321)
Increase (decrease) in cash	70,063	(318,958)
Cash – Beginning of year	5,618,188	5,937,146
Cash – End of year	5,688,251	5,618,188

The accompanying notes are an integral part of these financial statements.

Statement of Remeasurement Gains

For the year ended December 31, 2012

	$
Accumulated remeasurement gains – Beginning of year	
As previously reported	-
Adjustment due to adoption of Public Sector Accounting Standards 3450 – *Financial Instruments* (note 12)	-
As restated	-
Unrealized gains attributable to	
Derivatives, portfolio investments or foreign exchange	-
Accumulated remeasurement gains – End of year	-

Due to the nature of the AIC's investments, there were no unrealized remeasurement gains or losses as at January 1, 2012 and for the year ended December 31, 2012.

The accompanying notes are an integral part of these financial statements.

Alberta Insurance Council

Notes to Financial Statements

December 31, 2012 and December 31, 2011

1 Authority and purpose

The Alberta Insurance Council (the Council or AIC) 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.

2 Significant accounting policies

These financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards (PSAS), including standards which apply to government not-for-profit organizations. The preparation of financial statements in conformity with PSAS necessarily includes the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates. Such estimates include the amortization of property and equipment. These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Revenue recognition

Licence and assessment fees are recognized as revenue on a straight-line basis over the term of the licence 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 Accreditation Committee. CE provider fees are recognized on a calendar year basis. Licence and assessment fees received but not yet recognized as revenue are recorded as deferred licence and assessment fee revenue.

Capital assets and amortization

Capital assets consisting of property, equipment and computer software are recorded at cost and are amortized over their estimated useful lives on a straight-line basis as follows:

Leasehold improvements	Term of the lease
Asset retirement costs	Term of the lease
Furniture and office equipment	3 – 10 years
Computer equipment	3 years
Computer software	3 – 5 years
Telephone equipment	5 years

Examination development costs

Costs of development of examination questions are expensed as incurred.

Alberta Insurance Council

Notes to Financial Statements

December 31, 2012 and December 31, 2011

Deferred tenant inducement, operating leases, and asset retirement obligation

The related tenant inducement associated with leased premises is 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 inducement 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.

Contributed services

The work of the AIC is dependent on the voluntary services of members. The value of donated services is not recognized in these financial statements.

Financial instruments

The AIC has classified its financial instruments as follows:

- Cash is recorded at fair value.
- Realized gains and losses resulting from the remeasurement at the end of each period are reported in the statement of operations for the period in which they arise. Unrealized gains and losses are reported in the statement of remeasurement gains.
- Accounts receivable is classified as loans and receivables and is accounted for at amortized cost using the effective interest rate method. Loans and receivables are initially recorded at fair value.
- Accounts payable and accrued liabilities are classified as other liabilities and are accounted for at amortized cost using the effective interest rate method. Financial liabilities are initially measured at fair value.

The AIC determined that it does not have any derivatives and has not entered into any hedge transactions.

Alberta Insurance Council

Notes to Financial Statements

December 31, 2012 and December 31, 2011

3 Cash

Included in cash is an amount of $4,694,427 (2011 – $4,959,425) invested in the Consolidated Cash 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.

4 Capital assets

	2012		
	Cost $	Accumulated amortization $	Net $
Leasehold improvements	979,171	418,354	560,817
Furniture and office equipment	406,800	200,174	206,626
Computer equipment	470,741	274,187	196,554
Computer software	1,072,926	874,390	198,536
Asset retirement cost	61,800	12,157	49,643
Telephone equipment	52,396	50,827	1,569
	3,043,834	1,830,089	1,213,745

	2011		
	Cost $	Accumulated amortization $	Net $
Leasehold improvements	962,939	303,589	659,350
Furniture and office equipment	402,906	151,683	251,223
Computer equipment	432,806	260,111	172,695
Computer software	962,930	760,133	202,797
Asset retirement cost	61,800	6,079	55,721
Telephone equipment	51,590	48,948	2,642
Asset held for resale	2,188	-	2,188
	2,877,159	1,530,543	1,346,616

The asset held for resale was disposed of during the year for $nil proceeds.

Certain comparative figures within the capital assets schedule have been reclassified to conform with the current year presentation format.

Alberta Insurance Council

Notes to Financial Statements

December 31, 2012 and December 31, 2011

5 Asset retirement obligation

The AIC 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 asset retirement cost for the discounted value of the estimated removal costs. Concurrent with the transition to PSAS (note 12), the asset retirement costs in the amount of $61,800 and the asset retirement obligation were recorded as at December 1, 2010 and are being amortized over the 10 year term of the Edmonton lease. 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.

Management has estimated the cost to remove improvements to its Calgary premises would be $20,000, and believes the probability of incurring these costs is low, and 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 $433,500 at December 31, 2012 (2011 – $482,700).

6 Deferred rent and tenant inducements

In 2007, tenant inducement in the amount of $142,375 was received from the landlord with respect to leasehold improvements in the Council's Calgary office. The tenant inducement was deferred and is being recognized as a reduction of rent during the eight-year term of the lease.

In December 2010, the AIC moved its Edmonton office from 901 Toronto-Dominion Tower (TD Tower) to Suite 600, Bell Tower. At the time of the move both properties were under common ownership, Oxford Properties Group. On December 15, 2011, Aspen Properties assumed ownership of Bell Tower.

In 2010, a tenant inducement in the amount of $524,100 was provided for by Oxford Properties Group with respect to the leasehold improvements for the new Edmonton premises. These amounts have been deferred, and are being amortized as a reduction of rent during the 10-year term of the lease. At December 31, 2011, the residual balance of $42,013 cash inducement had not yet been received and was included in accounts receivable. The amount was collected in 2012.

Deferred rent and tenant inducements consist of the following:

	2012 $	2011 $
Deferred rent	104,749	98,144
Deferred tenant inducement	463,609	533,816
	568,358	631,960

Alberta Insurance Council

Notes to Financial Statements

December 31, 2012 and December 31, 2011

7 Salaries and benefits

	2012				2011	
	FTE's #	Salary[a] $	Benefits[b] $	Total $	FTE's #	Total $
Chief Executive Officer	1	237,429	41,889	279,318	1	273,026
Chief Operating Officer	1	211,576	52,651	264,227	1	261,561
Other staff	21.5	1,904,796	366,934	2,271,730	21.5	2,134,770
Total	23.5	2,353,801	461,474	2,815,275	23.5	2,669,357

[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 $226,390 (2011 – $220,418).

Employees of the AIC 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 AIC employees are also not included in any of the Province of Alberta's employee benefits plans.

8 Councils, Boards and Committees

a) The following amounts are included in Councils, Boards and Committees expenditures:

	2012 $	2011 $
Councils and Council Committees	241,100	250,259
Appeal Boards	10,999	16,113
Accreditation Committee	44,185	41,078
	296,284	307,450

Alberta Insurance Council

Notes to Financial Statements

December 31, 2012 and December 31, 2011

b) Per diem payments of Council Members

The following amounts are included in Councils, Boards and Committee expenditures:

	2012[c]		2011[c]	
	#	$	#	$
Councils[a]				
Chair – AIC[b]	1	21,677	1	23,950
Other – Chairs	6	43,317	10	46,668
Members	33	118,122	33	133,093
Total	40	183,116	44	203,711

[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 Accreditation Committee.

[b] This includes per diem payments made for attendance at Alberta Insurance Council, Audit Committee, and the AIC 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 Accreditation Committee members appointed by the Minister of Finance pursuant to the Government Organization Act.

9 Commitments

The AIC is committed to operating lease payments for business premises in accordance with existing lease agreements and contracted services, as follows:

	$
2013	378,493
2014	352,735
2015	227,110
2016	241,668
2017	244,580
Thereafter	774,503

Alberta Insurance Council

Notes to Financial Statements

December 31, 2012 and December 31, 2011

10 Financial risk management

The AIC's financial instruments comprise of cash, accounts receivable and accounts payable and accrued liabilities. The carrying value of these accounts approximate fair value. The AIC is potentially subject to concentrations of interest rate risk principally with its investment in the Consolidated Cash Investment Trust Fund. Credit risk is negligible as the majority of revenue is from licence and assessment fees, which are billed in advance. There are no unrecorded financial instruments.

11 Statement of changes in net assets

	Invested in capital assets $	Unrestricted $	Total $
Balance – January 1, 2011	691,488	4,179,691	4,871,179
Excess of revenue over expenditures	-	(219,223)	(219,223)
Amortization of capital assets	(294,964)	294,964	-
Amortization of deferred tenant inducement	61,472	(61,472)	-
Deferred rent adjustment	(79,396)	79,396	-
Loss on disposal of capital assets	(1,265)	1,265	-
	(314,153)	94,930	(219,223)
Investment in property and equipment			
Purchase of capital assets	403,421	(403,421)	-
Tenant inducement received	(66,100)	66,100	-
	337,321	(337,321)	-
Balance – December 31, 2011	714,656	3,937,300	4,651,956
Excess of revenue over expenditures	-	(418,632)	(418,632)
Amortization of capital assets	(355,333)	355,333	-
Amortization of deferred tenant inducements	70,207	(70,207)	-
Deferred rent adjustment	(6,605)	6,605	-
Loss on disposal of capital asset	(2,188)	2,188	-
	(293,919)	(124,713)	(418,632)
Investment in property and equipment			
Purchase of capital assets	224,650	(224,650)	-
Balance – December 31, 2012	645,387	3,587,937	4,233,324

Alberta Insurance Council

Notes to Financial Statements

December 31, 2012 and December 31, 2011

	December 31, 2012 $	December 31, 2011 $	January 1, 2010 $
Invested in capital assets consists of			
Capital assets	1,213,745	1,346,616	1,239,426
Deferred rent and tenant inducements	(568,358)	(631,960)	(547,938)
	645,387	714,656	691,488

12 Transition to Canadian Public Sector Accounting Standards and change in accounting policies

In December 2010, the Canadian Accounting Standards Board issued a comprehensive set of accounting standards applicable to not-for-profit organizations and changes for government not-for-profit organizations (GNPO). The standards are effective for fiscal years beginning on or after January 1, 2012 and require retrospective application, except for certain exemptions and exceptions contained within the standards.

Commencing with the 2012 fiscal year, the AIC has adopted PSAS with PS 4200 sections and section PS 2125, *First time adoption by government organizations*. These financial statements are the first financial statements for which the AIC has applied PSAS. The AIC has elected to apply the standards in AIC section 4200 which applies only to GNPO.

Concurrent with the transition to PSAS the AIC established an asset retirement obligation associated with its Edmonton leased premise (note 5).

The transition to PSAS impacted the net assets at the date of transition, January 1, 2011. These accounting changes have been applied retroactively with the restatement of prior periods except for the accounting standards contained in PS 3450, *Financial Instruments,* as this standard specifically prohibits retroactive application and, consequently, was adopted effective January 1, 2012.

These changes were made pursuant to the move to PSAS and were implemented as at January 1, 2012, and were applied retroactively.

Alberta Insurance Council

Notes to Financial Statements

December 31, 2012 and December 31, 2011

The transitional adjustments are as follows:

	December 31, 2011 $	January 1, 2011 $
Statement of financial position		
Capital assets – under previous accounting standards	1,290,895	1,177,626
Asset retirement cost	61,800	61,800
Accumulated amortization – Asset retirement cost	(6,079)	-
Capital assets – under PSAS	1,346,616	1,239,426
Asset retirement obligation – under previous accounting standards	-	-
Provision for asset retirement obligation	61,800	61,800
Annual accretion provision	610	-
Asset retirement obligation – restated	62,410	61,800
Net assets		
Invested in capital assets – under previous accounting standards	658,935	629,688
Asset retirement cost	55,721	61,800
Invested in capital assets – under PSAS	714,656	691,488
Unrestricted net assets – under previous accounting standards	3,999,713	4,241,491
Adjustment to provide for asset retirement costs	(55,721)	(61,800)
Amortization of asset retirement cost	(6,079)	-
Accretion provision for asset retirement obligation	(610)	-
Unrestricted net assets – under PSAS	3,937,303	4,179,691
Total net assets – under previous accounting standards	4,658,645	4,871,179
Amortization of asset retirement cost	(6,079)	-
Accretion expense	(610)	-
Total net assets – under PSAS	4,651,956	4,871,179

Alberta Insurance Council

Notes to Financial Statements

December 31, 2012 and December 31, 2011

	December 31, 2011 $
Statement of Operations	
Occupancy and premises – under previous accounting standards	646,052
Accretion expense	610
Occupancy and premises – under PSAS	646,662
Amortization of capital assets – under previous accounting standards	288,885
Amortization of asset retirement cost	6,079
Amortization of capital assets – under PSAS	294,964
Total expenditures for the year – under previous accounting standards	4,856,690
Accretion expense	610
Amortization of asset retirement cost	6,079
Total expenditures for the year – under PSAS	4,863,379
Revenues less than expenditures as originally stated	(212,532)
Amortization of asset retirement cost and accretion expense	(6,689)
Revenues less than expenditures – under PSAS	(219,221)

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ALBERTA INVESTMENT MANAGEMENT CORPORATION

Financial Statements

For the year ended March 31, 2013

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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, 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 Investment Management Corporation as at March 31, 2013, and the results of its operations, remeasurment 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 24, 2013

Edmonton, Alberta

Statement of Financial Position

As at March 31, (*$ thousands*)	**2013**	**2012**
Assets		
Cash and cash equivalents (Note 5)	$ 39,111	$ 18,322
Accounts receivable	14,813	13,777
Prepaid expenses	3,242	2,958
Tangible capital assets (Note 6)	69,646	44,144
Other assets	2,416	2,416
	129,228	81,617
Liabilities		
Accounts payable and accrued liabilities	6,614	4,978
Accrued employment liabilities (Note 7)	59,371	36,639
Advance from the Province of Alberta (Note 8)	52,049	28,249
Pension liabilities (Note 9)	2,928	2,770
Deferred lease inducement (Note 16)	4,619	5,334
	125,581	77,970
Net assets (Note 10)	$ 3,647	$ 3,647

Contractual obligations (Note 16)

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*)	**2013 Budget (unaudited) (Note 17)**	**2013**	**2012**
Revenue			
Cost recoveries	$ 250,000	$ 402,814	$ 322,688
Interest income	-	293	205
Total revenue	250,000	403,107	322,893
Expenses			
External investment management fees (Note 11)	117,273	125,229	109,717
External performance fees (Note 11)	-	103,834	30,989
External asset administration, legal, and other (Note 11)	31,793	62,669	88,808
Salaries, wages and benefits	58,578	74,661	59,090
Administrative expenses	6,974	10,091	9,955
Contract and professional services	18,732	9,286	9,015
Data services and subscriptions	7,940	8,798	7,286
Amortization of tangible capital assets	4,000	4,236	4,144
Rent	4,428	3,851	3,556
Interest	282	452	333
Total expenses	250,000	403,107	322,893
Annual surplus	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the year ended March 31, (*$ thousands*)	**2013**	**2012**
Operating transactions		
Annual surplus	$ -	$ -
Non-cash items:		
Amortization of tangible capital assets	4,236	4,144
Amortization of deferred lease inducement	(715)	(716)
Change in obligation under capital leases	(125)	-
Change in pension liabilities	158	123
	3,554	3,551
Changes in operating accounts (Note 12)	23,048	11,107
	26,602	14,658
Capital transactions		
Acquisition of tangible capital assets	(29,470)	(15,943)
Investment transactions		
Payment of obligation under capital leases	(143)	-
Financing transactions		
Proceeds from advance from the Province of Alberta	23,800	-
Increase (decrease) in cash and cash equivalents	20,789	(1,285)
Cash and cash equivalents at beginning of year	18,322	19,607
Cash and cash equivalents at end of year	$ 39,111	$ 18,322

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

For the year ended March 31, 2013 ($ 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 Ministry of Finance for which the Minister of Finance is responsible. The Corporation was formed January 1, 2008.

The Corporation has assets under administration of $70.9 billion (2012 - $69.7 billion), see Note 13. 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 NEW ACCOUNTING PRONOUNCEMENTS

Financial Instruments & Foreign Currency Translation

On April 1, 2012, the Corporation adopted the PSA Handbook Section PS 3450 "Financial Instruments", on a prospective basis. The new standard includes the requirement for recognition, measurement, presentation and disclosure of specific financial instruments and is effective for years beginning on or after April 1, 2012. This accounting change did not have an impact on the Corporation's financial statements other than additional risk disclosure presented in Note 18. 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.

In conjunction with this adoption, the Corporation also adopted PS 2601 "Foreign Currency Translation", which replaced PS 2600 . The new standard clarifies how to account for and report transactions that are denominated in a foreign currency and is effective for years beginning on or after April 1, 2012. This accounting change had no impact on the Corporation's financial statements.

NOTE 4 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 $125,229 (2012 - $109,717), external performance fees which are recorded as $103,834 (2012 - $30,989), and pension liabilities which are recorded as $2,928 (2012 - $2,770) 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.

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.

Tangible capital assets of the Corporation are recorded at historical cost and amortized on a straight-line basis over the estimated useful life of the assets.

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.

NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial Instruments

All financial assets and financial liabilities are measured at cost or amortized cost.

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 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 (2013 and 2012 - $nil).

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 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 4 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 over 10% of the greater of the benefit obligation and the fair value of plan assets are amortized on a straight-line basis over the average remaining service life of active employees. 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 5 CASH AND CASH EQUIVALENTS

as at March 31, ($ thousands)	2013	2012
Deposit in Consolidated Cash Investment Trust Fund	$ 39,060	$ 18,172
Cash in U.S. bank account	51	150
	$ 39,111	$ 18,322

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, 2013, securities held by the Fund have a time-weighted return of 1.2% per annum (2012 – 1.2% per annum).

NOTE 6 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	**2013**	2012
Cost							
Opening Balance	$ 20,294	$ 23,966	$ -	$ 12,130	$ 4,447	$ 60,837	$ 44,894
Additions	2,329	26,858	268	235	48	29,738	15,943
Disposals	-	-	-	-	-	-	-
Transfers	1,775	(1,775)	-	-	-	-	-
Write-downs	-	-	-	-	-	-	-
Closing Balance	24,398	49,049	268	12,365	4,495	90,575	60,837
Accumulated Amortization							
Opening Balance	13,338	-	-	2,499	856	16,693	12,549
Amortization expense	2,525	-	20	1,254	437	4,236	4,144
Disposals	-	-	-	-	-	-	-
Write-downs	-	-	-	-	-	-	-
Closing Balance	15,863	-	20	3,753	1,293	20,929	16,693
Net Book Value at March 31	$ 8,535	$ 49,049	$ 248	$ 8,612	$ 3,202	$ 69,646	$ 44,144

Computer systems hardware and software under development are not subject to amortization. In addition, tangible capital assets includes $268 (2012 – $nil) of equipment lease additions that are non-cash transactions in the statement of cash flow.

NOTE 7 ACCRUED EMPLOYMENT LIABILITIES

as at March 31, ($ thousands)	**2013**	**2012**
Annual incentive plan (a)	$ 23,076	$ 17,532
Long-term incentive plan (b)	32,504	15,764
Restricted fund unit incentive plan (c)	973	614
Accrued vacation salaries and benefits	2,818	2,729
	$ 59,371	$ 36,639

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.

NOTE 7 ACCRUED EMPLOYMENT LIABILITIES (continued)

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 that vest at the end of the fourth calendar period subsequent to the grant date. The first of these grants, issued effective January 1, 2009, vested on December 31, 2012 with grants being issued annually thereafter. 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. For each of 2009 through 2011, the stretch target is $500,000. For 2013, the stretch target is $800,000 (2012 - $600,000).

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 $2,233 (2012 – $nil) .

The accrued LTIP liability as at March 31, 2013 of $32,504 (2012 - $15,764) reflects the potential value of all LTIP, based on actual results to that date from the date they were awarded.

Information about total LTIP grants awarded and outstanding is as follows:

for the year ended March 31, (thousands)	2013		2012	
	Notional Value		Notional Value	
LTIP grants outstanding, beginning of year	20,911	$ 15,764	14,475	$ 6,745
Granted	10,513	658	6,975	436
LTIP Accrual	-	17,720	-	8,834
Forfeited	(2,173)	(1,638)	(539)	(251)
Paid	-	-	-	-
LTIP grants outstanding, end of year	29,251	$ 32,504	20,911	$ 15,764

The maximum potential obligation related to the LTIP as at March 31, 2013 was $87,753 (2012 - $62,733). Total expense related to the LTIP for the year ended March 31, 2013 was $16,084 (2012 - $8,990) 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, 2013 of $973 (2012 - $614) reflects the potential value of all RFUs, based on actual results to that date from the date they were awarded.

NOTE 7 ACCRUED EMPLOYMENT LIABILITIES (continued)

c) Restricted Fund Unit Incentive Plan (continued)

Information about total RFU grants awarded and outstanding is as follows:

for the year ended March 31, (thousands)	2013		2012	
	Notional Value		Notional Value	
RFU grants outstanding, beginning of year	1,550	$ 614	505	$ 481
Granted	-	-	1,200	192
Accrual	-	751	-	121
Paid	(320)	(392)	(155)	(180)
RFU grants outstanding, end of year	1,230	$ 973	1,550	$ 614

Total expense related to the RFU plan for the year ended March 31, 2013 was $752 (2012 - $314) which was recorded in salaries, wages and benefits.

NOTE 8 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, 2013 totaling $23,800 to fund capital cost requirements. As at March 31, 2013, the outstanding advances from the Province totaled $52,049 (2012 - $28,249).

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 0.98% (2012 - 0.94%). At March 31, 2013, the Corporation was in compliance with the terms of its revolving demand facility.

NOTE 9 PENSION LIABILITIES

Information about the Corporation's SRP is as follows:

for the year ended March 31, ($ thousands)	2013	2012
Accrued retirement obligation		
Beginning of year	$ 2,275	$ 1,629
Current service cost	406	399
Interest cost	112	91
Benefits paid	(18)	-
Actuarial loss (gain)	(476)	156
End of year	2,299	2,275
Plan assets		
Fair value, beginning of year	579	354
Actual return on plan assets	13	11
Employer contributions	119	107
Employee contributions	119	107
Benefits paid	(18)	-
End of year	812	579
Funded status - plan deficit	(1,487)	(1,696)
Unamortized net actuarial gain	(1,441)	(1,074)
Reported liability	$ (2,928)	$ (2,770)
Current service cost	406	400
Interest cost	112	91
Expected return on plan assets	(39)	(28)
Net actuarial gain amortization	(83)	(125)
Less: employee contributions	(119)	(107)
Total SRP expense	$ 277	$ 231

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 March 31, 2013.

NOTE 9 PENSION LIABILITIES (continued)

Approximate asset allocations, by asset category, of the Corporation's defined benefit pension plan assets were as follows:

as at March 31,	2013	2012
Equity securities	55%	55%
Debt securities	44%	44%
Other	1%	1%

The following table presents key assumptions applicable to the SRP:

as at March 31,	2013	2012
Annual discount rate	4.2%	4.2%
Annual salary increase - base	3.5%	3.0%
Expected long-term return on plan assets	5.6%	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 $590 as at March 31, 2013 (2012 - $602). A 1% increase or decrease in the rate of salary increases would increase or decrease the reported liability by $737 as at March 31, 2013 (2012 - $1,613). A 1% increase or decrease in the inflation rate would increase or decrease the reported liability by $208 as at March 31, 2013 (2012 - $172).

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 $3,122 (2012 - $2,988) for the year ended March 31, 2013 which was recorded in salaries, wages and benefits.

At December 31, 2012, the Management Employees Pension Plan reported a deficiency of $ 303,423 (2012 - $517,726) and the Public Service Pension Plan reported a deficiency of $ 1,645,141 (2012 - $1,790,383).

NOTE 10 NET ASSETS

The accumulated surplus is made up as follows:

as at March 31, ($ thousands)	2013	2012
Contributed surplus (a)	$ 3,647	$ 3,647
Share capital (b)	-	-
Accumulated surplus	-	-
	$ 3,647	$ 3,647

a) Contributed Surplus

Contributed surplus of $3,647 (2012 - $3,647) represents equity received by the Department of Finance in exchange for the transfer of the net book value of capital assets to the Corporation on January 1, 2008.

NOTE 10 NET ASSETS (continued)

b) Share Capital

as at March 31, ($ thousands)	2013	2012
Issued and Authorized		
Province of Alberta - one share	$ -	$ -

NOTE 11 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, 2013 year-end, $13,774 (2012 - $39,270) of one-time acquisition fees related to insurance investments were incurred.

NOTE 12 CHANGES IN OPERATING ACCOUNTS

for the year ended March 31, ($ thousands)	2013	2012
Increase in accounts receivable	$ (1,036)	$ (1,969)
Increase in prepaid expenses	(284)	(697)
Increase in accounts payable and accrued liabilities	1,636	1,076
Increase in accrued employment liabilities	22,732	12,697
	$ 23,048	$ 11,107

NOTE 13 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, 2013 assets under administration totalled approximately $70.9 billion (2012 - $69.7 billion), at market value. These assets were administered on behalf of the following clients of the Corporation:

Pension plans	$ 39,926,701	$ 35,126,435
Ministry of Finance		
General revenue and entity investment funds [(1)]	6,454,918	10,560,738
Endowment funds (including the Alberta Heritage Savings Trust Fund)	20,247,990	19,352,952
Insurance-related funds	2,070,890	2,020,941
Other government Ministry investment funds	2,256,240	2,605,675
	$ 70,956,739	$ 69,666,741

[(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 13 ASSETS UNDER ADMINISTRATION (continued)

Investments administered by the Corporation were held in the following asset classes:

as at March 31, ($ thousands)	2013	2012
Fixed income		
Fixed income [1]	$ 22,538,737	$ 26,009,083
Private mortgages	2,362,946	2,341,206
Inflation sensitive		
Real estate	8,100,378	7,045,460
Infrastructure, timber and private debt	4,595,126	4,373,384
Real return bonds and commodities	2,218,677	2,122,962
Equities		
Public equities and absolute return strategies	28,363,195	25,513,444
Private equity and venture capital	2,287,474	2,179,848
Overlays	489,565	81,354
Currency Derivatives	641	-
	$ 70,956,739	$ 69,666,741

[1] General Revenue Fund Policy loans have been excluded as they are managed by the Ministry of Finance.

NOTE 14 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)	2013	2012
Revenues		
Indirect cost recoveries [1]	$ 111,082	$ 93,174
Expenses		
Interest on advance from Province of Alberta	384	265
Contracted services (rent and other) [2]	230	587
	614	852
Assets		
Accounts receivable [1]	14,504	13,574
Liabilities		
Advance from Province of Alberta	52,049	28,249
	$ 52,049	$ 28,249

[1] Recovered from government funds, pension plans and other entities.

[2] Transacted with Ministry of Finance and other entities.

NOTE 15 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, 2013 in accordance with Treasury Board directive 12/98 as amended. This directive applies to all departments, regulated funds, provincial agencies and Crown-controlled organizations.

for the year ended March 31, ($ thousands)						**2013**	**2012**
	Base Salary[1]	**Incentive Plan**		**Other Cash Benefits**[4]	**Other Non-Cash Benefits**[5]	**Total**	Total
		Annual[2]	**Long-Term**[3]				
Chairman of the Board[6]	$ -	$ -	$ -	$ 91	$ -	$ 91	$ 105
Board Members[6]	-	-	-	448	-	448	427
Chief Executive Officer	500	950	1,500	17	82	3,049	1,587
Chief Financial Officer [7]	237	210	-	1	32	480	422
Chief Risk Officer	228	297	300	1	58	884	462
Executive Vice President, Venture & Innovations [8]	367	700	675	-	63	1,805	979
Executive Vice President, Public Market Investments [9]	307	869	300	1	67	1,544	686
Executive Vice President, Private Investments [10]	307	541	-	-	44	892	-

(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 vested 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) Two incumbents occupied this position during fiscal 2012-13. Amounts presented are for the current incumbent who occupied this position for nine months of the fiscal year.
(8) The incumbent in this role was previously the Deputy Chief Investment Officer, Change Management. Amounts presented are for the incumbent for the full year. The incumbent occupied this position for nine months of the fiscal year.
(9) The incumbent in this role was previously the Senior Vice President, Fixed Income Investments. Amounts presented are for the incumbent for the full year. The incumbent occupied this position for nine months of the fiscal year.
(10) The incumbent in this role was previously the Senior Vice President, Infrastructure & Timber Investments. Amounts presented are for the incumbent for the full year. The incumbent occupied this position for nine months of the fiscal year.

NOTE 15 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 2010, 2011 and 2012 but not vested are estimated as at March 31, 2013 based on actual performance for calendar years 2010, 2011 and 2012 and no assumed growth for future years. For awards granted in 2013, 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, 2012	Granted in Year	Vested in Year	As at March 31, 2013
Chief Executive Officer	2,000.0	1,000.0	(500.0)	2,500.0
Chief Financial Officer	105.0	104.0	-	209.0
Chief Risk Officer	606.3	276.0	(100.0)	782.3
Executive Vice President, Venture & Innovations	1,073.5	585.0	(225.0)	1,433.5
Executive Vice President, Public Market Investments	817.0	565.5	(100.0)	1,282.5
Executive Vice President, Private Investments	478.5	327.0	-	805.5

	Estimated Future Payout			
	As at March 31, 2012	Change in Estimated Future Payout in Year	Vested in Year	As at March 31, 2013
Chief Executive Officer	$ 2,836.6	$ 3,548.0	(1,500.0)	$ 4,884.6
Chief Financial Officer	$ 111.2	$ 240.1	-	$ 351.3
Chief Risk Officer	$ 822.6	$ 1,064.7	(300.0)	$ 1,587.3
Executive Vice President, Venture & Innovations	$ 1,476.7	$ 1,898.0	(675.0)	$ 2,699.7
Executive Vice President, Public Market Investments	$ 1,029.3	$ 1,987.2	(300.0)	$ 2,716.5
Executive Vice President, Private Investments	$ 527.8	$ 528.4	-	$ 1,056.2

NOTE 16 CONTRACTUAL OBLIGATIONS

The Corporation has entered into various agreements with minimum annual commitments for office space and other contracted services as follows:

as at March 31, ($ thousands)	2013
2014	$ 4,869
2015	4,155
2016	4,010
2017	3,994
2018	3,739
Thereafter	3,644
Total	$ 24,411

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 total deferred lease inducement as at March 31, 2013, which includes the Corporation's offices in Toronto, is $4,619 (2012 – $5,334). The Corporation entered into two lease agreements effective March 1, 2012. The first agreement is for 5 years, with an option to renew for a further five years. The second agreement is for 2 years, with an option to renew for a further period of one year.

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, 2013 the balance outstanding against the facility is $116,974 (2012 - $14,516).

NOTE 17 2012-2013 BUDGET

The Corporation's budget for the year ended March 31, 2013 was approved by the Board of Directors on November 25, 2011.

NOTE 18 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, 2013, $21 of accounts receivable was outstanding for 30 days but is not impaired.

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.

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, 2013 is $135 (2012 - $297).

NOTE 18 RISK MANAGEMENT (continued)

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 $520.

ALBERTA LOCAL AUTHORITIES PENSION PLAN CORPORATION

Financial Statements

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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 the Alberta Local Authorities Pension Plan Corp., which comprise the statement of financial position as at December 31, 2012, 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, 2012, and the results of its operations and 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 19, 2013
Edmonton, Alberta

Statement of Financial Position

As at December 31, 2012

	(thousands) 2012	2011
Assets		
Cash	$ 323	$ 203
Accounts receivable	1	1
	324	204
Liabilities		
Accrued liabilities	$ 243	$ 187
Deferred revenue (Note 5)	81	17
	324	204
Net Assets	-	-
	$ 324	$ 204

The accompanying notes are part of these financial statements.

Approved by the Board:

[original signed by]

Grant Howell
Chair of the Board

[original signed by]

John Whaley
Audit Committee Vice-Chair

Approved by Management:

[original signed by]

Meryl Whittaker
President & CEO

Statement of Operations

For the year ended December 31, 2012

(thousands)

	Budget 2012 (Note 10)	Actual 2012	Actual 2011
Revenue			
Service revenue (Note 5)	$ 3,028	$ 2,636	$ 2,254
Miscellaneous revenue	-	3	3
Total revenue	3,028	2,639	2,257
Operating costs			
Salaries and benefits (Note 8)	1,099	1,029	1,006
Professional fees	422	285	276
Stakeholder Relations & Communication	518	303	262
Board costs	356	287	282
Actuarial services	400	492	222
General and administrative	233	243	209
Total operating costs	3,028	2,639	2,257
Annual surplus	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the year ended December 31, 2012

	(thousands)	
	2012	2011
Operating activities		
Annual surplus	$ -	$ -
Changes in non-cash working capital		
Decrease (Increase) in accounts receivable	-	1
Increase (Decrease) in accrued liabilities	56	22
Increase (Decrease) in deferred revenue	64	17
Decrease (Increase) in amount due from LAPP	-	79
Increase (Decrease) in cash for the year	120	119
Cash at beginning of year	203	84
Cash at end of year	$ 323	$ 203

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

December 31, 2012

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.

4. Share capital

	2012	2011
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. Financial instruments

Financial instruments of the Corporation consist of cash, accounts receivable and accrued liabilities. Due to their short-term nature, the carrying value of these instruments approximates their fair value.

7. Commitments

The Corporation has entered into agreements with minimum annual commitments for office space and automobile parking space as follows:

	(thousands)
2013	204
2014	211
	$ 415

8. Salaries and benefits disclosure

(thousands)

		2012				2011
		Base Salary [a]	Other Cash Benefits [b]	Other Non-cash Benefits [c]	Total	Total
Corporation Board Chair	[d]	$ -	$ 40	$ -	$ 40	$ 16
Corporation Board Members (excluding Chair)	[d]	-	117	-	117	140
President & Chief Executive Officer		209	56	53	318	293
Vice-Presidents:						
Investments	[e]	138	49	7	194	142
Pension Policy & Funding	[f]	74	11	14	99	161
Stakeholder Relations		134	22	33	189	176

[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 Minister of Finance.

[e] This was a 0.6 FTE in 2011 and is now a 0.8 FTE position in 2012.

[f] This position was held by two individuals and was vacant five months in 2012.

9. 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 $89 for the year ended December 31, 2012 (2011: $104).

At December 31, 2011, the Management Employees Pension Plan reported a deficiency of $517,726 (2010: deficiency of $397,087), the Public Service Pension Plan reported a deficiency of $1,790,383 (2010: deficiency of $2,067,151) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $53,489 (2011: deficiency of $39,559).

10. Approval of 2012 budget

The 2012 budget was approved by the Corporation's Board of Directors on October 21, 2011 and by the Minister of Finance on November 23, 2011.

11. 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, 2012

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These Alberta Pensions Services Corporation (APS) Financial Statements are a copy from the APS 2012 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.aps.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, 2012, 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, 2012, 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

April 24, 2013

Edmonton, Alberta

STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31	2012		2011
($ thousands)	BUDGET	ACTUAL	ACTUAL
EXPENSES			
Staff and related expenses	30,718	26,393	25,280
Contract services	9,451	5,764	6,779
Materials and supplies	4,840	4,662	4,615
Amortization	2,691	2,600	2,780
Data processing and maintenance	1,799	1,997	1,778
Total before plan specific and employer specific services	49,499	41,416	41,232
Plan specific services (Note 6)	1,778	1,583	1,061
Employer specific services (Note 7)	14	100	167
Total operating expenses	51,291	43,099	42,460
Recovery of costs (Note 8)	51,291	43,099	42,460

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
Vice Chair
Audit Committee

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31	2012	2011
($ thousands)		
ASSETS		
Cash	203	196
Accounts receivable	60	54
Prepaid expenses	669	997
Due from pension plans (Note 8)	4,885	5,041
Tangible capital assets (Note 4)	10,949	6,539
	16,766	12,827
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	2,457	2,893
Accrued salaries and benefits	1,883	1,731
Accrued vacation pay	245	245
Deferred lease inducement (Note 12)	1,232	1,419
Unamortized deferred capital contributions (Note 4)	10,949	6,539
	16,766	12,827
NET ASSETS		
Net assets (Note 5)	-	-
	16,766	12,827

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flow

STATEMENT OF CASH FLOW

YEAR ENDED DECEMBER 31	2012	2011
($ thousands)		
OPERATING TRANSACTIONS		
Non-cash items:		
Amortization of tangible capital assets	2,600	2,780
Decrease in deferred lease inducement (Note 12)	(187)	(187)
Amortization of unamortized deferred capital contributions	(2,600)	(2,780)
	(187)	(187)
(Increase) decrease in accounts receivable	(6)	125
Decrease (increase) in prepaid expenses	328	(68)
Decrease in due from pension plans	156	2,317
Decrease in accounts payable and accrued liabilities	(436)	(938)
Increase (decrease) in accrued salaries and benefits	152	(1,304)
Increase in accrued vacation pay	-	41
Cash provided by operating transactions	7	(14)
CAPITAL TRANSACTIONS		
Acquisition of tangible capital assets	(7,010)	(1,869)
FINANCING TRANSACTIONS		
Increase in unamortized deferred capital contributions	7,010	1,869
Increase (decrease) in cash	7	(14)
Cash at beginning of year	196	210
Cash at end of year	203	196

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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.

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 *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, 2013. 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).

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).

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 pension 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 five years.

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 and accrued salaries and benefits. Due to their short-term nature, the carrying value of these instruments approximates their fair value.

4. Tangible Capital Assets

($ thousands)

TANGIBLE CAPITAL ASSETS	2012			2011
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Assets under construction	7,308	-	7,308	834
Leasehold improvements	7,615	5,578	2,037	3,198
Computer hardware	7,748	6,567	1,181	1,752
Furniture and equipment	1,393	1,031	362	537
Telephone system	406	345	61	190
Computer software	12,498	12,498	-	28
	36,968	26,019	10,949	6,539

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

SHARE CAPITAL	2012	2011
Issued:		
1 common share	$1	$1

An unlimited number of common and preferred shares are authorized with a single common share issued (Note 1).

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:

PLAN SPECIFIC SERVICES	2012				2011
Plan	Contract Services	Other	Board and Committee Remuneration	Total	Total
SFPP	477	57	44	578	506
MEPP	358	51	71	480	235
PSPP	354	42	11	407	317
MSRP	21	14	-	35	15
PJMC(R)PP	31	2	-	33	10
PSM(CM)PP	32	-	-	32	(24)
PJMC(U)PP	15	-	-	15	(1)
MLAPP	3	-	-	3	3
	1,291	166	126	1,583	1,061

A full description of the pension plan names is in Note 2.

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 SPECIFIC SERVICES	2012	2011
City of Calgary	9	9
City of Edmonton	8	5
EPCOR	5	1
Government of Alberta	2	2
Legislative Assembly	1	-
	25	17
Alberta Investment Management Corporation[1]	75	150
	100	167

[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.

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, 2012, $4,885 (2011 - $5,041) is receivable from the plans. The receivable at year end is directly related to the timing of the receipt and disbursement of funds.

RECOVERY OF COSTS	2012	2011
LAPP	27,225	27,425
PSPP	10,615	10,775
MEPP	2,181	1,592
SFPP	1,818	1,507
MSRP	522	484
PSM(CM)PP	318	255
PJMC(R)PP	128	93
PJMC(U)PP	97	78
MLAPP	68	53
	42,972	42,262
Interest and other miscellaneous cost recoveries	27	31
Employer specific services (Note 7)	100	167
	43,099	42,460

A full description of the pension plan names is in Note 2.

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 $2,619 for the year ended December 31, 2012 (2011 - $2,314). 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, 2011, PSPP reported a deficiency of $1,790,383 (2010 - deficiency of $2,067,151), MEPP reported a deficiency of $517,726 (2010 - deficiency of $397,087) and MSRP had a deficiency of $53,489 (2010 - deficiency of $39,559).

10. Related Party Transactions

($ thousands)

The Corporation received the following services at amounts which approximate market value from:

RELATED PARTY TRANSACTIONS	2012	2011
Service Alberta Data processing, postage and printing	1,045	987
Treasury Board and Finance Risk management and insurance	43	97
University of Alberta Management training	2	5
	1,090	1,089

At year end, $257 (2011 - $271) 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.

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 2012 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	CONTRACTUAL OBLIGATIONS
2013	11,430
2014	11,486
2015	8,862
2016	1,916
2017	1,916
Thereafter	3,194
	38,804

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.

During the year, 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 three years totalling $26,319.

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. 2012 Budget

The Corporation's 2012 budget was approved by the Board of Directors on November 30, 2011.

15. Approval of Financial Statements

The financial statements were approved by the Board of Directors.

16. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

ALBERTA SECURITIES COMMISSION

Financial Statements

Year Ended March 31, 2013

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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, 2013, 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, 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

June 12, 2013

Edmonton, Alberta

Statement of Financial Position

thousands of dollars	**March 31, 2013**	March 31, 2012
Assets		
Cash (Note 4)	**$ 7,761**	$ 8,970
Accounts receivable	**146**	32
Prepaid expenses	**77**	97
Restricted cash (Note 3)	**365**	299
Investments (Notes 2 and 4)	**29,232**	29,914
Capital assets (Note 6)	**7,999**	8,652
	$ 45,580	$ 47,964
Liabilities		
Accounts payable and accrued liabilities	**$ 4,258**	$ 4,372
Accrued vacation and benefit liabilities	**661**	615
Lease inducements (Note 7)	**2,941**	2,994
Accrued pension liability (Note 8)	**5,691**	4,881
	13,551	12,862
Net Assets		
Net assets, beginning of period	**35,102**	35,446
Net operating results	**(3,940)**	(344)
Accumulated remeasurement gains (Notes 2 and 4)	**867**	-
Net assets, end of period (Notes 2 and 3)	**32,029**	35,102
	$ 45,580	$ 47,964

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		
	2013	**2013**	2012
	Budget	**Actual**	Actual
	(Note 11)		
Revenue			
Fees (Note 9)	**$ 28,544**	**$ 27,837**	$ 27,990
Investment income (Note 5)	**1,356**	**1,816**	1,757
Settlement payments and cost recoveries (Note 9)	**–**	**649**	1,123
Administrative penalties (Note 3)	**1,000**	**247**	457
Conference fees and other	**–**	**15**	17
	30,900	**30,564**	31,344
Expense			
Salaries and benefits	**25,090**	**24,561**	21,966
Administration	**3,493**	**2,941**	2,915
Premises	**2,550**	**2,869**	2,716
Professional services	**3,206**	**2,381**	2,415
Amortization	**1,503**	**1,558**	1,504
Investor education (Note 3)	**167**	**194**	172
	36,009	**34,504**	31,688
Budget contingency	**1,591**	**–**	-
Net operating results	**$ (6,700)**	**$ (3 ,940)**	$ (344)

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
	2013
Accumulated remeasurement gains, April 1 adoption of PS3450	$ 318
Unrealized gains on investments during the year	580
Less: Amounts reclassified to the Statement of Operations on realized gains from investments	(31)
Accumulated remeasurement gains, end of year	$ 867

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

Statement of Cash Flows

thousands of dollars	For year ended March 31	
	2013	2012
Operating transactions		
Fees and other	**$ 27,837**	$ 28,015
Payments to and on behalf of employees	**(23,577)**	(20,989)
Payments to suppliers for goods and services	**(9,022)**	(7,593)
Investment income	**1,816**	1,757
Settlement payments and cost recoveries	**649**	1,123
Administrative penalties	**138**	464
Cash (used in) received from operating transactions	**(2,159)**	2,777
Capital transactions		
Cash used to acquire capital assets	**(745)**	(952)
Cash from lease inducement	**209**	**–**
Proceeds on disposal	**2**	6
Cash used in capital transactions	**(534)**	(946)
Investing transactions		
Increase in restricted cash	**(66)**	(299)
Purchases in portfolio investments	**(1,750)**	(1,676)
Disposal from portfolio investments	**3,300**	**–**
Cash received from (used in) investing transactions	**1,484**	(1,975)
Decrease in cash	**(1,209)**	(144)
Opening cash	**8,970**	9,114
Closing cash	**$ 7,761**	$ 8,970

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

Notes to the Financial Statements

March 31, 2013 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 the Commission's assets in pooled investment funds in accordance with the investment policy asset mix approved by the Commission. The ASC does not participate in capital market investment decisions or transactions.

The ASC, as an Alberta provincial corporation, is exempt from income tax.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

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

a) CHANGE IN ACCOUNTING POLICY

Effective April 1, 2012, management implemented PSAB 3450 Financial Instruments required for government organizations with fiscal years beginning on or after April 1, 2012. The new standard is applied prospectively. Comparative results have not been restated. The primary changes to the ASC's financial statements from the previous year are as follows:

i) The carrying value of all financial instruments included in portfolio investments are measured at fair value to correspond with how they are evaluated and managed. Prior to April 1, 2012, investments were recorded at cost.

ii) Unrealized gains and losses are recorded in the new statement of remeasurement gains and losses. Prior to April 1, 2012, unrealized gains and losses were not recorded in the financial statements. This accounting change increased the April 1, 2012 opening balance of portfolio investments and accumulated remeasurement gains by $318.

iii) 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 assumptions are observable in the market or quoted prices for similar but not identical assets.

b) 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.

c) VALUATION OF INVESTMENTS

Fair values of investments managed and held by AIMCo in pooled investment funds are determined as follows:

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;

i) 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

ii) 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.

Note 2 (continued)

d) 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.

e) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains represent the excess of the fair value of the pool units at period-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.

f) VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Because of their short-term nature, the fair value of cash, accounts receivable, restricted cash and accounts payable and accrued liabilities are estimated to approximate their book values.

g) 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.

h) FEES, ADMINISTRATIVE PENALTIES, SETTLEMENT PAYMENTS AND COST RECOVERIES RECOGNITION

Fees are recognized when earned, which is upon cash receipt.

Administrative penalties, settlement payments and cost recoveries are recognized when the decision is issued or agreement reached.

i) 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.

Note 2 (continued)

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.

j) LEASE INDUCEMENTS

Cash payments received as lease inducements are deferred and amortized on a straight-line basis over the lease term.

k) 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.

l) 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.

m) 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 & NET ASSETS

Net assets include $365 of accumulated net penalty revenues ($299 in F2012) because accumulated penalty revenues exceeded eligible expenditures. This amount is represented by restricted cash, as described in Note 2(l).

The change in restricted cash is comprised of:

	2013	2012
Administrative penalties	$ 56,489*	$ 13,060*
Less provision for uncollectible amounts	(56,369)	(12,744)
Plus recoveries of prior-year assessments	124	141
Net realizable value	244	457
Interest income and other	3	–
Administrative penalty revenue	247	457
Plus: Education seminar fees	13	14
Less: Eligible education expenses	(194)	(172)
Restricted cash increase (decrease)	66	299
Restricted cash opening balance	299	–
Restricted cash closing balance	$ 365	$ 299

*Includes disgorgements of $50.3 million ($3.5 million in F2012).

NOTE 4 CASH & INVESTMENTS

a) Summary

	2013						2012		
	Cost	Remeasurement Gain	Fair Value (Note 2)	Fair Value Hierarchy Level 1	Fair Value Hierarchy Level 2	%	Cost	Fair Value	%
Cash									
Deposit in the CCITF	$ 7,761	-	$ 7,761	-	$7,761	-	$ 8,970	$ 8,970	
Investments									
Deposit in the CCITF	$ 78	-	$ 78	-	$ 78	0.3	$ 76	$ 76	0.3
Fixed-income securities	21,114	$ 624	21,738	-	21,738	74.4	22,303	22,687	75.0
Canadian equities	7,173	243	7,416	$4,756	2,660	25.3	7,535	7,469	24.7
	$28,365	$ 867	$29,232	$4,756	$24,476	100.0	$29,914	$30,232	100.0

Cash 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, 2013, securities held by the CCITF have a time weighted return of 1.25 per cent per annum (1.26 per cent in F2012).

At March 31, 2013, the carrying amounts of the ASC's investments are recorded on a fair value basis, and on a cost basis at March 31, 2012.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, 2013 have maturities ranging from less than one year to over 10 years (34.2 per cent of maturities are greater than 10 years) and an average duration of 6.4 years. 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.

b) Investment Risk Management

Income and financial returns of the ASC are exposed to credit, market and interest rate 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 include:

- fixed income credit risk reduction primarily through credit ratings of investment grade (Corp. BBB) or higher of 93.2 per cent;
- interest rate risk control using duration constraints that limit loss exposure on fixed income securities to 6.5 per cent should interest rates increase 1 per cent; 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 $139 ($46 in F2012).

NOTE 5 INVESTMENT INCOME

The ASC's investment income includes $1,528 from interest-bearing securities ($1,343 in F2012) and $288 from equities ($414 in F2012).

The ASC's investments realized market value returns of 8.0 per cent for the year ended March 31, 2013 (4.3 per cent in F2012). This performance compares to a benchmark (composite of DEX 91 Day T-Bill, DEX Universe Bond and S&P/TSX indexes) gain of 5.1 per cent in F2013 and a benchmark gain of 4.9 per cent in F2012. If equity market indices declined 1(percent the potential loss to the ASC would be less than 2.5 per cent of total investments.

NOTE 6 CAPITAL ASSETS

	Computer Equipment & Software	**Furniture & Equipment**	**Leaseholds**	**2013 Total**	2012 Total
Estimated useful life	**3 years**	**10 years**	**Lease duration**		
Cost					
Beginning of year	**$ 2,764**	**$2,368**	**$ 6,127**	**$ 11,259**	$12,594
Additions	**345**	**221**	**341**	**907**	171
Disposals	**(19)**	**–**	**–**	**(19)**	(1,506)
	$ 3,090	**$2,589**	**$ 6,468**	**$12,147**	$11,259
Accumulated amortization					
Beginning of year	**$ 1,485**	**$ 582**	**$ 540**	**$ 2,607**	$ 2,603
Amortization expense	**847**	**236**	**477**	**1,560**	1,510
Disposals	**(19)**	**–**	**–**	**(19)**	(1,506)
	$ 2,313	**$ 818**	**$ 1,017**	**$ 4,148**	$2,607
Net book value	**$ 777**	**$ 1,771**	**$ 5,451**	**$ 7,999**	$8,652

Leaseholds at March 31, 2013, are for a 15-year lease (leasehold net book value of $5,110) commencing December 1, 2010 and a 3.5 year lease (leasehold net book value of $341) commencing October 2012. Disposals are primarily the result of technology assets review.

Amortization of $1,558 ($1,504 in F2012) includes capital amortization of $1,560 ($1,510 in F2012) less proceeds on disposal of $2 ($6 in F2012).

NOTE 7 LEASE INDUCEMENTS

	2013	2012
Lease terms		
15 years ending November 30, 2025 and 3.5 years ending March 31, 2016	**$ 2,941**	**$ 2,994**

NOTE 8 ACCRUED PENSION LIABILITY AND PENSION EXPENSE

The accrued pension liability is comprised of:

	2013	2012
Retirement Plan	**$ 109**	$ 135
Supplemental Pension Plan	**5,691**	4,848
Less: accounts payable	**(109)**	(102)
	$ 5,691	$ 4,881

The following pension expense for the plans is included in the Statement of Operations under salaries and benefits.

	2013	2012
Public Service Pension Plan	**$ 1,013**	$ 819
Registered Retirement Savings Plan	**545**	483
Supplemental Pension Plan	**927**	651
	$ 2,485	$ 1,953

a) Public Service Pension Plan

The ASC participates in the Public Service Pension Plan. At December 31, 2012, the Public Service Pension Plan reported a deficiency of $1,645,141 and in 2011 a deficiency of $1,790,383.

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 ($25 in F2013, $25 in F2012) 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 ($132 effective January 1, 2013, and $128 effective January 1, 2012) 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 Commission. 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:

Supplemental Pension Plan	**2013**	2012
Accrued benefit and unfunded obligation	**$ 6,549**	$ 5,877
Unamortized transitional obligation	**(4)**	(8)
Unamortized actuarial gain (loss)	**(854)**	(1,021)
Accrued benefit liability	**$ 5,691**	$ 4,848
Accrued benefit obligation at beginning of year	**$ 5,877**	$ 4,253
Service cost	**503**	366
Interest cost	**253**	270
Benefits paid	**(84)**	(77)
Actuarial loss		1,065
Accrued benefit obligation at end of year	**$ 6,549**	$ 5,877

Note 8 (continued)

Pension Expense	**2013**	2012
The pension expense for the Supplemental Pension Plan is as follows:		
Service cost	**$ 503**	$ 366
Interest cost	**253**	270
Amortization of actuarial losses during the year	**171**	15
	$ 927	$ 651

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	**2013**	2012
Discount rate, year-end obligation	**4.0%**	4.0%
Discount rate, annual pension expense	**6.2%**	6.2%
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, SETTLEMENT PAYMENTS AND COST RECOVERIES

	2013	2012
Distribution of securities	**$ 12,123**	$ 12,170
Registrations	**10,386**	10,373
Annual financial statements	**5,095**	5,217
Orders (applications)	**233**	230
Total fees	**$ 27,837**	$ 27,990

Settlement payments and cost recoveries assessed	**$ 1,194**	$ 1,115
Less provision for uncollectible amounts	**(580)**	(313)
Plus recoveries of prior-year assessments	**35**	321
Total settlement payments and cost recoveries	**$ 649**	$ 1,123

NOTE 10 COMMITMENTS AND CONTINGENCIES

Details of commitments to organizations outside the ASC and contingencies from legal actions are set out below. Any losses arising from the settlement of contingencies are treated as expenses in the year of settlement.

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 31, 2016, and rental of office equipment to 2018 totalling $56,587 ($60,801 in F2012). These commitments become expenses of the ASC when the terms of the contracts are met.

2013–14	$ 3,164
2014–15	3,237
2015–16	3,695
2016–17	4,303
2017–18	4,391
Thereafter	37,797
Total	$ 56,587

Canadian Securities Administrators (CSA)

The ASC shares, based on an agreed-upon cost-sharing formula, the costs incurred for the maintenance of the CSA Office (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.

National Systems Operations Agreements

CDS Inc. (CDS) operates the SEDAR (electronic filing and payment), NRD (national registration database) and SEDI (insider trading) systems on behalf of the CSA under various operating agreements. The ASC, as one of the agreement signatories, commits to pay CDS up to 11.7 per cent of any shortfall from approved system operating costs that exceed revenues. Alternatively, CDS must pay to CSA revenues in excess of system operating costs (surplus). The surplus is not divisible; the CSA owns it as a group. CDS payments received from accumulated system operating surpluses since inception and interest earned totalled $94,424 at March 31, 2013 ($80,522 in F2012). This amount is held in trust by the Ontario Securities Commission in segregated bank accounts and earns interest at bank prime less 1.85 per cent. The principal CSA administrators, including the ASC, have agreed that surplus amounts can only be used to offset any shortfall in revenues, develop or enhance the systems and reduce fees charged to users. The CSA is remediating these systems, which includes a new service agreement for operation of the systems that is described in the annual MD&A, and has paid to date approximately $4.6 million, in respect of the remediation, from accumulated surpluses held in trust.

b) Legal Actions

The ASC is currently involved as a defendant in one legal action that management believes will not result in any liability to the ASC.

NOTE 11 BUDGET

The ASC's budget was approved on January 11, 2012.

NOTE 12 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 $58 in administration expenses ($49 in F2012).

Schedule of Salaries & Benefits – Schedule A

thousands of dollars	2013				2012
	Base salary (1)	**Cash benefits (2)**	**Non-cash benefits (3)**	**Total**	Total
Chair, Securities Commission[4]	**$ 518**	**$ 87**	**$ 150**	**$ 755**	$ 721
Executive Director	**$ 350**	**$ 59**	**$ 167**	**$ 576**	$ 539
Vice-Chair, Securities Commission[4]	**$ 350**	**$ 53**	**$ 186**	**$ 589**	$ 476
Vice-Chair, Securities Commission[4]	**$ 350**	**$ 53**	**$ 130**	**$ 533**	$ 448
Independent Members[5]	**$ 537**	**–**	**–**	**$ 537**	$ 504

1) Base salary includes regular base pay and Independent Member compensation.

2) Cash benefits include variable pay and Chair and Executive Director's automobile allowances.

3) Employer's share of all employee benefits including 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.

5) The Independent Members compensation includes fees paid in dollars for governance responsibilities of $294,000 ($353,000 in F2012) and hearing and application panel participation of $243,000 ($151,000 in F2012). 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 and 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	2013			2012
	Current service costs	**Prior service and other costs**	**Total**	Total
Chair, Securities Commission	$ 125	$ (5)	$ 120	$ 114
Executive Director	$ 104	$ 31	$ 135	$ 116
Vice-Chair, Securities Commission	$ 99	$ 53	$ 152	$ 86
Vice-Chair, Securities Commission	$ 76	$ 25	$ 101	$ 63

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, 2012	Changes in accrued obligation	**Accrued obligation March 31, 2013**
Chair, Securities Commission	$ 640	$ 125	**$ 765**
Executive Director	$ 975	$ 104	**$ 1,079**
Vice-Chair, Securities Commission	$ 954	$ 99	**$ 1,053**
Vice-Chair, Securities Commission	$ 491	$ 76	**$ 567**

N.A. PROPERTIES (1994) LTD.

Financial Statements

Year Ended March 31, 2013

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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, 2013,and the statement of operations and deficit 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, 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 28 , 2013

Edmonton, Alberta

Statement of Financial Position

As at March 31

	($ thousands) 2013	2012
Assets		
Cash and cash equivalents (Note 4)	$ 2,986	$ 2,950
Note receivable (Note 5)	63	52
	$ 3,049	$ 3,002
Liabilities		
Obligations under indemnities and commitments (Note 6)	$ 154	$ 170
Net assets		
Accumulated surplus	2,895	2,832
	$ 3,049	$ 3,002

The accompanying notes are part of these financial statements.

On Behalf of the Board:

Rod Matheson
Sole Director

Statement of Operations and Deficit

Year Ended March 31

	($ thousands) 2013	2012
Revenue		
Interest and other	$ 47	$ 45
Expense		
General and administrative	-	1
Operating income before provision	47	44
Recovery of obligations under indemnities and commitments (Note 6)	16	43
Excess of revenue over expense for the year	63	87
Accumulated deficit, beginning of year	(2,937)	(3,024)
Accumulated deficit, end of year	$ (2,874)	$ (2,937)

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 7.

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) FAIR VALUE

The carrying value of cash and accounts receivable approximate their fair value due to the relatively short periods to maturity of the instruments. The fair value of other financial assets and liabilities are provided in the applicable notes to the financial statements.

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, 2013 the deposits in the bank had a time weighted return of 1.3% per annum (2012: 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, 2013 is $63 (2012: $52). 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. The fair market value of the note at March 31, 2013 is estimated to be $174 (2012: $149) using the current interest rate in effect 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 $154 at March 31, 2013 (2012: $170). 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)	
	2013	**2012**
Beginning balance	$ 170	$ 213
Recovery of obligations under indemnities and commitments	(16)	(43)
Ending balance	$ 154	$ 170

NOTE 7 SHARE CAPITAL

		($ thousands)	
		2013	**2012**
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, 2013.

NOTE 9 FEES AND SALARIES

There were no director's fees or salaries paid during the year. The Company had no employees in 2013.

NOTE 10 BUDGET

The Company's annual budget appears in the 2012-13 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, 2012

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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, 2012, 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, 2012, 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

February 25, 2013

Edmonton, Alberta

Consolidated Statement of Financial Position

As at September 30

	($ thousands) 2012	2011
Assets		
Cash	$ 1	$ 1
Investment in and amount due from former affiliate (Note 5)	-	-
	$ 1	$ 1
Liabilities		
Accounts payable and accrued liabilities	$ 4	$ 3
Principal and interest on prior years income taxes (Note 6)	11,334	11,334
Long-term debt (Note 7)	193,172	193,163
	204,510	204,500
Net Liabilities		
Accumulated deficit	(204,509)	(204,499)
	$ 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)		
	2012		2011
	Budget	Actual	Actual
Expenses			
Legal expenses	$ -	$ 4	$ 33
General and administrative	-	6	4
Annual deficit	-	(10)	(37)
Accumulated deficit, beginning of year	(204,499)	(204,499)	(204,462)
Accumulated deficit, end of year	$ (204,499)	$ (204,509)	$ (204,499)

The accompanying notes are part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended September 30

	($ thousands)	
	2012	2011
Cash provided by (used in)		
Operating activities		
Annual deficit	$ (10)	$ (37)
Increase in payables	1	-
	(9)	(37)
Financing activities		
Proceeds from long-term debt	9	37
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.

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 CASH AND CASH EQUIVALENTS

	($ thousands)	
	2012	2011
Cash	$ 1	$ 1

NOTE 4 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	($ thousands)	
	2012	2011
Accounts Payable and Accrued Liabilities	$ 4	$ 3

NOTE 5 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 7 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 7) 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 6 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 $134. These non-capital losses expire between 2014 and 2032.

NOTE 7 LONG-TERM DEBT

	($ thousands) 2012	2011
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	13,873	13,864
Accrued interest	34,491	34,491
	$193,172	$193,163

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, 2012 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 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 8 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 $14,217 (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 9 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)	
	2012	**2011**
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 10 COMPARATIVE FIGURES

Certain 2011 figures have been reclassified to conform to the 2012 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Gainers Inc.

Government Business Enterprises

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ALBERTA GAMING AND LIQUOR COMMISSION

Financial Statements

Year Ended March 31, 2013

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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, 2013, 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, 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

May 28, 2013

Edmonton, Alberta

Balance Sheet

(thousands of dollars)

At March 31

	2013	2012 (restated per note 3d)
ASSETS		
Current Assets		
Cash and cash equivalents (note 4)	$ 234,225	$ 277,007
Accounts receivable	40,612	43,982
Prepaid expenses and inventories (note 5)	11,154	11,626
	285,991	332,615
Property, Plant and Equipment (note 6)	211,866	156,712
Computer Software (note 7)	32,892	3,136
Investment Property (note 8)	8,005	7,892
Investment in Western Canada Lottery Corporation (note 16)	32,104	35,498
	$ 570,858	$ 535,853
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 175,619	$ 134,411
Due to the Alberta Lottery Fund (note 9)	93,585	100,451
	269,204	234,862
Due to General Revenues (note 10)	269,663	270,934
Provision for Loss on Leased Properties (notes 17 and 18)	1,751	1,943
Net Defined Benefit Pension Liability (notes 3d and 11)	47,071	45,970
Accumulated Other Comprehensive Income (Loss) (note 11)	(16,831)	(17,856)
	$ 570,858	$ 535,853

The accompanying notes are part of these financial statements.

Approved by:

BOARD

[Original signed by]

Marguerite J. Trussler
Chairperson of the Board

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

	2013	2012 (restated per note 3d)
Liquor Revenue	$ 2,300,661	$ 2,149,205
Liquor Cost of Sales	(1,556,267)	(1,440,444)
	744,394	708,761
Gaming Revenue (note 12)	1,832,499	1,827,341
	2,576,893	2,536,102
Commissions and Federal Payments (note 13)	(465,895)	(461,915)
Operating Expenses (note 14)	(195,715)	(177,770)
PROFIT FROM OPERATIONS FOR THE YEAR	1,915,283	1,896,417
Other Revenue (note 15)	12,357	13,262
Income from Western Canada Lottery Corporation (note 16)	286,294	262,332
NET OPERATING RESULTS (notes 3j, 9 and 10)	$ 2,213,934	$ 2,172,011
OTHER COMPREHENSIVE INCOME (LOSS)		
Net Actuarial Gains (Losses) (note 11)	1,025	(13,941)
TOTAL COMPREHENSIVE INCOME	$ 2,214,959	$ 2,158,070

The accompanying notes are part of these financial statements.

Statement of Cash Flows
(thousands of dollars)

For the year ended March 31

	2013	2012 (restated per note 3d)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating results for the year	$ 2,213,934	$ 2,172,011
Decrease in provision for loss on leased properties	(192)	(246)
Amortization	42,823	42,734
Loss on disposal of property, plant and equipment	5,090	3,807
Net change in non-cash working capital balances	47,175	(20,914)
	2,308,830	2,197,392
Transfers to the Alberta Lottery Fund	(1,492,071)	(1,451,112)
Transfers to General Revenues	(730,000)	(751,000)
	86,759	(4,720)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(103,597)	(36,943)
Purchase of computer software	(32,086)	(2,335)
Purchase of additions to investment property	(621)	-
Proceeds on disposal of property, plant and equipment	3,369	1,456
Net change in Investment in Western Canada Lottery Corporation	3,394	(6,716)
	(129,541)	(44,538)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(42,782)	(49,258)
CASH AND CASH EQUIVALENTS, beginning of year	277,007	326,265
CASH AND CASH EQUIVALENTS, end of year	$ 234,225	$ 277,007
Supplemental cash flow information:		
Interest received	$ 3,650	$ 3,713

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, 2013 were authorized by the Board on May 28, 2013.

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 Statements 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.

(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

In June 2011, the IASB finalized the revisions to IAS 19 Employee Benefits. These revisions are effective for annual reporting periods beginning on or after January 1, 2013. Early application of the revised standard is permitted. As such, the Commission will early adopt the June 2011 amendments to IAS 19 for the reporting period ended March 31, 2013.

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, remeasurement 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.

(d) Defined Benefit Pension Plans (Cont'd)

The early adoption of the amendments to IAS 19 resulted in a restatement of the 2012 financial statements, specifically related to the following:

	2012 (restated)	2012	Change
Balance Sheet			
Due to General Revenues	$ 270,934	$ 258,306	$ 12,628
Net Defined Benefit Liability	$ 45,970	$ 40,742	$ 5,228
Accumulated Other Comprehensive Income (Loss)	$ (17,856)	$ -	$ (17,856)
Statement of Operations and Comprehensive Income			
Operating Expenses	$ (177,770)	$ (177,488)	$ (282)
Profit from Operations for the Year	$ 1,896,699	$ 1,896,417	$ 282
Net Operating Results	$ 2,172,011	$ 2,172,293	$ (282)
Net Actuarial Losses	$ (13,941)	$ (14,161)	$ 220
Total Comprehensive Income	$ 2,158,070	$ 2,158,132	$ 62
Statement of Cash Flows			
Net Operating Results for the Year	$ 2,172,011	$ 2,172,293	$ (282)
Net Change in Non-Cash Working Capital Balances	$ (20,914)	$ (21,196)	$ 282

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 is not control or joint control over those policies.

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.

(e) Investment in an Associate – Western Canada Lottery Corporation (Cont'd)

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.

After application of the equity method, the Commission determines whether it is necessary to recognize an additional impairment loss on the Commission's investment in WCLC. The Commission determines at each reporting date whether there is any objective evidence that the investment in WCLC is impaired. If this is the case, the Commission calculates the amount of impairment as the difference between the recoverable amount of WCLC and its carrying value and recognizes the amount 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.

(g) Impairment of Non-Financial Assets

Property, plant and equipment, computer software and investment property are subject to impairment review 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).

Impairment losses are 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.

(g) Impairment of Non-Financial Assets (Cont'd)

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 disclose further information on amounts due to General Revenues.

(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 Changes

Future accounting changes are based on standards issued but not yet effective up to the date of the issuance of the financial statements. This listing is of standards and interpretations issued, which management reasonably expects to be applicable at the future date. The Commission is assessing the impact of these new standards on its financial statements.

(l) Future Accounting Changes (Cont'd)

IFRS 11 *Joint Arrangements* – Effective for annual periods commencing on or after January 1, 2013 with early adoption permitted. Under IFRS 11 joint arrangements accounted for using the proportionate consolidation method will have to change to the equity method. The Commission is accounting for the WCLC investment using the equity method as an investment in which it holds significant influence. This pronouncement is not expected to have any effect on the financial statements.

IFRS 12 *Disclosure of Interests in Other Entities* – Effective for annual periods commencing on or after January 1, 2013 with early adoption permitted. IFRS 12 provides additional guidance for disclosures of an entity with subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities. The Commission is reviewing the requirements of the standard at this time; the adoption of this standard will affect disclosures but will not have an impact on financial results.

IFRS 13 *Fair Value Measurement* – Effective for annual periods commencing on or after January 1, 2013 with early adoption permitted. IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. IFRS 13 defines fair value and establishes disclosures about fair value measurement. The adoption of this standard will affect disclosures but will not have an impact on financial results.

IAS 28 *Investments in Associates and Joint Ventures* – Effective for annual periods commencing on or after January 1, 2013 with early adoption permitted. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed and describes the application of the equity method to investments in joint ventures in addition to associates. The Commission currently applies the equity method to the Investment in WCLC and does not expect this standard to have any effect on the financial statements.

IAS 1 *Presentation of Financial Statements* – The amendment is effective for annual periods commencing on or after July 1, 2012 with early adoption permitted. The amendment revises how certain items are presented in other comprehensive income (OCI). Items within OCI that may be reclassified to net operating results will be separated from items that will not. The adoption of this amendment will affect presentation only and will not have an impact on the financial results.

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, 2013, securities held by the Fund had a time-weighted yield of 1.25% per annum (March 31, 2012: 1.29% 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)

	2013	2012
Prepaid Expenses	$ 1,441	$ 3,067
Gaming Parts	8,937	7,730
Supplies	776	829
	$ 11,154	$ 11,626

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

(in thousands)

	Land	Buildings & Leasehold Improvements	Vehicles	Equipment	Gaming Equipment &Terminals	Total
Cost, March 31, 2011	$ 2,057	$ 32,610	$ 3,294	$ 29,271	$ 399,666	$ 466,898
Additions	-	900	764	1,471	34,079	37,214
Disposals	-	-	(692)	(338)	(27,537)	(28,567)
Cost, March 31, 2012	2,057	33,510	3,366	30,404	406,208	475,545
Accumulated Amortization, March 31, 2011	-	(18,140)	(2,857)	(27,928)	(251,347)	(300,272)
Additions	-	(793)	(510)	(989)	(42,271)	(44,563)
Disposals	-	-	671	337	24,994	26,002
Accumulated Amortization, March 31, 2012	-	(18,933)	(2,696)	(28,580)	(268,624)	(318,833)
Net Book Value, March 31, 2012	$ 2,057	$ 14,577	$ 670	$ 1,824	$ 137,584	$ 156,712
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

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, 2011	$ 13,635	$ 729	$ -	$ 14,364
Additions	772	1,563	-	2,335
Disposals	-	-	-	-
Cost, March 31, 2012	14,407	2,292	-	16,699
Accumulated Amortization, March 31, 2011	(12,932)	-	-	(12,932)
Additions	(631)	-	-	(631)
Disposals	-	-	-	-
Accumulated Amortization, March 31, 2012	(13,563)	-	-	(13,563)
Net Book Value, March 31, 2012	$ 844	$ 2,292	$ -	$ 3,136
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

The estimated useful life over which computer software is amortized is as follows:

Gaming system related	5 - 7 years
Other computer software	3 years

NOTE 8 INVESTMENT PROPERTY (LIQUOR WAREHOUSE)
(in thousands)

	Land	Building	Total
Cost, March 31, 2011	$ 2,056	$ 27,885	$ 29,941
Additions	-	-	-
Disposals	-	-	-
Cost, March 31, 2012	2,056	27,885	29,941
Accumulated Amortization, March 31, 2011	-	(21,541)	(21,541)
Additions	-	(508)	(508)
Disposals	-	-	-
Accumulated Amortization, March 31, 2012	-	(22,049)	(22,049)
Net Book Value, March 31, 2012	$ 2,056	$ 5,836	$ 7,892
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

(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

	2013	2012
Rental income derived from investment property	$ 2,793	$ 2,256
Direct operating expenses (including repair and maintenance) generating rental income	(65)	(248)
Net profit arising from investment property	$ 2,728	$ 2,008

Estimated rental income for the current lease term which expires December 31, 2015 is:

2013-14	$2,840
2014-15	$2,840
2015-16	$2,130

(c) Fair Value of Investment Property

	2013	2012
Fair value of investment property	$ 43,000	$ 21,307

Investment property is stated at cost.

(c) Fair Value of Investment Property (Cont'd)

The fair value at March 31, 2013 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.

The fair value at March 31, 2012 is based on property tax assessments.

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.

	2013	2012
Due to the Alberta Lottery Fund, beginning of year	$ 100,451	$ 80,549
Net operating results, Provincial Lotteries (note 12)	1,485,205	1,471,014
Transfers to the Alberta Lottery Fund	(1,492,071)	(1,451,112)
Due to the Alberta Lottery Fund, end of year	$ 93,585	$ 100,451

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:

	2013	2012 (restated)
Due to General Revenues, beginning of year	$ 270,934	$ 320,937
Net operating results, Liquor and Other (note 12)	728,729	700,997
Transfers to General Revenues	(730,000)	(751,000)
Due to the General Revenues, end of year	$ 269,663	$ 270,934

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 principal assumptions used in determining pension obligations for the Commission are shown below:

	2013			2012		
	PSPP	MEPP	SRP	PSPP	MEPP	SRP
Discount rate:	3.80%	3.80%	3.80%	4.50%	4.50%	4.50%
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:	1.73%	1.47%	1.92%	1.73%	1.47%	1.92%
Date of the most recent actuarial valuation from which results are extrapolated:	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2009
Commission's Actual Contributions:						
All plans		$ 7,871			$ 6,709	
Commission's Expected Contributions For The Next Period:						
All plans		$ 8,186			$ 6,977	

Additional assumptions are described in the valuation reports for each of the respective plans.

The Commission's Proportionate Share of Defined Benefit Pension Plan Liabilities

(in thousands)

	2013				2012			
	PSPP	MEPP	SRP	Total	PSPP	MEPP	SRP	Total
Change in Fair Value of Plan Assets								
Opening fair value of plan assets	$ 56,500	$ 23,600	$ 1,148	$ 81,248	$ 54,000	$ 22,929	$ 1,112	$ 78,041
Employer contributions	4,120	1,508	63	5,691	4,000	1,457	61	5,518
Benefit payments	(3,147)	(1,395)	(42)	(4,584)	(3,055)	(1,347)	(40)	(4,442)
Interest income on assets	2,564	1,065	52	3,681	2,996	1,264	62	4,322
Actuarial (loss) gain	3,463	2,974	434	6,871	(1,441)	(703)	(47)	(2,191)
Acquisitions, settlements, & curtailments	-	-	-	-	-	-	-	-
Closing Fair Value of Plan Assets	$ 63,500	$ 27,752	$ 1,655	$ 92,907	$ 56,500	$ 23,600	$ 1,148	$ 81,248
Change in Defined Benefit Obligation								
Opening defined benefit obligation	$ 90,000	$ 35,626	$ 1,592	$ 127,218	$ 77,500	$ 31,050	$ 1,238	$ 109,788
Current service cost (employer)	4,134	1,319	171	5,624	2,881	960	145	3,986
Benefit paid	(3,147)	(1,395)	(42)	(4,584)	(3,055)	(1,347)	(40)	(4,442)
Interest expense	4,165	1,631	78	5,874	4,337	1,724	75	6,136
Actuarial losses (gains)	3,848	1,942	56	5,846	8,337	3,239	174	11,750
Acquisitions, settlements, & curtailments	-	-	-	-	-	-	-	-
Closing Defined Benefit Obligation	$ 99,000	$ 39,123	$ 1,855	$ 139,978	$ 90,000	$ 35,626	$ 1,592	$ 127,218
Net Defined Benefit Liability	$ 35,500	$ 11,371	$ 200	$ 47,071	$ 33,500	$ 12,026	$ 444	$ 45,970

NOTE 11 EMPLOYEE BENEFIT PLANS (Cont'd)
(in thousands)

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

	2013				2012			
	PSPP	MEPP	SRP	Total	PSPP	MEPP	SRP	Total
Actuarial loss(gain) on plan assets	$ (3,463)	$ (2,974)	$ (434)	$ (6,871)	$ 1,441	$ 703	$ 47	$ 2,191
Experience loss on plan liabilities	3,848	1,942	56	5,846	8,337	3,239	174	11,750
Amount recognized in OCI	385	(1,032)	(378)	(1,025)	9,778	3,942	221	13,941
Beginning balance, AOCI	11,262	6,212	382	17,856	1,484	2,270	161	3,915
Ending balance, AOCI	$ 11,647	$ 5,180	$ 4	$ 16,831	$ 11,262	$ 6,212	$ 382	$ 17,856

Net Defined Benefit Pension Expense

	2013				2012			
	PSPP	MEPP	SRP	Total	PSPP	MEPP	SRP	Total
Current service cost (including provision for expenses)	$ 14	$ (189)	$ 108	$ (67)	$ (1,119)	$ (497)	$ 84	$ (1,532)
Net Interest on employee benefits	1,601	566	26	2,193	1,341	460	13	1,814
Net pension-benefit expense recognized	**$** 1,615	$ 377	$ 134	$ 2,126	$ 222	(37)	$ 97	$ 282

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.

NOTE 11 EMPLOYEE BENEFIT PLANS (Cont'd)
(in thousands)

Sensitivity Analysis:

	2013		
	PSPP	**MEPP**	**SRP**
Estimated sensitivity of liabilities to a 1% change in the discount rate:	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:	9.50%	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.*

	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 12 GAMING AND LIQUOR OPERATING RESULTS (Cont'd)
(in thousands)

	2012 (restated)					
	Provincial Lotteries				Liquor and Other	Total
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo (a)	Subtotal		
Credits Played	$ 15,615,948	$ 7,428,194	$ 39,953	$ 23,084,095	$ -	$ 23,084,095
Liquor Revenue	-	-	-	-	2,149,205	2,149,205
	15,615,948	7,428,194	39,953	23,084,095	2,149,205	25,233,300
Credits Won	(14,394,802)	(6,834,399)	(27,553)	(21,256,754)	-	(21,256,754)
Cost of Liquor Product					(1,440,444)	(1,440,444)
	(14,394,802)	(6,834,399)	(27,553)	(21,256,754)	(1,440,444)	(22,697,198)
	1,221,146	593,795	12,400	1,827,341	708,761	2,536,102
Commissions & Federal Payments	(363,718)	(94,222)	(3,975)	(461,915)	-	(461,915)
	$ 857,428	$ 499,573	$ 8,425	1,365,426	708,761	2,074,187
Operating Expenses				(156,744)	(21,026)	(177,770)
Profit from Operations for the Year				1,208,682	687,735	1,896,417
Other Revenue				-	13,262	13,262
Income from Western Canada Lottery Corporation				262,332	-	262,332
Net Operating Results				$ 1,471,014	$ 700,997	$ 2,172,011
Other Comprehensive Income (Expense)				-	(13,941)	(13,941)
Total Comprehensive Income				$ 1,471,014	$ 687,056	$ 2,158,070

NOTE 13 COMMISSIONS AND FEDERAL PAYMENTS

(in thousands)

	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

	2012			
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo (a)	Total
Commissions				
Operators	$ 179,755	$ 89,004	$ 1,860	$ 270,619
Charities	173,036	-	1,936	174,972
Federal Tax Expense (b)	10,927	5,218	179	16,324
	$ 363,718	$ 94,222	$ 3,975	$ 461,915

(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)

	2013	2012 (restated)
Salaries and benefits	$ 80,272	$ 69,461
Amortization	42,823	42,734
Leased gaming terminals	27,974	26,532
Equipment and vehicles	11,794	13,012
Data communications	7,346	5,464
Data processing	5,182	3,839
Fees and services	4,284	4,022
Travel and training	3,080	2,696
Property	2,631	2,625
Retailer relations	2,303	544
Net interest in net defined benefit pension liability (note 11)	2,193	1,814
Stationery and supplies	1,995	1,652
Freight and ticket product delivery	1,928	1,693
Insurance and bank charges	950	784
Miscellaneous	840	785
Liquor product expense	120	113
	$ 195,715	$ 177,770

NOTE 15 OTHER REVENUE
(in thousands)

	2013	2012
Licences	$ 6,260	$ 6,297
Interest revenue	3,650	3,713
Premises rental revenue	2,809	2,385
Miscellaneous	1,550	1,874
Liquor levies	2,154	1,825
Retailer service fees	618	693
Fines and violations	406	282
Loss on disposal of property, plant and equipment	(5,090)	(3,807)
	$ 12,357	$ 13,262

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.

	2013	2012
Balance Sheet (WCLC)		
Current Assets	$ 97,820	$ 78,949
Capital and Intangible Assets	21,763	26,777
	$ 119,583	$ 105,726
Current Liabilities	$ 90,480	$ 61,863
Due to Provincial Governments or Appointed Organizations	45,806	55,139
Equity	(16,703)	(11,276)
	$ 119,583	$ 105,726
Statement of Operations (Alberta Only)		
Ticket Lottery Revenue (a)	$ 815,400	$ 744,218
Ticket Lottery Prizes (a)	(420,191)	(380,858)
Gaming Revenue	395,209	363,360
Commissions (a)	(57,990)	(51,840)
Federal Tax Expense (a)	(4,383)	(4,237)
Payment to Federal Government (b)	(8,150)	(7,826)
	324,686	299,457
Operating Expenses	(38,392)	(37,125)
Net Operating Results	$ 286,294	$ 262,332

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

	2013	2012
Investment in WCLC, beginning of year	$ 35,498	$ 28,782
Net Operating Results recorded in AGLC	286,294	262,332
Interest Revenue recorded in Alberta Lottery Fund	944	1,045
WCLC Net Income Allocated to Alberta	287,238	263,377
Advances received from WCLC	(290,632)	(256,661)
Investment in WCLC, end of year	$ 32,104	$ 35,498

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.

	2013	2012
Obligations under operating leases and contracts		
Premise Leases and other contracts	$ 5,631	$ 5,660
Former Retail Liquor Stores	1,116	1,807
Video Lottery Terminal replacement initiative	91,521	162,680
	$ 98,268	$ 170,147

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

2013-14	$ 78,868
2014-15	4,614
2015-16	4,522
2016-17	4,238
2017-18	3,963
Thereafter	2,063
	$ 98,268

NOTE 17 COMMITMENTS (Cont'd)
(in thousands)

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 $1.75 million (2012 - $1.94 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:

2013-14	$	165
2014-15		82
2015-16		82
2016-17		82
2017-18		82
Thereafter		561
	$	1,054

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, 2013, 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 March 28, 2012. Under the terms of the amended agreement, the Commission has agreed to pay for certain capital investments and would 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 December 31, 2015. As of March 31, 2013, the Commission's potential liability is $13.7 million (2012 - $11.9 million).

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, 2013 there were 6 leases (2012 – 9 leases) that make up the provision.

		Lease Provision
As at March 31, 2012	$	1,943
Amounts used against the Provision		(192)
As at March 31, 2013	$	1,751
Expected Outflow of Resources		
Within one year	$	171
After one year but not more than five years		206
After five years		1,374
	$	1,751

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.

	2013	2012
Charitable Proceeds	$ 15,183	$ 14,575
Held Charitable Proceeds	107	159
Returned Funds	35	35
	$ 15,325	$ 14,769

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 Treasury Board Directive 12/98 as amended.

		2013				2012
		Base Salary *note a*	Other Cash Benefits *note b*	Other Non-cash Benefits *note c*	Total	Total
Board						
Chairperson		$ 109	$ -	$ -	$ 109	$ 89
Board Members		272	-	-	272	246
Chief Executive						
President and Chief Executive Officer	*note d*	163	55	39	257	343
Executive Management	*note e*					
Chief Financial Officer and Vice President, Corporate Services		199	17	58	274	242
Vice President, Social Responsibility and Licensing/Compliance	*note f*	209	27	23	259	188
Vice President, Lottery and Gaming Services	*note f*	196	2	57	255	258
Vice President, Strategy, Transformation and Ethics	*note f*	189	4	56	249	225
Chief Information Officer and Vice President, Technologies		187	5	53	245	247
Vice President, Human Resources & Learning and Development		157	4	42	203	195

(a) Base salary includes regular base pay and acting pay.

(b) Other cash benefits include vacation payouts and lump sum payouts. There were no bonuses paid in fiscal 2012-2013.

(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.

NOTE 20 SALARIES AND BENEFITS (Cont'd)
(in thousands)

(d) The position was occupied by two individuals during the year and was also vacant for four months. Two members of executive management acted in this position while it was vacant.

Automobile provided to incumbents; taxable benefit amount of $2 (2012 - $7) is not included in other non-cash benefits.

(e) A corporate restructuring that took effect November 26, 2012 resulted in a realignment of some Vice Presidents and responsibilities between divisions.

(f) The position was occupied by two individuals during the year.

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 $363 (2012 - $321) 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.

NOTE 22 RELATED PARTY TRANSACTIONS (Cont'd)
(in thousands)

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 $618 (2012 - $693) 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.

	2013
Liquor Revenue	$ 2,148,707
Liquor Cost of Sales	(1,433,505)
	715,202
Gaming Revenue	1,731,593
	2,446,795
Commissions and Federal Payments (a)	(441,027)
Operating Expenses	(250,031)
PROFIT FROM OPERATIONS FOR THE YEAR	1,755,737
Other Revenue	15,811
Income from Western Canada Lottery Corporation	265,986
NET OPERATING RESULTS	$ 2,037,534

(a) Includes Keno Charity Commissions

NOTE 24 COMPARATIVE FIGURES

Certain 2012 figures have been reclassified to conform to the 2013 presentation.

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ATB FINANCIAL

Consolidated Financial Statements

Year Ended March 31, 2013

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These ATB Financial Consolidated Financial Statements are a copy from the ATB Financial 2013 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, 2013, 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, 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

May 29, 2013
Edmonton, Alberta

Consolidated Statement of Financial Position

As at *($ in thousands)*		**March 31 2013**		March 31 2012
Assets				
Cash resources				
Cash (*note 7*)	**$**	**556,603**	$	247,706
Interest-bearing deposits with financial institutions (*note 7*)		**803,072**		869,939
		1,359,675		1,117,645
Securities				
Securities measured at fair value through net income (*note 8*)		**881,841**		1,912,517
Securities available for sale (*note 8*)		**469**		2,200
		882,310		1,914,717
Securities purchased under reverse repurchase agreements		**100,007**		99,997
Loans (*note 9*)				
Business		**12,732,228**		10,426,401
Residential mortgages		**10,705,908**		10,228,030
Personal		**5,744,958**		5,562,053
Credit card		**598,256**		599,431
		29,781,350		26,815,915
Allowance for credit losses (*note 10*)		**(122,889)**		(107,102)
		29,658,461		26,708,813
Other assets				
Derivative financial instruments (*note 18*)		**286,508**		324,358
Property and equipment (*note 11*)		**290,795**		255,801
Software and other intangibles (*note 12*)		**284,585**		312,867
Other assets (*note 13*)		**217,753**		285,542
		1,079,641		1,178,568
Total assets	**$**	**33,080,094**	$	31,019,740
Liabilities and equity				
Liabilities				
Deposits (*note 14*)				
Personal	**$**	**11,100,357**	$	10,785,376
Business and other		**12,631,014**		11,435,656
		23,731,371		22,221,032
Other liabilities				
Wholesale borrowings		**2,595,711**		2,780,740
Collateralized borrowings (*note 26*)		**3,103,492**		2,651,217
Derivative financial instruments (*note 18*)		**207,584**		259,848
Other liabilities (*note 15*)		**786,205**		694,277
		6,692,992		6,386,082
Capital investment notes (*note 25*)		**244,617**		237,701
Subordinated debentures (*note 16*)		**155,653**		113,362
Total liabilities		**30,824,633**		28,958,177
Equity				
Retained earnings		**2,324,785**		2,079,985
Accumulated other comprehensive (loss)		**(69,324)**		(18,422)
Total equity		**2,255,461**		2,061,563
Total liabilities and equity	**$**	**33,080,094**	$	31,019,740

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]

Doug Baker
Chairman of the Audit Committee

Consolidated Statement of Income

For the year ended March 31 *($ in thousands)*	2013	2012
Interest income		
Loans	**$ 1,241,989**	$ 1,195,928
Interest-bearing deposits with financial institutions	**7,446**	8,943
Securities measured at fair value through net income	**26,169**	32,921
	1,275,604	1,237,792
Interest expense		
Deposits	**242,483**	261,236
Wholesale borrowings	**60,380**	71,450
Collateralized borrowings	**79,192**	75,922
Capital investment notes	**10,254**	9,938
Subordinated debentures	**5,143**	3,871
	397,452	422,417
Net interest income	**878,152**	815,375
Other income		
Service charges	**63,867**	70,160
Investor Services	**72,864**	60,748
Card fees	**54,424**	52,212
Credit fees	**30,314**	21,003
Insurance	**15,329**	19,027
Foreign exchange	**15,371**	4,876
Net gains on derivative financial instruments	**8,395**	7,185
Net gains on financial instruments at fair value through net income	**88,188**	64,507
Sundry	**2,833**	5,165
	351,585	304,883
Operating revenue	**1,229,737**	1,120,258
Provision for credit losses (*note 10*)	**45,923**	23,255
Non-interest expenses		
Salaries and employee benefits (*notes 17 and 20*)	**440,595**	429,167
Data processing	**102,152**	115,116
Premises and occupancy, including depreciation	**86,646**	75,392
Professional and consulting costs	**40,185**	43,730
Deposit guarantee fee	**29,036**	26,656
Equipment, including depreciation	**23,742**	24,813
Software and other intangibles amortization	**41,279**	32,770
General and administrative	**71,409**	62,731
ATB agencies	**9,039**	8,605
Other	**21,809**	24,636
	865,892	843,616
Net income before payment in lieu of tax	**317,922**	253,387
Payment in lieu of tax (*note 24*)	**73,122**	58,279
Net income	**$ 244,800**	$ 195,108

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)	2013	2012
Net income	**$ 244,800**	$ 195,108
Other comprehensive (loss) income		
Unrealized net gains on financial assets available for sale:		
Unrealized net gains (losses) arising during the period	**12**	182
Unrealized net gains on derivative financial instruments designated as cash flow hedges:		
Unrealized net gains arising during the period	**27,878**	95,516
Net gains reclassified to net income	**(27,917)**	(25,363)
Net actuarial losses on employee benefits	**(50,875)**	(58,375)
Other comprehensive (loss) income	**(50,902)**	11,960
Comprehensive income	**$ 193,898**	$ 207,068

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)	2013	2012
Retained earnings		
Balance at beginning of the year	**$ 2,079,985**	$ 1,884,877
Net income	**244,800**	195,108
Balance at end of the year	**2,324,785**	2,079,985
Accumulated other comprehensive loss		
Available-for-sale financial assets		
Balance at beginning of the year	**(185)**	(367)
Other comprehensive income	**12**	182
Balance at end of the year	**(173)**	(185)
Derivative financial instruments designated as cash flow hedges		
Balance at beginning of the year	**55,944**	(14,209)
Other comprehensive (loss) income	**(39)**	70,153
Balance at end of the year	**55,905**	55,944
Employee benefits – actuarial losses		
Balance at beginning of the year	**(74,181)**	(15,806)
Other comprehensive loss	**(50,875)**	(58,375)
Balance at end of the year	**(125,056)**	(74,181)
Accumulated other comprehensive loss	**(69,324)**	(18,422)
Equity	**$ 2,255,461**	$ 2,061,563

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)*		**2013**		2012
Cash flows from operating activities:				
Net income	**$**	**244,800**	$	195,108
Adjustments for non-cash items and others:				
Provision for credit losses		**45,923**		23,255
Depreciation and amortization		**91,955**		75,868
Net gains on financial instruments at fair value through net income		**(88,188)**		(64,507)
Adjustments for net changes in operating assets and liabilities:				
Loans		**(2,924,477)**		(1,615,414)
Deposits		**1,493,008**		1,247,657
Derivative financial instruments		**(14,452)**		23,116
Interest-bearing deposits with financial institutions		**66,852**		253,860
Prepayments and other receivables		**6,405**		(5,486)
Due to clients, brokers, and dealers		**9,832**		3,454
Deposit guarantee fee payable		**2,380**		1,157
Accounts payable and accrued liabilities		**106,567**		(494)
Liability for payment in lieu of tax		**14,843**		(1,019)
Net interest receivable and payable		**48,185**		(50,764)
Change in accrued pension-benefit liability		**(16,486)**		44,253
Others, net		**(20,483)**		42,046
Net cash (used in) provided by operating activities		**(933,336)**		172,090
Cash flows from investing activities:				
Change in securities measured at fair value through net income		**1,032,507**		47,938
Change in securities purchased under reverse repurchase agreements		**(10)**		(99,997)
Purchases of property and equipment, software, and other intangibles		**(98,667)**		(111,534)
Net cash provided by (used in) investing activities		**933,830**		(163,593)
Cash flows from financing activities:				
Change in wholesale borrowings		**(185,028)**		(219,416)
Change in capital investment notes		**(1,134)**		(1,292)
Change in collateralized borrowings		**452,275**		203,637
Issuance of subordinated debentures		**42,290**		45,895
Net cash provided by financing activities		**308,403**		28,824
Net increase in cash		**308,897**		37,321
Cash at beginning of period		**247,706**		210,385
Cash at end of period	**$**	**556,603**	$	247,706
Net cash provided by (used in) operating activities includes:				
Interest paid	**$**	**(422,660)**	$	(444,603)
Interest received	**$**	**1,340,949**	$	1,201,195

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended March 31
($ 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 9888 Jasper Avenue, 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 24.) 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). These consolidated financial statements were approved by the Board of Directors on May 29, 2013.

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 has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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, 2013, 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 8: Securities – for establishing fair value of ABCP notes
- Note 17: 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 expired.

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 are 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; or
- 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 (losses) 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, which are classified as held for trading, and those that the entity upon initial recognition designates as fair value through net income;
- Those that upon initial recognition ATB designates as available for sale; or
- 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 loans. Interest on loans is included in the consolidated statement of income and is reported as part of net interest income. In the case of an impairment, the impairment loss is 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 dates.

Financial Liabilities

Financial Liabilities at Fair Value Through Net Income

This category comprises two sub-categories: 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 on 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 (losses) 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, 2013, 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 amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. 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 re-measured, 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 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. It becomes probable 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; or
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; and
   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 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.

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 as at the reporting dates.

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, 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 on 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

Hedge accounting is optional and allows recognition of the effective component of a hedging derivative in net income at the same time as the hedged item, thus reducing income volatility. The change in fair value attributable to any ineffective component of a hedging derivative is recognized as gains or losses on derivative financial instruments in other income during the period of ineffectiveness.

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:

- 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; or
- 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 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 as 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 on 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 on 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 on the consolidated statement of financial position at an amount equal to the fair value of the leased property or, if lower, 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. This 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 17.)

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 recorded initially 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 credit card receivables and residential mortgage loans guaranteed by the Canada Mortgage and Housing Corporation (CMHC) through the Canada Mortgage Bond (CMB) program 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 on 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 pre-payment 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. This 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. Future Accounting Changes

IFRS 7 Financial Instruments – Disclosures

On December 16, 2011, the IASB issued amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities*, which requires disclosures about the effect or potential effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after January 1, 2013, with retrospective application. ATB is currently assessing the impact of the amendment to its disclosure requirements.

IFRS 9 Financial Instruments – Phase 1

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.

Impairment of financial asset methodology, offsetting of financial assets and liabilities, and hedging activities will be covered in future phases that will complete IFRS 9.

On December 16, 2011, the IASB issued amendments to IFRS 9 *Financial Instruments*, that defer the mandatory effective date from January 1, 2013, to January 1, 2015. The deferral allows all phases of the project to have the same mandatory effective date. The amendments also provide relief from the requirements to restate comparative financial statements for the effect of applying IFRS 9, although additional transitional disclosures will be required. Earlier application of the standard is permitted.

ATB is currently assessing the impact of adopting IFRS 9; however, since the impact depends on the financial instruments held by ATB on the date of adoption, ATB cannot quantify it.

IFRS 10 Consolidated Financial Statements

On May 12, 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*. IFRS 10 establishes principles for presenting and preparing consolidated financial statements when an entity controls one or more other entities. IFRS 10 defines a new approach for determining consolidation for all entities, based on the concept of power, variability of returns, and their linkage. This differs from the current approach which emphasizes legal control or

exposure to risks and rewards, depending on the nature of the entity. IFRS 10 replaces IAS 27 *Consolidated and Separate Financial Statements* relating to consolidated financial statements and SIC 12 *Consolidation – Special Purpose Entities*.

On June 28, 2012, the IASB published the *Consolidated Financial Statements, Joint Arrangements, and Disclosures of Interests in Other Entities: Transition Guidance*, which clarify the guidance and requirements for IFRS 10 once effective.

ATB is currently assessing the presentation and preparation requirements, which must be applied retrospectively for annual periods beginning on or after January 1, 2013.

IFRS 12 Disclosure of Interests in Other Entities

On May 12, 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities*. This new standard establishes the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, and unconsolidated structured entities. ATB is currently assessing these disclosure requirements, which must be applied prospectively for annual periods beginning on or after January 1, 2013.

IFRS 13 Fair Value Measurement

On May 12, 2011, the IASB issued 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. IFRS 13 does not change when an entity is required to use fair value, but rather describes how to measure fair value under IFRS when it is required or permitted by IFRS. In addition, disclosures about fair value measurement are enhanced by this standard.

ATB is currently assessing the fair value measurement requirements, which must be applied prospectively for the annual periods beginning on or after January 1, 2013.

IAS 1 Presentation of Financial Statements

On June 16, 2011, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*, which improves the presentation of items of other comprehensive income. The amendments require items presented in other comprehensive income not reclassified in a subsequent period to the statement of income be separately distinguished from those that will be. ATB is currently assessing the impact of adopting this new standard. The revised standard is effective for annual periods beginning on or after July 1, 2012, with early adoption permitted. ATB will therefore apply these amendments to the year beginning April 1, 2013.

IAS 19 Employee Benefits

On June 16, 2011, the IASB issued an amended version of IAS 19 *Employee Benefits*, to eliminate the option to defer the recognition of gains and losses, known as the "corridor method." All actuarial gains and losses will now be recognized in other comprehensive income. The presentation of changes in assets and liabilities arising from DB plans will be streamlined, and disclosure requirements for DB plans will be enhanced.

ATB is currently assessing the impact of adopting this new standard, which will be applied retrospectively. The revised standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. ATB will therefore apply these amendments to the year beginning April 1, 2013.

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, 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	-	-	-	10,705,908	-	-	10,705,908
Residential mortgages	-	-	-	12,732,228	-	-	12,732,228
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.

As at March 31, 2012
($ 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	$ -	$ -	$ -	$ 247,706	$ -	$ -	$ 247,706[1]
Interest-bearing deposits with financial institutions	-	869,939	-	-	-	-	869,939[1]
Securities	-	1,912,517	2,200	-	-	-	1,914,717[1]
Securities purchased under reverse repurchase agreements	-	-	-	99,997	-	-	99,997[1]
Loans							
Business	-	-	-	10,426,401	-	-	10,426,401
Residential mortgages	-	-	-	10,228,030	-	-	10,228,030
Personal	-	-	-	5,562,053	-	-	5,562,053
Credit card	-	-	-	599,431	-	-	599,431
Allowance for credit losses	-	-	-	(107,102)	-	-	(107,102)
	-	-	-	26,708,813	-	-	26,708,813[2]
Other							
Derivative financial instruments	257,585	-	-	-	-	66,773	324,358
Other assets	-	-	-	233,214	-	-	233,214
	257,585	-	-	233,214	-	66,773	557,572[1]
Financial liabilities							
Deposits							
Personal	-	-	-	-	10,785,376	-	10,785,376
Business and other	-	-	-	-	11,435,656	-	11,435,656
	-	-	-	-	22,221,032	-	22,221,032[3]
Other							
Wholesale borrowings	-	-	-	-	2,780,740	-	2,780,740[4]
Collateralized borrowings	-	-	-	-	2,651,217	-	2,651,217[5]
Derivative financial instruments	257,039	-	-	-	-	2,809	259,848[1]
Other liabilities	-	-	-	-	503,221	-	503,221[1]
	257,039	-	-	-	5,935,178	2,809	6,195,026
Capital investment notes	-	-	-	-	237,701	-	237,701[6]
Subordinated debentures	-	-	-	-	113,362	-	113,362[7]

[1] Fair value estimated to equal carrying value.
[2] Fair value of loans estimated to be $27,827,300.
[3] Fair value of deposits estimated to be $22,038,977.
[4] Fair value of wholesale borrowings estimated to be $2,806,011.
[5] Fair value of collateralized borrowings estimated to be $2,737,598.
[6] Fair value of capital investment notes estimated to be $253,132.
[7] Fair value of subordinated debentures estimated to be $119,821.

Fair Value Hierarchy

Financial instruments recorded at fair value on 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 to 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 in Level 3 consist of the following:

- Securities designated at fair value through net income – Investments in asset-backed commercial paper (ABCP). (Refer to note 8.)
- Securities available for sale – Investments in ABCP. (Refer to note 8.)
- Financial liabilities designated at fair value through net income – Embedded derivatives relating to interest rate options on certain residential mortgages

The following table presents the level within the fair value hierarchy of ATB's financial assets and liabilities measured at fair value:

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 $**	**- $**	**803,072**
Securities				
Designated at fair value through net income	**-**	**108,791**	**773,050**	**881,841**
Available-for-sale	**-**	**-**	**469**	**469**
Other assets				
Derivative financial instruments	**-**	**286,508**	**-**	**286,508**
Total financial assets	**$ - $**	**1,198,371 $**	**773,519 $**	**1,971,890**
Financial liabilities				
Other liabilities				
Derivative financial instruments	**-**	**207,584**	**-**	**207,584**
Total financial liabilities	**$ - $**	**207,584 $**	**- $**	**207,584**

As at March 31, 2012 ($ in thousands)	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Designated at fair value through net income	$ - $	869,939 $	- $	869,939
Securities				
Designated at fair value through net income	-	1,214,436	698,081	1,912,517
Available-for-sale	-	-	2,200	2,200
Other assets				
Derivative financial instruments	-	324,358	-	324,358
Total financial assets	$ - $	2,408,733 $	700,281 $	3,109,014
Financial liabilities				
Other liabilities				
Derivative financial instruments	206	259,541	101	259,848
Total financial liabilities	$ 206 $	259,541 $	101 $	259,848

ATB performs a sensitivity analysis for fair value measurements classified in Level 3, substituting one or more reasonably possible alternative assumptions for the unobservable inputs. These sensitivity analyses are detailed in note 8 for the ABCP investments designated at fair value through net income. The sensitivity analysis for the available-for-sale ABCP and the embedded derivatives relating to interest rate options on certain residential mortgages resulted in an insignificant change in fair value.

The following table presents the changes in fair value of Level 3 financial instruments for the year ended March 31, 2013:

($ 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	-	86,924	101
Total realized and unrealized gains included in other comprehensive income	12	-	-
Net purchases, sales, issuances, and settlements	(1,743)	(11,955)	-
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	$ -	$ 86,924	$ 101

($ 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, 2011	$ 3,453	$ 634,673	$ (189)
Total realized and unrealized gains included in net income	-	65,691	88
Total realized and unrealized gains included in other comprehensive income	182	-	-
Net purchases, sales, issuances, and settlements	(1,435)	(2,283)	-
Fair value as at March 31, 2012	$ 2,200	$ 698,081	$ (101)
Change in unrealized gains included in income with respect to financial instruments held as at March 31, 2012	$ -	$ 65,691	$ 88

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 2013 consolidated financial statements.

6. Capital Disclosure

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, 2013, 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)		**2013**		2012
Tier 1 capital				
Retained earnings	**$**	**2,324,785**	$	2,079,985
Tier 2 capital				
Eligible portions of:				
Subordinated debentures		**97,433**		70,283
Capital investment notes		**48,923**		95,080
Collective allowance for credit losses		**69,200**		67,472
Notional capital		**431,242**		492,442
		646,798		725,277
Total regulatory capital	**$**	**2,971,583**	$	2,805,262
Total risk-weighted assets	**$**	**24,335,887**	$	22,259,589
Risk-weighted capital ratios:				
Tier 1 capital ratio		**9.6%**		9.3%
Total regulatory capital ratio		**12.2%**		12.6%

7. 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 (LVTS). 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 March 31, 2013, carrying value of interest-bearing deposits with financial institutions consists of $803,072 (2012: $869,939) 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 CMB program. The amount of restricted cash as at March 31, 2013, is $40,854 (2012: $49,777).

8. Securities

The carrying value of securities by remaining term to maturity and net of valuation provisions is as follows:

As at March 31, 2013 ($ in thousands)	Within 1 year	From 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

As at March 31, 2012 ($ in thousands)	Within 1 year	From 1–5 years	Over 5 years	Total carrying value
Securities available for sale				
Commercial paper				
Third-party-sponsored ABCP	$ -	$ 2,200	$ -	$ 2,200
Total securities available for sale	-	2,200	-	2,200
Securities measured at fair value through net income				
Issued or guaranteed by the Canadian federal or provincial government	1,214,436	-	-	1,214,436
Commercial paper				
Third-party-sponsored ABCP	-	632,787	14,660	647,447
Bank-sponsored ABCP	-	50,634	-	50,634
Total securities measured at fair value through net income	1,214,436	683,421	14,660	1,912,517
Total securities	$ 1,214,436	$ 685,621	$ 14,660	$ 1,914,717

The total carrying value of securities in the preceding schedule includes securities denominated in U.S. funds totalling $25,898 as at March 31, 2013 (2012: $25,918).

Gross unrealized gains (losses) on securities available for sale are presented in the following table:

As at March 31, 2013 *($ in thousands)*	**Cost or amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Carrying value**
Securities available for sale				
Commercial paper				
Third-party-sponsored ABCP	**$ 642**	**$ -**	**$ (173)**	**$ 469**
Total securities available for sale	**$ 642**	**$ -**	**$ (173)**	**$ 469**

As at March 31, 2012 *($ in thousands)*	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Securities available for sale				
Commercial paper				
Third-party-sponsored ABCP	$ 2,385	$ -	$ (185)	$ 2,200
Total securities available for sale	$ 2,385	$ -	$ (185)	$ 2,200

Asset-Backed Commercial Paper

As at March 31, 2013, ATB held asset-backed commercial paper (ABCP) with a total face value of $996,952 (2012: $1,011,739). During the year, ATB received principal payments of $15,417 (2012: $3,425) and interest payments of $16,215 (2012: $14,718) 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 a maturity date that more closely matches the maturities of the underlying assets, as detailed in the following table:

As at March 31, 2013 ($ in thousands)		Cost	Coupon	Expected principal repayment	Credit rating
Third-party ABCP					
MAV 1					
Class A-1	$	408,327	0.30%[1]	Dec 2016	AA (low)
Class A-2		384,746	0.30%[1]	Dec 2016	A
Class B		65,594	0.30%[1]	Dec 2016	BBB (low)
Class C		26,737	20.0%[1]	Dec 2016	None
Tracking notes for ineligible assets		9,115	Floating[2]	July 2056	None
Total MAV 1		**894,519**			
MAV 3					
Tracking notes for traditional assets		642	Floating[2]	Sept 2016	None
Total MAV 3		**642**			
Other		**34,770**	1.55%[1]	Dec 2016	BB (high)
Total third-party ABCP		**929,931**			
Bank-sponsored ABCP		**67,021**	0%–0.35%[1]	Dec 2013–Sept 2016	None–A (low)
Total ABCP	**$**	**996,952**			

[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 also contains tracking notes for ineligible assets. The return and maturity of these notes is linked to the underlying assets.

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, $16,628 (2012: $21,008) has been recorded in other liabilities. As at March 31, 2013, 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 three bank-sponsored notes: two 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, 2013, 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, 2013 and 2012:

($ in thousands)	2012 cost	2012 estimated fair value	Note redemptions	Foreign-exchange impact[1]	2013 cost	2013 estimated fair value
MAV 1	$ 907,563	$ 625,171	$ (13,674)	$ 630	**$ 894,519**	**$ 689,863**
MAV 3	2,385	2,200	(1,743)	-	**642**	**469**
Other third-party-sponsored ABCP	34,770	22,276	-	-	**34,770**	**26,175**
Bank-sponsored ABCP	67,021	50,634	-	-	**67,021**	**57,012**
Total ABCP	$ 1,011,739	$ 700,281	$ (15,417)	$ 630	**$ 996,952**	**$ 773,519**

[1] MAV 1 includes securities with a carrying value of $25,898 (March 31, 2012: $25,918) 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 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.

DBRS increased the credit rating on the Class A-1 and B note in MAV 1 during the year. The Class A-1 note increased from A (high) to AA (low) and the B note was rated a BBB (low). The B note was not assigned a rating last year.

ATB has recognized a $77,736 increase in fair value on the MAV 1 notes and a $12 increase in the value of the MAV 3 notes this year (2012: MAV 1 $50,146, MAV 3 $182).

Other Third-Party ABCP

ATB holds an investment of $34,770 of third-party-sponsored ABCP restructured outside the Montreal Accord. The DBRS currently rates this investment 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 $3,899 (2012: $7,673). 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 similar 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 $6,378 (2012: $6,564) during the year. This increase in value during the year was due to an improvement in the credit quality of the notes.

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 $16,215 (2012: $14,718) of interest income recognized on its ABCP during the year, ATB also recognized $4,380 (2012: $4,320) in other income, representing the accretion of the MFF deferral. ATB recorded a $86,924 adjustment to the fair value of the ABCP portfolio, compared to the $64,676 recognized in 2012.

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 our 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 $26,398 (2012: $30,000).

9. Loans

Credit Quality

Loans consist of the following:

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

As at March 31, 2012 ($ in thousands)	Gross loans	Allowances assessed Individually	Allowances assessed Collectively	Net carrying value
Business	$ 10,426,401	$ 22,975	$ 31,149	$ 10,372,277
Residential mortgages	10,228,030	6,063	8,808	10,213,159
Personal	5,562,053	10,592	11,586	5,539,875
Credit card	599,431	-	15,929	583,502
Total	$ 26,815,915	$ 39,630	$ 67,472	$ 26,708,813

The total net carrying value of the above loans includes loans denominated in U.S. funds, totalling $477,101 as at March 31, 2013 (2012: $277,401). The amount of foreclosed assets held for resale as at March 31, 2013, is $15,093 (2012: $23,267).

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, 2013 ($ in thousands)	Residential mortgages	Business	Personal	Credit card[1]	Total
Up to one month	$ 192,657	$ 185,172	$ 43,324	$ 33,440	$ 454,593
Over one month up to two months	46,533	5,168	12,317	7,906	71,924
Over two months up to three months	5,077	3,833	7,306	2,532	18,748
Over three 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**

As at March 31, 2012 ($ in thousands)	Residential mortgages	Business	Personal	Credit card[1]	Total
Up to one month	$ 184,057	$ 143,576	$ 43,216	$ 36,687	$ 407,536
Over one month up to two months	44,456	4,007	12,287	8,674	69,424
Over two months up to three months	4,851	2,972	7,288	2,778	17,889
Over three months	3,382	2,093	4,592	3,487	13,554
Total past due but not impaired	$ 236,746	$ 152,648	$ 67,383	$ 51,626	$ 508,403

[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, 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**

As at March 31, 2012 ($ in thousands)	Gross impaired loans	Allowances individually assessed	Net carrying value
Business	$ 66,013	$ 22,975	$ 43,038
Residential mortgages	100,035	6,063	93,972
Personal	34,903	10,592	24,311
Total	$ 200,951	$ 39,630	$ 161,321

Industry Concentration

ATB is inherently exposed to significant concentrations of credit risk as its customers 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 by limiting concentrations to single borrowers, industries, and geographic regions of Alberta. As at March 31, 2013, no single industry segment represents more than 22.8% (2012: 25.5%) of total gross business loans, and no single borrower represents more than 0.28% (2012: 0.36%) of the total gross loan portfolio.

10. 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 19.)

The continuity of the allowance for credit losses is as follows:

As at March 31 *($ in thousands)*		**2013**		2012
Collectively assessed				
Balance at beginning of the year	**$**	**67,472**	$	73,808
Provision (recovery) for credit losses		**1,728**		(6,336)
Balance at end of the year		**69,200**		67,472
Individually assessed				
Balance at beginning of the year	**$**	**39,630**	$	40,844
Writeoffs and recoveries		**(30,136)**		(30,805)
Provision for credit losses		**44,195**		29,591
Balance at end of the year		**53,689**		39,630
Total	**$**	**122,889**	$	107,102

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 at April 1, 2011	169,331	86,629	86,228	46,433	16,335	8,594	109,020	7,470	530,040
Acquisitions	12,695	12,018	7,340	5,851	14,117	16,994	43,210	-	112,225
Disposals	(766)	(8,128)	(147)	(454)	(20,917)	(19,378)	(28,639)	-	(78,429)
Balance at March 31, 2012	$ 181,260	$ 90,519	$ 93,421	$ 51,830	$ 9,535	$ 6,210	$ 123,591	$ 7,470	$ 563,836
Balance 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 at March 31, 2013	**$ 200,029**	**$ 95,236**	**$ 94,579**	**$ 59,261**	**$ 11,001**	**$ 15,701**	**$ 156,529**	**$ 7,380**	**$ 639,716**
Depreciation									
Balance at April 1, 2011	99,582	52,222	61,476	32,285	-	-	48,481	-	294,046
Depreciation for the period	12,844	17,771	2,286	4,781	-	-	5,416	-	43,098
Disposals	(1,040)	(8,748)	(13)	(441)	-	-	(18,867)	-	(29,109)
Balance at March 31, 2012	$ 111,386	$ 61,245	$ 63,749	$ 36,625	$ -	$ -	$ 35,030	$ -	$ 308,035
Balance 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 at March 31, 2013	**$ 121,498**	**$ 76,618**	**$ 65,106**	**$ 41,666**	**$ -**	**$ -**	**$ 44,033**	**$ -**	**$ 348,921**
Carrying amounts									
Balance at March 31, 2012	69,874	29,274	29,672	15,205	9,535	6,210	88,561	7,470	255,801
Balance at March 31, 2013	**$ 78,531**	**$ 18,618**	**$ 29,473**	**$ 17,595**	**$ 11,001**	**$ 15,701**	**$ 112,496**	**$ 7,380**	**$ 290,795**

Depreciation expense charged to the consolidated statement of income for the year ended March 31, 2013, for premises and equipment was $48,217 (2012: $43,098). There was $2,482 in impairment write-downs recognized during the year ended March 31, 2013 (2012: $328). A gain of $654 (2012: nil) 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 at April 1, 2011	141,522	238,891	2,125	382,538
Acquisitions	280,350	48,424	-	328,774
Disposals	(34,495)	(279,193)	-	(313,688)
Balance at March 31, 2012	$ 387,377	$ 8,122	$ 2,125	$ 397,624
Balance 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 at March 31, 2013	**$ 394,316**	**$ 13,629**	**$ 2,125**	**$ 410,070**
Amortization				
Balance at April 1, 2011	84,656	-	874	85,530
Amortization for the period	32,062	-	708	32,770
Disposals	(33,543)	-	-	(33,543)
Balance at March 31, 2012	$ 83,175	$ -	$ 1,582	$ 84,757
Balance at April 1, 2012	**83,175**	**-**	**1,582**	**84,757**
Amortization for the period	**40,826**	**-**	**453**	**41,279**
Disposals	**(551)**	**-**	**-**	**(551)**
Balance at March 31, 2013	**$ 123,450**	**$ -**	**$ 2,035**	**$ 125,485**
Carrying amounts				
Balance at March 31, 2012	304,202	8,122	543	312,867
Balance at March 31, 2013	**$ 270,866**	**$ 13,629**	**$ 90**	**$ 284,585**

Amortization expense charged to the consolidated statement of income for the year ended March 31, 2013, for software and intangibles was $41,279 (2012: $32,770). There were $110 (2012: nil) in impairment write-downs recognized during the year ended March 31, 2013.

13. Other Assets

Other assets consist of the following:

As at March 31 ($ in thousands)	2013	2012
Accrued interest receivable	**$ 114,449**	$ 179,793
Prepaid expenses and other receivables	**86,768**	93,173
Other	**16,536**	12,576
Total	**$ 217,753**	$ 285,542

14. Deposits

Deposit balances consist of the following:

As at March 31, 2013 ($ in thousands)	Payable on demand	Payable after notice	Payable on a fixed date					Total
			Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	
Personal	$ 2,346,552	$ 4,589,926	$ 2,559,173	$ 1,200,919	$ 186,946	$ 134,457	$ 82,384	$ 11,100,357
Business and other	7,102,540	1,903,540	3,444,361	121,060	23,408	25,213	10,892	12,631,014
Total	$ 9,449,092	$ 6,493,466	$ 6,003,534	$ 1,321,979	$ 210,354	$ 159,670	$ 93,276	$ 23,731,371

As at March 31, 2012 ($ in thousands)	Payable on demand	Payable after notice	Payable on a fixed date					Total
			Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	
Personal	$ 1,992,959	$ 4,443,850	$ 2,338,783	$ 1,284,784	$ 433,330	$ 164,461	$ 127,209	$ 10,785,376
Business and other	6,968,283	2,017,035	2,227,232	139,587	49,115	11,893	22,511	11,435,656
Total	$ 8,961,242	$ 6,460,885	$ 4,566,015	$ 1,424,371	$ 482,445	$ 176,354	$ 149,720	$ 22,221,032

The total deposits presented above include $725,207 (2012: $738,309) denominated in U.S. funds.

As at March 31, 2013, deposits by various departments and agencies of the Government of Alberta included in the preceding schedule total $235,041 (2012: $153,683).

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, 2013, the fee was $29,036 (2012: $26,656).

15. Other Liabilities

Other liabilities consist of the following:

As at March 31 ($ in thousands)	2013	2012
Accounts payable and accrued liabilities	$ 428,139	$ 328,215
Accrued interest payable	67,898	93,106
Payment in lieu of tax payable *(note 24)*	73,122	58,279
Deposit guarantee fee payable	29,036	26,656
Due to clients, brokers, and dealers	27,422	17,590
Achievement Notes *(note 27)*	22,546	15,903
Accrued pension-benefit liability *(note 17)*	138,042	154,528
Total	$ 786,205	$ 694,277

16. 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 24, subordinated debentures were issued in 2011 and 2012 to settle the outstanding liability for ATB's payment in lieu of tax as at March 31, 2011 and 2012.

Subordinated debentures consist of the following:

As at March 31 ($ in thousands)			
Maturity date	Interest rate	**2013**	2012
June 30, 2012	4.5%	**$ -**	$ 15,989
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**	-
Total		**$ 155,653**	$ 113,362

17. Employee Benefits

Multi-Employer Pension Plan

Public Service Pension Plan

The Public Service Pension Plan 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 DB accounting. ATB has estimated its share of the fair value of assets, the DB obligation, and the net pension liability at March 31, 2013, 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 will reassess the estimated value of this liability annually and will disclose the result annually in the March 31 year-end financial statements.

Registered Pension Plan – DB Provisions

ATB provides its management employees with a registered pension plan (the ATB Plan) with either DB or 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.

Asset Allocation and Rates of Return

For the DB provision, the overall expected long-term rate of return on assets at March 31, 2013, is 5.15% per annum (6.49% per annum at March 31, 2012), based on the following portfolio mix:

	Target 2013		Actual	Target 2012		Actual
(%)	**Normal**	**Min–Max**	**2013**	Normal	Min–Max	2012
Equities						
Canadian	**14**	**11.5–16.5**	**14.5**	22	20–30	13
Foreign	**25**	**22.5–27.5**	**28.2**	40	40–50	38
	39		**42.7**	62		51
Fixed income						
Canadian	**61**	**42.5–80**	**56.4**	38	20–40	48
Cash	**-**	**0–1**	**0.9**	-	0–15	1
Total	**100**		**100**	100		100

The expected long-term rate of return on assets represents the best estimate of long-term future asset returns, which takes into account market return expectations and portfolio mix plus additional factors such as the current inflation expectation and interest rate yield curve.

The actual return on plan assets for the DB provision of the ATB Plan for the year ended March 31, 2013, was $15,277 (2012: $5,872).

Cash Payments

Total cash paid or payable for employee benefits for the year ended March 31, 2013—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 $97,094 (2012: $45,326). The cash payments increased over the prior year as ATB made an additional contribution to improve the DB plan's solvency ratio in fiscal 2013.

Contributions expected during the upcoming year are $25,549 (2012: $75,051) for the DB portion of the ATB plan, $200 (2012: $155) for the unfunded SRP and CPS, and $14,417 (2012: $12,260) for the PSPP.

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)	**2013**	2012
Registered plan		
Fair value of plan assets	**$ 302,580**	$ 217,166
Projected benefit obligation	**(324,802)**	(277,916)
Net pension-benefit liability[1]	**$ (22,222)**	$ (60,750)
Supplemental and other		
Unfunded projected benefit obligation, representing the plan funding deficit	**(14,499)**	(10,620)
Net pension-benefit liability[1]	**$ (14,499)**	$ (10,620)
ATB's share of PSPP		
Fair value of plan assets	**$ 180,491**	$ 157,216
Projected benefit obligation	**(281,812)**	(240,374)
Net pension-benefit liability[1]	**$ (101,321)**	$ (83,158)
Total net pension-benefit liability[1], [2]	**$ (138,042)**	$ (154,528)

[1] There is no impact from the effect of asset limitation and IAS minimum funding requirements.
[2] There are no unrecognized actuarial gains/losses and past-service costs.

The net accrued benefit liability are included in other liabilities in the consolidated statement of financial position as appropriate. (Refer to note 15.)

Other Comprehensive Income

	Registered plan		**Supplemental and other**		**ATB's share of PSPP**	
As at March 31 ($ in thousands)	**2013**	2012	**2013**	2012	**2013**	2012
Actuarial (gain) loss on plan assets	**$ (1,573)**	$ 7,326	**$ -**	$ -	**$ (10,417)**	$ 1,820
Experience loss on plan liabilities	**30,364**	35,341	**2,533**	1,341	**29,968**	12,547
Amount recognized in OCI	**$ 28,791**	$ 42,667	**$ 2,533**	$ 1,341	**$ 19,551**	$ 14,367
Beginning balance, AOCI	**52,502**	9,835	**1,584**	243	**20,095**	5,728
Ending balance, AOCI	**$ 81,293**	$ 52,502	**$ 4,117**	$ 1,584	**$ 39,646**	$ 20,095

Change in Plan Assets and Benefit Obligations

Changes in the estimated financial position of the DB provisions of the ATB Plan, the PSPP, and of 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)	**2013**	2012	**2013**	2012	**2013**	2012
Change in fair value of plan assets						
Fair value of plan assets at beginning of the year	**$ 217,166**	$ 195,544	**$ -**	$ -	**$ 157,216**	$ 145,369
Contributions from ATB	**74,426**	18,912	**200**	833	**12,160**	11,279
Contributions from employees	**1,329**	1,148	**-**	-	**-**	-
Expected return on plan assets	**13,704**	13,198	**-**	-	**10,712**	10,231
Actuarial gain (loss) on plan assets	**1,573**	(7,326)	**-**	-	**10,417**	(1,820)
Benefits paid	**(9,343)**	(7,243)	**(200)**	(833)	**(10,014)**	(7,843)
Net transfer in – Public Service Pension Plan	**4,865**	4,088	**-**	-	**-**	-
Actual plan expenses	**(1,140)**	(1,155)	**-**	-	**-**	-
Fair value of plan assets at end of the year	**$ 302,580**	$ 217,166	**$ -**	$ -	**$ 180,491**	$ 157,216
Change in projected benefit obligation						
Projected benefit obligation at beginning of the year	**$ 277,916**	$ 227,066	**$ 10,620**	$ 9,200	**$ 240,374**	$ 214,922
Actuarial loss	**30,364**	35,341	**2,533**	1,341	**29,968**	12,547
Current service cost (including provision for expenses)	**4,314**	3,817	**1,005**	1,048	**9,662**	8,442
Expenses paid	**(1,140)**	(1,155)	**-**	-	**-**	-
Contributions from employees	**1,329**	1,148	**-**	-	**-**	-
Past-service costs (recovery)	**2,856**	1,872	**-**	(686)	**-**	-
Net transfer in – Public Service Pension Plan	**4,865**	4,088	**-**	-	**-**	-
Interest cost	**13,641**	12,982	**541**	550	**11,822**	12,306
Benefits paid	**(9,343)**	(7,243)	**(200)**	(833)	**(10,014)**	(7,843)
Projected benefit obligation at end of the year	**$ 324,802**	$ 277,916	**$ 14,499**	$ 10,620	**$ 281,812**	$ 240,374
Net pension-benefit liability	**$ (22,222)**	$ (60,750)	**$ (14,499)**	$ (10,620)	**$ (101,321)**	$ (83,158)

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)	**2013**	2012	**2013**	2012	**2013**	2012
Current service cost (including provision for expenses)	**$ 4,314**	$ 3,817	**$ 1,005**	$ 1,048	**$ 9,662**	$ 8,442
Interest cost on projected benefit obligation	**13,641**	12,982	**541**	550	**11,822**	12,306
Past-service costs (recovery)	**2,856**	1,872	**-**	(686)	**-**	-
Expected return on plan assets	**(13,704)**	(13,198)	**-**	-	**(10,712)**	(10,231)
Net pension-benefit expense recognized	**$ 7,107**	$ 5,473	**$ 1,546**	$ 912	**$ 10,772**	$ 10,517

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	
	2013	2012	**2013**	2012	**2013**	2012
Accrued benefit obligation as at March 31						
Discount rate at end of year	**4.20%**	4.90%	**4.20%**	4.90%	**4.30%**	4.90%
Rate of compensation increase[1]	**3.60%**	3.90%	**3.60%**	3.90%	**3.75%**	3.75%
Defined benefit expense for the year ended March 31						
Discount rate at beginning of year	**4.90%**	5.70%	**4.90%**	5.70%	**4.90%**	5.70%
Expected long-term return on plan assets	**5.15%**	6.49%	**-**	-	**6.72%**	6.95%
Rate of compensation increase[1]	**3.90%**	3.80%	**3.90%**	3.80%	**3.75%**	3.75%
ATB's share of PSPP contributions	**-**	-	**-**	-	**4.70%**	4.60%

[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, 2013, and the related expense for the year then ended:

	Registered plan		Supplemental and other	
As at March 31, 2013 ($ in thousands)	**Benefit obligation**	**Benefit expense**	**Benefit obligation**	**Benefit expense**
Discount rate				
Impact of: 1.0% increase	**$ (48,292)**	**$ (1,941)**	**$ (1,499)**	**$ (53)**
1.0% decrease	**62,731**	**2,545**	**1,888**	**56**
Inflation rate				
Impact of: 1.0% increase	**30,075**	**2,204**	**300**	**30**
1.0% decrease	**(26,352)**	**(1,939)**	**(258)**	**(30)**
Rate of compensation increase				
Impact of: 0.25% increase	**2,486**	**311**	**1**	**-**
0.25% decrease	**(2,419)**	**(304)**	**(1)**	**(2)**
Expected long-term rate of return on plan assets				
Impact of: 1.0% increase	**-**	**(2,661)**	**-**	**-**
1.0% decrease	**-**	**2,661**	**-**	**-**

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.

18. 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 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 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. Future 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)	2013 Favourable position	2013 Unfavourable position	2012 Favourable position	2012 Unfavourable position
Contracts ineligible for hedge accounting				
Interest rate contracts				
Swaps	**$ 3,482**	**$ (5,472)**	$ 8,692	$ (6,854)
Other	**25,128**	**(26,290)**	653	(431)
	28,610	**(31,762)**	9,345	(7,285)
Embedded derivatives				
Equity- and commodity-linked deposits	**-**	**(74,580)**	-	(50,555)
Other	**-**	**-**	-	(101)
	-	**(74,580)**	-	(50,656)
Foreign-exchange contracts				
Forwards	**3,034**	**(2,356)**	5,852	(14,832)
Cross-currency swaps	**4,894**	**(4,107)**	-	-
Equity contracts				
Options	**74,531**	**-**	49,807	-
Forward contracts				
Commodities	**107,999**	**(94,779)**	192,529	(184,266)
Total fair value ineligible contracts	**219,068**	**(207,584)**	257,533	(257,039)
Contracts eligible for hedge accounting				
Interest rate contracts				
Swaps	**67,440**	**-**	66,825	(2,809)
Total fair value eligible contracts	**67,440**	**-**	66,825	(2,809)
Total fair value	**$ 286,508**	**$ (207,584)**	$ 324,358	$ (259,848)
Less impact of master netting agreements	**-**		(2,480)	
Less impact of financial institution counterparty collateral held	**(81,430)**		(51,010)	
Residual credit exposure on derivatives to ATB	**$ 205,078**		$ 270,868	

All of the residual credit exposure presented above relates to contracts with financial institution counterparties, except for $61,678 that relates to client counterparties (2012: $109,853).

The amount of other comprehensive income expected to be reclassified to the consolidated statement of income over the next 12 months is $27,883 (2012: $30,583). 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 $2,580 (2012: $2,919) 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)	2013	2012
Within 1 year	$ 78,385	$ 74,662
1 to 2 years	64,110	72,410
2 to 3 years	45,397	69,000
3 to 4 years	24,847	49,604
4 to 5 years	18,205	27,684
Over 5 years	-	18,081
Total	$ 230,944	$ 311,441

The non-trading interest rate risk, which is hedged with interest rate swaps, has a maximum maturity of five years as at March 31, 2013 (March 31, 2012: six 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:

As of March 31, 2013 ($ in thousands)	Ineligible for hedge accounting	Eligible for hedge accounting	Residual term of contract: Within 3 months	3–12 months	1–5 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
Total	$ 10,348,847	$ 2,760,000	$ 2,533,762	$ 3,066,037	$ 7,509,048	$ 13,108,847

As of March 31, 2012 ($ in thousands)	Ineligible for hedge accounting	Eligible for hedge accounting	Residual term of contract: Within 3 months	3–12 months	1–5 years	Total
Over-the-counter contracts						
Interest rate contracts						
Swaps	$ 14,997,000	$ 2,610,000	$ 2,818,000	$ 11,699,000	$ 3,090,000	$ 17,607,000
Options	7,777	-	7,777	-	-	7,777
Other	148,729	-	-	26,801	121,928	148,729
Embedded derivatives						
Equity- and commodity-linked deposits	318,393	-	1,718	24,097	292,578	318,393
Other	31,616	-	2,367	3,568	25,681	31,616
Foreign-exchange contracts						
Forwards	2,118,045	-	936,832	1,137,686	43,527	2,118,045
Equity contracts						
Options	330,695	-	2,030	25,155	303,510	330,695
Forward contracts						
Commodities	4,226,389	-	172,407	1,889,849	2,164,133	4,226,389
Total	$ 22,178,644	$ 2,610,000	$ 3,941,131	$ 14,806,156	$ 6,041,357	$ 24,788,644

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 $280,800 as at March 31, 2013 (2012: $90,630).

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 market 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:

	2013			2012		
($ 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	**$ 3,482**	**$ 16,346**	**$ 3,269**	$ 8,692	$ 11,092	$ 2,218
Other	**25,128**	**32,551**	**14,010**	653	1,263	496
Foreign-exchange contracts						
Forwards	**3,034**	**20,227**	**5,582**	5,852	28,773	8,592
Cross-currency swaps	**4,894**	**11,769**	**5,884**	-	-	-
Equity contracts						
Options	**74,531**	**96,549**	**19,310**	49,807	75,719	15,144
Forward contracts						
Commodities	**107,999**	**377,832**	**132,390**	192,529	658,450	230,358
Contracts eligible for hedge accounting						
Interest rate contracts						
Swaps	**67,440**	**79,740**	**15,948**	64,345	77,395	15,479
Total	**$ 286,508**	**$ 635,014**	**$ 196,393**	$ 321,878	$ 852,692	$ 272,287

19. 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 $11,857,202 (2012: $12,342,791). 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)		**2013**		2012
Loan guarantees and standby letters of credit	**$**	**437,163**	$	358,233
Commitments to extend credit		**12,654,778**		13,620,695
Total	**$**	**13,091,941**	$	13,978,928

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)		**2013**		2012
Assets pledged to:				
Bank of Canada[1]	**$**	**401,293**	$	410,379
Clearing and Depository Services Inc.		**14,000**		14,000
Total	**$**	**415,293**	$	424,379

[1] Assets pledged to the Bank of Canada include encumbered amounts of $78,041 (2012: $43,175).

In addition to the amounts above, ATB has pledged assets relating to certain derivative contracts and collateralized borrowing. (Refer to notes 18 and 26.)

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)	**2013**	2012
2013	**$ -**	$ 78,963
2014	**158,398**	31,012
2015	**78,176**	14,556
2016	**29,468**	11,599
2017	**7,219**	3,525
2018	**4,508**	2,343
2019 and thereafter	**4,935**	2,819
Total	**$ 282,704**	$ 144,817

The total expense for premises and equipment operating leases charged to the consolidated statement of income for the year ended March 31, 2013, is $11,323 (2012: $36,823).

Finance Lease Commitments

The future minimum lease payments required under ATB's finance leases were as follows:

As at March 31 ($ in thousands)	**2013**	2012
Future minimum lease payments:		
Not later than 1 year	**$ 17,307**	$ 16,603
Later than 1 year but not later than 5 years	**63,747**	71,040
Later than 5 years	**72,273**	101,446
Total future minimum lease payments	**153,327**	189,089
Less: finance charges not yet due	**47,498**	65,082
Present value of finance lease commitments	**$ 105,829**	$ 124,007

20. Disclosure of Salaries and Benefits

Salaries and Benefits

ATB is an agent of the Crown in right of Alberta and, as such, is required to disclose certain information prepared in accordance with Treasury Board Directive 12/98 as amended. This directive applies to all departments, regulated funds, provincial agencies, and Crown-controlled organizations. In accordance with the directive, the amounts disclosed in the following table reflect amounts earned in the year ended March 31, 2013:

	2013							2012
		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[9]
Chairman of the Board	$ 57	$ -	$ -	$ -	$ -	$ -	$ 57	$ 90
Board Members[6]	419	-	-	-	-	-	419	498
President and Chief Executive Officer[7]	500	600	706	22	651	17	2,496	1,659
Chief Risk Officer	265	128	176	12	104	25	710	623
Chief Financial Officer	266	128	270	13	91	18	786	658
Chief People Officer[8]	240	116	232	80	10	22	700	198
Executive Vice-President, Retail Financial Services	235	157	169	25	18	14	618	347
Executive Vice-President, Corporate Financial Services	290	308	387	13	95	18	1,111	936
Executive Vice-President, Business and Agriculture	240	191	286	135	24	14	890	751
President, ATB Investor Services	325	440	512	11	83	20	1,391	945
Chief Strategy and Operations Officer	290	251	434	49	24	9	1,057	1,034

[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, long-term disability plans, tuition, and professional memberships.
[6] The Board consists of 13 members plus the Chairman, whose remuneration is disclosed separately.
[7] The incumbent does not participate in either the registered pension plan or the supplemental retirement plan, but does receive other post-employment benefits.
[8] The position of Chief People Officer was vacant for the last five months of the prior year.
[9] The amounts included for the prior-year column have been restated to reflect a correction.

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 DB or DC 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 17.)

	2013				2012
($ 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]	$ -	$ 508	$ 143	$ 651	$ 32
Chief Risk Officer	10	56	38	104	95
Chief Financial Officer	12	55	24	91	79
Chief People Officer	10	-	-	10	47
Executive Vice-President, Retail Financial Services	18	-	-	18	4
Executive Vice-President, Corporate Financial Services	11	55	29	95	84
Executive Vice-President, Business and Agriculture	24	-	-	24	23
President, ATB Investor Services	11	43	29	83	70
Chief Strategy and Operations Officer	24	-	-	24	23

[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, 2013, to provide annual pension income over an actuarially determined post-employment period.
[2] The incumbent does not participate in either the registered pension plan (ATB Plan) or the SRP, but does receive OPEB.

The accrued SRP and OPEB obligation for each executive[1] is as follows:

($ in thousands)	Accrued obligation March 31, 2012	Change in accrued obligation	Accrued obligation March 31, 2013[2]
President and Chief Executive Officer[3]	$ 2,151	$ 743	$ 2,894
Chief Risk Officer	725	169	894
Chief Financial Officer	441	129	570
Executive Vice-President, Corporate Financial Services	544	144	688
President, ATB Investor Services	557	187	744

[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 decreased from 4.9% on March 31, 2012, to 4.2% on March 31, 2013, because of changes in market interest rates. Consequently, there was an increase in the accrued obligation on March 31, 2013.
[3] The incumbent does not participate in either the ATB Plan or the SRP, but does receive OPEB.

21. 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 and paid insurance premiums as a participant in the Alberta Finance Risk Management Fund. For the year ended March 31, 2013, the total of these payments was $733 (2012: $1,000). 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 24.) ATB also has subordinated debt outstanding with the Crown in right of Alberta. (Refer to note 16.)

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, 2013, wholesale borrowings includes $2.2 billion (March 31, 2012: $1.99 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. At March 31, 2013, there were $4,531 (March 31, 2012: $3,627) in loans outstanding. Key management personnel have deposits provided at standard market rates. At March 31, 2013, there were $233 (March 31, 2012: $152) in deposits outstanding. Key management personnel may also purchase Achievement Notes based on their role within ATB. At March 31, 2013, there were $3,380 (March 31, 2012: $2,546) in Achievement Notes outstanding to this group. There were no termination payments (March 31, 2012: $898) made to key management personnel during the year.

22. 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						
	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	$ 2,199,949	$ 39,875	$ 2,239,824	$ -	$ -	$ 102,168	$ 2,341,992
Loans	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	24,465,062	2,926,785	27,391,847	12,121,532	397,614	1,111,101	41,022,094
Liabilities and equity							
Deposits	12,301,906	3,010,480	15,312,386	2,662,716	175	5,756,094	23,731,371
Wholesale borrowings	770,360	385,180	1,155,540	1,444,424	-	(4,253)	2,595,711
Collateralized borrowings	315,284	740,872	1,056,156	2,050,430	-	(3,094)	3,103,492
Other liabilities	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	20,253,742	4,136,591	24,390,333	7,737,309	175	8,894,277	41,022,094
Interest-rate-sensitive gap	$ 4,211,320	$ (1,209,806)	$ 3,001,514	$ 4,384,223	$ 397,439	$ (7,783,176)	
as percentage of assets	10.2%	(2.9%)	7.3%	10.6%	1.0%	(18.8%)	
As at March 31, 2012							
Total assets	$ 25,056,997	$ 4,482,898	$ 29,539,895	$ 10,169,203	$ 677,623	$ 942,019	$ 41,328,740
Total liabilities and equity	19,327,325	6,774,652	26,101,977	6,812,079	76	8,414,608	41,328,740
Interest-rate-sensitive gap	$ 5,729,672	$ (2,291,754)	$ 3,437,918	$ 3,357,124	$ 677,547	$ (7,472,589)	
as percentage of assets	13.9%	(5.5%)	8.3%	8.1%	1.6%	(18.1%)	

[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, 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%**	**2.1%**

(%)	Within 3 months	3–12 months	Total within 1 year	1–5 years	Over 5 years	Total
As at March 31, 2012						
Total assets	3.0%	2.7%	2.9%	3.9%	2.3%	3.2%
Total liabilities and equity	1.0%	1.3%	1.0%	1.5%	1.8%	1.2%
Interest-rate-sensitive gap	2.0%	1.4%	1.9%	2.4%	0.5%	2.0%

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)	**2013**	2012
Impact on net earnings in succeeding year from:		
Increase in interest rates of:		
100 basis points	**$ 27,561**	$ 26,269
200 basis points	**53,752**	51,969
Decrease in interest rates of:		
100 basis points	**(40,307)**	(39,047)
200 basis points	**(44,292)**	(43,089)

23. Segmented Information

ATB has organized its operations and activities around the following four business segments or lines of business:

- **Corporate Financial Services** provides financial services to medium- and large-sized corporate borrowers.
- **Investor Services** provides wealth management solutions, including retail brokerage, mutual funds, portfolio management, and investment advice.
- **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.

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 lines of business

are based on ATB's internal management structure, they may not be directly comparable to those of other financial institutions.

For the 12 months ended ($ in thousands)	Retail Financial Services	Business and Agriculture	Corporate Financial Services	Investor Services	Strategic service units[1]	Total
March 31, 2013						
Net interest income	**$ 377,064**	**$ 208,036**	**$ 212,393**	**$ 4,480**	**$ 76,179**	**$ 878,152**
Other income	**75,126**	**66,753**	**84,008**	**76,096**	**49,602**	**351,585**
Total operating revenue	**452,190**	**274,789**	**296,401**	**80,576**	**125,781**	**1,229,737**
Provision for (recovery of) credit losses	**26,025**	**(404)**	**17,051**	**-**	**3,251**	**45,923**
Non-interest expenses	**365,120**	**150,259**	**63,842**	**73,817**	**212,854**	**865,892**
Income (loss) before payment in lieu of tax	**61,045**	**124,934**	**215,508**	**6,759**	**(90,324)**	**317,922**
Payment in lieu of tax	**-**	**-**	**-**	**-**	**73,122**	**73,122**
Net income (loss)	**$ 61,045**	**$ 124,934**	**$ 215,508**	**$ 6,759**	**$ (163,446)**	**$ 244,800**
Total assets	**$ 16,684,902**	**$ 4,808,883**	**$ 8,151,100**	**$ 66,842**	**$ 3,368,367**	**$ 33,080,094**
Total liabilities	**$ 10,548,810**	**$ 7,113,886**	**$ 5,553,768**	**$ 43,222**	**$ 7,564,947**	**$ 30,824,633**
March 31, 2012						
Net interest income	$ 351,409	$ 203,526	$ 180,064	$ 4,812	$ 75,564	$ 815,375
Other income	96,005	61,887	65,550	61,857	19,584	304,883
Total operating revenue	447,414	265,413	245,614	66,669	95,148	1,120,258
Provision for (recovery of) credit losses	27,924	6,421	(2,590)	-	(8,500)	23,255
Non-interest expenses[2]	359,821	143,608	62,553	71,262	206,372	843,616
Income (loss) before payment in lieu of tax	59,669	115,384	185,651	(4,593)	(102,724)	253,387
Payment in lieu of tax	-	-	-	-	58,279	58,279
Net income (loss)	$ 59,669	$ 115,384	$ 185,651	$ (4,593)	$ (161,003)	$ 195,108
Total assets	$ 16,004,587	$ 4,243,073	$ 6,401,662	$ 55,364	$ 4,315,054	$ 31,019,740
Total liabilities	$ 10,020,626	$ 6,854,713	$ 4,698,568	$ 41,154	$ 7,343,116	$ 28,958,177

[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 line.
[2] Prior period results have been restated based on a change in corporate allocation methodology.

Net interest income is attributed to each line of business 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 lines as incurred. Certain indirect expenses are allocated between Investor Services and the other lines 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.

24. 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, 2013, ATB accrued a total of $73,122 (2012: $58,279) for payment in lieu of tax. The amount outstanding as at March 31, 2012, was settled on June 30, 2012, with ATB issuing a subordinated debenture to the Government of Alberta. (Refer to note 16.) 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 6.)

25. 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, 2013, $244,617 (2012: $237,701) of these notes were outstanding with a fixed rate of return of 4.25% and will mature in fiscal 2014–15.

26. Collateralized Borrowings

ATB periodically securitizes insured residential mortgage loans by participating in the Canada Mortgage Bond (CMB) program. Through the program, ATB bundles residential mortgage loans guaranteed by the Canada Mortgage and Housing Corporation (CMHC) into mortgage-backed securities (MBS) and transfers them to the Canada Housing Trust (CHT). CHT uses the proceeds of its bond issuance to finance the purchase of MBS issued by ATB. As an issuer of the MBS, 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 MBS do not qualify for derecognition as ATB retains the pre-payment, 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 MBS 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 at March 31, 2013, is $2,655,990 (2012: $2,655,990).

Collateralized borrowing liabilities are non-amortizing liabilities with fixed maturity dates. Principal payments collected from the mortgages underlying the MBS sold to the CHT are transferred to the CHT monthly, where they are either reinvested in new MBS or invested in eligible investments. To the extent that these eligible investments are not ATB's own issued MBS, 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, 2013, is nil (2012: nil).

The following table presents the carrying amount of ATB's residential mortgage loans, and assets pledged as collateral for the associated liability recognized on the consolidated statement of financial position:

As at March 31 ($ in thousands)	2013	2012
Principal value of mortages pledged as collateral	$ 1,583,120	$ 2,057,927
ATB MBS pledged as collateral through repurchase agreements	1,070,049	593,977
Total	$ 2,653,169	$ 2,651,904
Associated liabilities	$ 2,653,492	$ 2,651,217

In February 2013, ATB entered into a program with another financial institution to securitize credit card receivables to obtain additional funding. This 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. At March 31, 2013, ATB has securitized $536,230 of credit card receivables against its associated liability of $450,000.

27. 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 the 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 $2,667 (2012: $1,198) of these notes, which are recorded in other liabilities on the consolidated statement of financial position. During the current year $826 (2012: $448) of the notes have been redeemed. An expense of $4,801 (2012: $2,768) was recognized during the year to reflect the increase in the fair value of the notes based on the March 31, 2013, valuation of the notes. As at March 31, 2013, the liability for these notes was $22,546 (2012: $15,903).

28. Prior Period Restatement

During the year, ATB restated some comparative amounts on the consolidated statement of financial position. Significant restatements include cash collateral previously included in deposits – business and other reclassified to other liabilities and impaired credit card balances overdue for three billing cycles reclassified from credit cards to business loans and residential mortgages.

The reclassifications on the consolidated statement of financial position are as follows:

($ in thousands)	March 31, 2012	Restatement	Adjusted March 31, 2012
Assets			
Business	$ 10,420,960	$ 5,441	**$ 10,426,401**
Residential mortgages	10,228,015	15	**10,228,030**
Credit card	604,887	(5,456)	**599,431**
Liabilities			
Business and other	11,486,666	(51,010)	**11,435,656**
Other liabilities	643,267	51,010	**694,277**

In addition, as a result of the cash collateral correction, comparative amounts on the consolidated statements of cash flows reflect a retrospective correction to reclassify an increase of $31,660 for changes in cash collateral previously included in deposits to accounts payable and accrued liabilities.

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ATB INSURANCE ADVISORS INC.

Financial Statements

Year Ended March 31, 2013

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Independent Auditor's Report

To the Board of Directors of ATB Insurance Advisors Inc.

Report on the Financial Statements

I have audited the accompanying financial statements of ATB Insurance Advisors Inc., which comprise the statement of financial position as at March 31, 2013, and the 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 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 ATB Insurance Advisors Inc. as at March 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
June 5, 2013
Edmonton, Alberta

Statement of Financial Position

As at March 31 ($ thousands)

	2013	2012
ASSETS	**$**	$
Current assets		
Cash	**84**	93
Accounts receivable	**5**	78
Prepaid expenses	**2**	63
Due from affiliates *(note 5)*	**1,478**	795
	1,569	1,029
LIABILITIES		
Current liabilities		
Accrued liabilities	**49**	135
Variable compensation payable	**23**	46
Due to ATB *(note 6.i)*	**6,761**	6,187
Current portion of unearned revenue	**33**	48
Current portion of long-term incentive plan *(note 11)*	**-**	21
	6,866	6,437
Long term liabilities		
Unearned revenue	**34**	25
Long-term incentive plan *(note 11)*	**1**	42
Due to ATB *(note 6.ii)*	**226**	134
	7,127	6,638
SHAREHOLDER'S EQUITY		
Share capital *(note 8)*	**5**	5
Deficit	**(5,563)**	(5,614)
	(5,558)	(5,609)
	1,569	1,029

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

[Original signed by]
Jim McKillop, CA
Director

[Original signed by]
Ursula Holmsten
Chief Financial Officer

Statement of Changes in Equity

For the year ended March 31 ($ thousands, except for shares)

	Class A Common Shares	Share Capital $	Deficit $	Shareholder's Equity $
Balance at March 31, 2011	100	5	(4,812)	(4,807)
Share based payment *(note 6.ii)*	-	-	(97)	(97)
Net loss and comprehensive loss	-	-	(705)	(705)
Balance at March 31, 2012	100	5	(5,614)	(5,609)
Balance at March 31, 2012	100	5	(5,614)	(5,609)
Share based payment *(note 6.ii)*	-	-	(92)	(92)
Net income and comprehensive income	-	-	143	143
Balance at March 31, 2013	100	5	(5,563)	(5,558)

The accompanying notes are an integral part of these financial statements.

Statement of Operations and Comprehensive Income

For the year ended March 31 ($ thousands)

	2013 $	2012 $
Revenue		
Insurance commissions	**855**	1,279
Other revenue	**-**	95
	855	1,374
Administration and Selling expenses *(note 10)*		
Salaries and employee benefits *(note 11)*	**212**	760
Variable compensation expense	**23**	454
Other expenses	**174**	436
Professional fees	**39**	127
Amortization expense *(note 7)*	**-**	83
Referral fees paid to affiliates	**93**	54
Interest expense	**171**	165
	712	2,079
Net income (loss) and comprehensive income (loss) for the year	**143**	(705)

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the year ended March 31 ($ thousands)

	2013	2012
Cash provided from (used in)	**$**	$
Operating activities		
Net income (loss) and comprehensive income (loss) for the year	**143**	(705)
Item not affecting cash		
Amortization of software	**-**	83
	143	(622)
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable	**73**	(13)
Decrease (increase) in prepaid expenses	**61**	(37)
Net (increase) in due from affiliates	**(682)**	(657)
(Decrease) in accrued liabilities	**(86)**	(137)
(Decrease) in variable compensation payable	**(23)**	(27)
(Decrease) increase in unearned revenue	**(6)**	7
(Decrease) increase in long-term incentive plan	**(62)**	21
	(725)	(843)
Net cash (used in) operating activities	**(582)**	(1,465)
Investing activities		
Proceeds of software	**-**	3
Net cash provided from investing activities	**-**	3
Financing activities		
Equity settled share based payment	**(1)**	(17)
Increase in due to ATB	**574**	1,103
Net cash provided from financing activities	**573**	1,086
Net change in cash	**(9)**	(376)
Cash – Beginning of year	**93**	469
Cash – End of year	**84**	93
Supplementary information		
Interest paid	**171**	165
Interest received	**-**	-

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 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:
9888 Jasper Avenue
Edmonton, Alberta T5J 1P1

These financial statements have been approved for use by the Board of Directors on June 5, 2013.

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, 2013.

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 Share based payments

The fair value of the achievement notes (note 6.ii) is determined based on a model prepared annually by an external consultant. Since there is no public market available for these notes, the model uses various valuation techniques. The external consultant uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

The techniques used for valuation include an average of the discounted cash flow approach, the publicly traded company multiples approach, and the comparable transaction approach. A range

of values is determined and the mid-point of the range is used in the calculation of the value of the achievement note liability.

ii Provision for lapse of insurance policies

Insurance policies that have been in force for less than two years are typically subject to a clawback by the insurer when a policy lapses. The provision for lapse 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, 2013, management provided an allowance for lapsed insurance policies of $67 (March 31, 2012 – $75) representing 3.5% to 8% (depending on the policy) of total insurance commissions earned during the year. 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 clawbacks 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 clawbacks is recorded as unearned revenue in the statement of financial position. The current portion of unearned revenue represents the provision for clawbacks expected to expire in the next fiscal 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 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.

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 with the following plan provisions. 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

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 – Employee Benefits, the compensation expense and liability is accrued over the three year vesting period of the grant.

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.

The Company is 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 employee. These charges are recorded as a payable to ATB (note 6.ii) with a corresponding entry to retained earnings, similar to a distribution.

Non-market performance and service conditions are included in assumptions about the number of notes that are expected to vest. The total liability of the notes is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

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 the statement of operations and comprehensive income. Gains and losses arising from changes in fair value are included directly in the statement of operations and comprehensive income 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, 2013.

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, 2013.

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. ATBIA has no financial instruments classified as available for sale at March 31, 2013.

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 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, 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 earnings.

j. Financial Instruments – Estimated Fair Value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable and willing parties who are under no compulsion to act. 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 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).

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.

ATBIA does not hold any financial assets or liabilities recorded at fair value at March 31, 2013.

The achievement notes (note 6.ii) are recorded at fair value however, they are not considered financial instruments as they are equity settled.

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. 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.

As at March 31, 2013, 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 $68 (March 31, 2012 – $62).

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 ATBIA incurring a financial loss. 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 $1,567 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 and due to ATB (note 6.i).

4. Future Accounting Changes

IFRS 9

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, 2015 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.

IFRS 10

Consolidated financial statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. IFRS 10 is not applicable to ATBIA.

IFRS 11

Addresses joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. IFRS 11 is not applicable to ATBIA.

IFRS 12

Disclosure of interests in other entities is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. IFRS 12 is not applicable to ATBIA.

IFRS 13

Fair value measurement provides a consistent and less complex definition of fair value, establishes a single source for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and applies prospectively from the beginning of the annual period in which the standard is adopted. ATBIA is currently evaluating the impact of adopting IFRS 13 on its financial statements.

IAS 1

Presentation of financial statements was amended and requires companies to group items presented within Other Comprehensive Income ("OCI") based on whether they may be subsequently reclassified to profit or loss. This amendment to IAS 1 is effective for annual periods beginning on or after January 1, 2013 with full retrospective application. ATBIA has not early adopted and is currently assessing the impact of the adoption of this new standard.

IAS 19

Employee benefits is amended to eliminate the option to defer the recognition of actuarial gains and losses, commonly known as the corridor approach, and requires an entity to recognize actuarial gains and losses in OCI immediately. In addition, the net change in the defined benefit liability or asset must be disaggregated into three components: service cost, net interest and remeasurements. This amended standard is effective for annual periods beginning on or after January 1, 2013, with modified retrospective application. The adoption of these amendments will not affect ATBIA'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, 2013 $	March 31, 2012 $
Due From ATBSI	1,170	541
Due From ATBIM	308	254
	1,478	795

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, 2013 $	March 31, 2012 $
Due to ATB	6,761	6,187

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2013 was 3.00% (March 31, 2012 – 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 Financial 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 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 are redeemed at fair market value, ATBIA will reimburse ATB, through an equity distribution, for payments made to employees of ATBIA in excess of the original subscription amount.

The amount due to ATB (shown below) represents ATBIA's proportionate share of increase in the fair value of the notes owing to ATB.

The amounts due to ATB arising from the issuance of the achievement notes are as follows:

	2013 $	2012 $
Opening	134	54
Redemption of achievement notes	(1)	(17)
Appreciation of achievement notes (share based payment)	93	97
	226	134

7. Software

	Software	Software under development	Total
Cost	**$**	**$**	**$**
Balance at April 1, 2011	119	3	122
Decapitalized costs	-	(3)	(3)
Disposals	(119)	-	(119)
Balance at March 31, 2012	-	-	-
Balance at April 1, 2012	-	-	-
Decapitalized costs	-	-	-
Disposals	-	-	-
Balance at March 31, 2013	-	-	-
Depreciation			
Balance at April 1, 2011	36	-	36
Amortization for the year	83	-	83
Disposals	(119)	-	(119)
Balance at March 31, 2012	-	-	-
Balance at April 1, 2012	-	-	-
Amortization for the year	-	-	-
Disposals	-	-	-
Balance at March 31, 2013	-	-	-
Carrying Amounts			
Balance at March 31, 2012	-	-	-
Balance at March 31, 2013	-	-	-

Amortization expense charged to the statement of operations and comprehensive income for the year ended March 31, 2013 was $nil (March 31, 2012 – $83).

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

Issued and outstanding:

Class A common shares	March 31, 2013	March 31, 2012
Shares #	100	100
Amount	$5	$5

9. 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.

10. 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, 2013 $	March 31, 2012 $
	Administration and Selling Expenses			
ATBSI	Referral fees	Referral fees paid to affiliates	93	54
ATB	Administrative services	Other expenses	2	67
ATB	IT and rent	Other expenses	90	185
			185	306
	Interest Expense			
ATB	Interest expense	Interest expense	171	165

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	153	182
Deferred Compensation	1	21
Retirement and post employment benefits	14	14
	168	217

11. 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 income. For the year ended March 31, 2013, expenses related to the defined contribution plan provision were $14 (March 31, 2012 – $24).

The total obligation of unvested obligations for the long-term incentive plan as at March 31, 2013 is $2. The accrued liability of $1 represents the amortized portion of the present value of the total obligation. The full amount of the obligation is expected to be amortized over the term of the grants which is three years. Of the total obligation of $2, $1 will become payable in April 2014 and the remaining $1 will become payable in April 2015.

12. Restructuring

In July 2011 ATBIA began restructuring efforts aimed at improving operational profitability. These efforts included:

- Elimination of full time sales positions. Employees occupying these positions were offered commission based contracts.
- Reduction in administrative capacity. A third party service provider was contracted by ATBIA to provide administrative services. The costs of the services are driven by commissions.
- Under the new contract arrangements the service provider will pay the sales agent directly when a policy is sold. ATBIA in return receives a referral fee for the sale of the contract. Revenue and commission expense recorded in ATBIA's statement of operations and comprehensive income have gone down from the prior year as a result of this arrangement.

There were no direct costs associated with the aforementioned restructuring and there is no financial commitment owed to the service provider as part of the arrangement.

The restructuring was completed in September 2011.

ATB INVESTMENT MANAGEMENT INC.

Financial Statements

Year Ended March 31, 2013

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Independent Auditor's Report

To the Board of Directors of ATB Investment Management Inc.

Report on the Financial Statements

I have audited the accompanying financial statements of ATB Investment Management Inc., which comprise the statement of financial position as at March 31, 2013, and the statements of operations and comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The Financial Statements have been prepared by Management to meet the requirements of National Instrument 31-103 Registration Requirements and Exemptions based on the financial reporting framework specified in subsection 3.2(4) of National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards for Financial Statements delivered by registrants.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting framework specified in subsection 3.2(4) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants, 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 ATB Investment Management Inc. as at March 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis of Accounting and Restriction on Use

Without modifying my opinion, I draw attention to note 2(a) to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist ATB Investment Management Inc. to meet the requirements of National Instrument 31-103 Registration Requirements and Exemptions. As a result, the financial statements may not be suitable for another purpose. My report is intended solely for the Board of Directors of ATB Investment Management Inc. and the Alberta Securities Commission and should not be used by parties other than the Board of Directors of ATB Investment Management Inc. or the Alberta Securities Commission.

[Original signed by Merwan N. Saher, FCA]

Auditor General
June 5, 2013
Edmonton, Alberta

Statement of Financial Position

As at March 31 ($ thousands)

	2013	2012
ASSETS	**$**	$
Current assets		
Cash	**3,923**	2,424
Accounts receivable	**7,632**	5,892
Prepaid expenses	**270**	227
Securities held for trading	**-**	65
	11,825	8,608
Non-curent assets *(note 7)*		
Computer Equipment	**-**	2
Software	**1,139**	1,587
	1,139	1,589
	12,964	10,197
LIABILITIES		
Current liabilities		
Accrued liabilities	**3,433**	1,841
Variable compensation payable	**664**	660
Due to affiliates *(note 5)*	**690**	346
Due to ATB *(note 6.i)*	**1,968**	1,551
Current portion of long-term incentive plan *(note 11)*	**-**	65
	6,755	4,463
Long term liabilities		
Long-term incentive plan *(note 11)*	**69**	134
Due to ATB *(note 6.ii)*	**2,446**	1,550
	9,270	6,147
SHAREHOLDER'S EQUITY		
Share capital *(note 8)*	**5**	5
Retained earnings	**3,689**	4,045
	3,694	4,050
	12,964	10,197

Capital restrictions *(note 9)*

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

[Original signed by]
Jim McKillop, CA
Director

[Original signed by]
Ursula Holmsten
Chief Financial Officer

Statement of Changes in Equity

For the year ended March 31 ($ thousands, except for shares)

	Class A Common Shares	Share Capital $	Retained Earnings $	Shareholder's Equity $
Balance at March 31, 2011	100	5	3,268	3,273
Shares issued	-	-	-	-
Dividends paid	-	-	(4,000)	(4,000)
Share based payment	-	-	(935)	(935)
Net income and comprehensive income	-	-	5,712	5,712
Balance at March 31, 2012	100	5	4,045	4,050
Balance at March 31, 2012	100	5	4,045	4,050
Shares issued	-	-	-	-
Dividends paid	-	-	(9,000)	(9,000)
Share based payment *(note 6.ii)*	-	-	(965)	(965)
Net income and comprehensive income	-	-	9,609	9,609
Balance at March 31, 2013	100	5	3,689	3,694

The accompanying notes are an integral part of these financial statements.

Statement of Operations and Comprehensive Income

For the year ended March 31 ($ thousands)

	2013 $	2012 $
Revenue *(note 10)*		
Investment management fees	**48,903**	38,714
Managed account fees	**7,061**	6,091
Interest revenue	**75**	34
Other revenue	**33**	-
	56,072	44,839
Administration and Selling expenses *(note 10)*		
Trailing commission	**27,648**	22,081
Professional fees	**10,603**	8,835
Salaries and employee benefits *(note 11)*	**3,532**	3,671
Variable compensation expense *(note 11)*	**2,084**	1,773
Other expenses	**1,896**	1,920
Amortization expense *(note 7)*	**693**	832
Interest expense	**7**	15
	46,463	39,127
Net income and comprehensive income for the year	**9,609**	5,712

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows (unaudited)

For the year ended March 31 ($ thousands)

	2013	2012
Cash provided from (used in)	**$**	$
Operating activities		
Net income and comprehensive income for the year	**9,609**	5,712
Items not affecting cash		
Amortization of equipment	**2**	9
Amortization of software and other intangibles	**691**	822
	10,302	6,543
Net change in non-cash working capital items		
(Increase) in accounts receivable	**(1,740)**	(2,781)
(Increase) in prepaid expenses	**(43)**	(18)
Increase (decrease) in accrued liabilities	**1,592**	(275)
Increase in variable compensation payable	**4**	69
Net increase in due to affiliates	**344**	132
(Decrease) increase in long-term incentive plan	**(130)**	40
	27	(2,833)
Net cash provided from operating activities	**10,329**	3,710
Investing activities		
Net decrease (increase) in securities held for trading	**65**	(64)
Purchase of computer equipment and software	**(243)**	(3)
Net cash (used in) investing activities	**(178)**	(67)
Financing activities		
Increase (decrease) in due to ATB	**417**	(2,115)
Dividends paid	**(9,000)**	(4,000)
Equity settled share based payments	**(69)**	(11)
Net cash (used in) financing activities	**(8,652)**	(6,126)
Net change in cash	**1,499**	(2,483)
Cash – Beginning of year	**2,424**	4,907
Cash – End of year	**3,923**	2,424
Supplementary information		
Interest paid	**7**	15
Interest received	**75**	34

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:
9888 Jasper Avenue
Edmonton, Alberta T5J 1P1

These financial statements have been approved for use by the Board of Directors on June 5, 2013.

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 Handbook of the Canadian Institute of Chartered Accountants (CICA 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 CICA 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. The Company has commenced reporting under the Framework effective April 1, 2011. The term "previous framework" refers to the financial reporting framework before the adoption of the Framework.

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 Share based payments

The fair value of the achievement notes (note 6.ii) is determined based on a model prepared annually by an external consultant. Since there is no public market available for these notes, the model uses various valuation techniques. The external consultant uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

The techniques used for valuation include an average of the discounted cash flow approach, the publicly traded company multiples approach, and the comparable transaction approach. A range of values is determined and the mid-point of the range is used in the calculation of the value of an achievement notes liability.

ii 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. Interest revenue includes interest earned on cash deposits with ATB and is recorded 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.

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 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 with the following plan provisions. 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 – Employee Benefits, the compensation expense and liability is accrued over the three year vesting period of the grant.

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.

The Company is 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 employee. These charges are recorded as a payable to ATB (note 6.ii) with a corresponding entry to retained earnings, similar to a distribution.

Non-market performance and service conditions are included in assumptions about the number of notes that are expected to vest. The total liability of the notes is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

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 the statement of operations and comprehensive income. Gains and losses arising from changes in fair value are included directly in the statement of operations and comprehensive income 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.

ATBIM has classified securities held for trading as financial assets at fair value through profit or loss.

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, 2013.

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, 2013.

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, 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 earnings.

m. Financial Instruments – Estimated Fair Value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable and willing parties who are under no compulsion to act. 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 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, due to ATB (note 6.i) and due to affiliates.

The fair values of securities held for trading 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.

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 securities held for trading. Securities held for trading were composed entirely of mutual funds held for the purpose of providing seed capital for the launch of a new series of funds. The market value of these funds was based on quoted prices in active markets. Securities held for trading amounting to $nil at March 31, 2013 (March 31, 2012 – $65) have been classified as level 1 under the fair value hierarchy. There have been no transfers between levels during the year.

The achievement notes (note 6.ii) are recorded at fair value however, they are not considered financial instruments as they are equity settled.

ii Financial Risk Management

ATBIM's financial instruments consist of cash, accounts receivable, securities held for trading, accrued liabilities, 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, 2013, 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 $20 (March 31, 2012 – $16).

Price risk

ATBIM's exposure to financial market pricing risk is limited since there are no financial instruments held by the Company except securities held for trading, which will fluctuate as a result of changes in market prices. As at March 31, 2013, ATBIM did not have any holdings in securities held for trading.

Credit Risk

Credit risk is the risk that the counter party to a financial asset will default resulting in ATBIM incurring a financial loss. 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 risk inherent on ATBIM's accounts receivable balance is effectively mitigated by the Company's diverse customer base. The Company's exposure to credit risk is limited to customer accounts. Management deems this risk 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 $11,555 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, due to ATB (note 6.i) and due to affiliates.

4. Future Accounting Changes

IFRS 9

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, 2015 with different transitional arrangements depending on the date of initial application. ATBIM is currently evaluating the impact of adopting IFRS 9 on its financial statements.

IFRS 10

Consolidated financial statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. IFRS 10 is not applicable to ATBIM.

IFRS 11

Addresses joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. IFRS 11 is not applicable to ATBIM.

IFRS 12

Disclosure of interests in other entities is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. IFRS 12 is not applicable to ATBIM.

IFRS 13

Fair value measurement provides a consistent and less complex definition of fair value, establishes a single source for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and applies prospectively from the beginning of the annual period in which the standard is adopted. ATBIM is currently evaluating the impact of adopting IFRS 13 on its financial statements.

IAS 1

Presentation of financial statements was amended and requires companies to group items presented within Other Comprehensive Income ("OCI") based on whether they may be subsequently reclassified to profit or loss. This amendment to IAS 1 is effective for annual periods beginning on or after January 1, 2013 with full retrospective application. ATBIM has not early adopted and is currently assessing the impact of the adoption of this new standard.

IAS 19

Employee benefits is amended to eliminate the option to defer the recognition of actuarial gains and losses, commonly known as the corridor approach, and requires an entity to recognize actuarial gains and losses in OCI immediately. In addition, the net change in the defined benefit liability or asset must be disaggregated into three components: service cost, net interest and remeasurements. This amended standard is effective for annual periods beginning on or after January 1, 2013, with modified retrospective application. The adoption of these amendments will not affect ATBIM's 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, 2013 $	March 31, 2012 $
Due to ATBSI	382	92
Due to ATBIA	308	254
	690	346

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, 2013 $	March 31, 2012 $
Due to ATB	1,968	1,551

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2013 was 3.00% (March 31, 2012 – 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 Financial 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 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 are redeemed at fair market value, ATBIM will reimburse ATB, through an equity distribution, for payments made to employees of ATBIM in excess of the original subscription amount.

The amount due to ATB (shown below) represents ATBIM's proportionate share of increase in the fair value of the notes owing to ATB.

The amounts due to ATB arising from the issuance of the achievement notes are as follows:

	2013 $	2012 $
Opening	1,550	626
Redemption of achievement notes	(69)	(11)
Appreciation of achievement notes (share based payment)	965	935
	2,446	1,550

7. Property and Equipment and Intangibles

	Computer Equipment $	Software $	Computer Equipment under development $	Software under development $	Total $
Cost					
Balance at March 31, 2011	27	3,925	-	20	3,972
Additions	-	22	-	3	25
Disposal	-	(41)	-	(23)	(64)
Balance at March 31, 2012	27	3,906	-	-	3,933
Balance at March 31, 2012	27	3,906	-	-	3,933
Additions	-	-	-	243	243
Balance at March 31, 2013	27	3,906	-	243	4,176
Depreciation					
Balance at March 31, 2011	16	1,537	-	-	1,553
Amortization for the year	9	823	-	-	832
Disposals	-	(41)	-	-	(41)
Balance at March 31, 2012	25	2,319	-	-	2,344
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
Carrying Amounts					
Balance at March 31, 2012	2	1,587	-	-	1,589
Balance at March 31, 2013	-	896	-	243	1,139

Amortization expense charged to the statement of operations and comprehensive income for the year ended March 31, 2013 was $693 (March 31, 2012 – $832). There were no impairments recognized during the year ended March 31, 2013 (March 31, 2012 – $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, 2013	March 31, 2012
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 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, 2013 $	March 31, 2012 $
	Revenue			
ATB	Interest income	Interest revenue	75	34
	Administrative and selling expenses			
ATBSI	Trailer fees	Trailing commission	27,632	22,069
ATB	Professional Services	Professional fees	114	92
ATB	Information technology and rent	Other expenses	568	590
ATB	Marketing	Other expenses	101	
ATBSI	Client referral fees	Professional fees	1,641	1,675
ATBSI	Transaction fees	Other expenses	503	480
			30,559	24,906
	Interest expense			
ATB	Other interest expense	Interest expense	7	15

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, 2013 $	March 31, 2012 $
Short term employee benefits	1,513	1,260
Deferred Compensation	49	67
Retirement and post employment benefits	92	85
	1,654	1,412

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, 2013, expenses related to the defined contribution plan provision were $331 (March 31, 2012 – $271).

The total obligation of unvested obligations for the long-term incentive plan as at March 31, 2013 is $141. The accrued liability of $69 represents the amortized portion of the present value of the total obligation. The full amount of the obligation is expected to be amortized over the term of the grants which is three years. Of the total obligation of $141, $60 will become payable in April 2014 and the remaining $81 will become payable in April 2015.

12. Comparative figures

Certain comparative figures have been reclassified to conform to current year's presentation.

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ATB SECURITIES INC.

Financial Statements

Year Ended March 31, 2013

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Independent Auditor's Report

To the Board of Directors of ATB Securities Inc.

Report on the Financial Statements

I have audited the accompanying financial statements of ATB Securities Inc., which comprise the statement of financial position as at March 31, 2013, and the statements of operations and comprehensive loss, 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 ATB Securities Inc. as at March 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
June 5, 2013
Edmonton, Alberta

Statement of Financial Position

As at March 31 ($ thousands)

	2013	2012
ASSETS	**$**	$
Current assets		
Cash	**3,123**	1,535
Short term investments	**55,942**	46,972
Clients' cash held in trust	**26,796**	23,560
Due from clients	**11,133**	8,328
Due from brokers and dealers	**11,305**	13,327
Client fees receivable	**2,202**	1,621
Trailer fees receivable	**1,037**	697
Loans to ATB advisors	**163**	-
Other receivables	**-**	14
Due from affiliates *(note 5)*	**382**	92
Prepaid expenses	**550**	264
	112,633	96,410
Non-current assets		
Loans to ATB advisors	**592**	-
Computer equipment *(note 7)*	**1,041**	1,197
Software *(note 7)*	**9,438**	9,973
	11,071	11,170
	123,704	107,580
LIABILITIES		
Current liabilities		
Due to clients	**43,222**	41,154
Due to brokers and dealers	**27,288**	17,590
Accrued liabilities *(note 14)*	**6,614**	5,323
Variable compensation payable	**2,252**	1,648
Long-term incentive plan	**-**	225
Due to affilaites *(note 5)*	**1,170**	541
Due to ATB *(note 6.i)*	**3,969**	2,305
	84,515	68,786
Long term liabilities		
Long-term incentive plan *(note 13)*	**295**	493
Due to ATB *(note 6.ii)*	**6,277**	3,957
	91,087	73,236
SHAREHOLDER'S EQUITY		
Share capital *(note 8)*	**132,745**	128,745
Deficit	**(100,128)**	(94,401)
	32,617	34,344
	123,704	107,580

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]
Jim McKillop, CA
Director

[Original signed by]
Ursula Holmsten
Chief Financial Officer

Statement of Changes in Equity

For the year ended March 31 ($ thousands, except for shares)

	Class A Common Shares	Share Capital $	Deficit $	Shareholder's Equity $
Balance at March 31, 2011	114,239	114,245	(82,212)	32,033
Shares issued	14,500	14,500	-	14,500
Share based payment	-	-	(2,589)	(2,589)
Net loss and comprehensive loss for the year	-	-	(9,600)	(9,600)
Balance at March 31, 2012	128,739	128,745	(94,401)	34,344
Balance at March 31, 2012	128,739	128,745	(94,401)	34,344
Shares issued *(note 8)*	4,000	4,000	-	4,000
Share based payment *(note 6.ii)*	-	-	(2,753)	(2,753)
Net loss and comprehensive loss for the year	-	-	(2,974)	(2,974)
Balance at March 31, 2013	132,739	132,745	(100,128)	32,617

The accompanying notes are an integral part of these financial statements.

Statement of Operations and Comprehensive Loss

For the year ended March 31 ($ thousands)

	2013 $	2012 $
Revenue *(note 11)*		
Mutual fund commissions	**35,509**	30,151
Fee based accounts	**7,949**	6,098
Other commissions	**3,726**	4,178
Registered account fees	**2,924**	782
Client referral fees	**2,237**	2,209
Interest income	**678**	599
Securities commissions	**495**	717
	53,518	44,734
Administration and Selling expenses *(note 11)*		
Administration and selling expenses	**21,457**	16,975
Salaries and employee benefits *(note 12)*	**18,404**	20,024
Other expenses	**10,746**	9,053
Professional fees	**3,782**	5,751
Amortization expense *(note 7)*	**2,068**	2,439
Interest expense	**35**	92
	56,492	54,334
Net loss and comprehensive loss for the year	**2,974**	9,600

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the year ended March 31 ($ thousands)

	2013	2012
Cash provided from (used in)	**$**	$
Operating activities		
Net loss and comprehensive loss for the year	**(2,974)**	(9,600)
Items not affecting cash		
Amortization of computer equipment	**193**	199
Amortization of software	**1,875**	2,240
	(906)	(7,161)
Net change in non-cash working capital items		
Cash received from clients and brokers/dealers	**7,747**	1,058
(Increase) decrease in client fees receivable	**(581)**	12
(Increase) decrease in trailer fees receivable	**(340)**	1,474
(Increase) in loans to ATB advisors	**(755)**	-
Decrease (increase) in other receivables	**14**	(14)
(Increase) in prepaid expenses	**(286)**	(17)
Decrease in inventory	**-**	6
Increase in accrued liabilities	**1,291**	482
Net decrease in due to/(from) affiliates	**340**	523
Increase in variable compensation payable	**604**	65
(Decrease) in unearned revenue	**-**	(385)
(Decrease) increase in long-term incentive plan	**(423)**	154
	7,611	3,358
Net cash from (used in) operating activities	**6,705**	(3,803)
Investing activities		
Net (Increase) in short term investments	**(8,970)**	(5,499)
Purchase of computer equipment and software	**(1,377)**	(895)
Net cash (used in) from investing activities	**(10,347)**	(6,394)
Financing activities		
Issuance of share capital	**4,000**	14,500
Equity settled share based payment	**(433)**	(133)
Increase (decrease) in due to ATB	**1,663**	(2,887)
Net cash from financing activities	**5,230**	11,480
Net change in cash	**1,588**	1,283
Cash – Beginning of year	**1,535**	252
Cash – End of year	**3,123**	1,535
Supplementary information		
Interest paid	**35**	92
Interest received	**678**	599

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 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 continuing operations of ATBSI remain dependent upon ATB's ongoing financial support.

The address of the Company's registered office is:
9888 Jasper Avenue
Edmonton, Alberta T5J 1P1

These financial statements have been approved for use by the Board of Directors on June 5, 2013.

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, 2013.

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 Share based payments

The fair value of the achievement notes (note 6.ii) is determined based on a model prepared annually by an external consultant. Since there is no public market available for these notes, the model uses various valuation techniques. The external consultant uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

The techniques used for valuation include an average of the discounted cash flow approach, the publicly traded company multiples approach, and the comparable transaction approach. A range of values is

determined and the mid-point of the range is used in the calculation of the value of the achievement notes liability.

ii 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 loss 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 cash balances 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 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.

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.

Registered account fees are recorded on an accrual basis and include client fees, Registered Retirement Savings Plan (RRSP) administration fees and Q-Trade referral 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. Transaction fees are paid by ATBIM to ATBSI based on the number of ATBIM trades executed at $30 per trade.

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 with the following plans provisions. 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

ATBIS 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 – Employee Benefits, the compensation expense and liability is accrued over the three year vesting period of the grant.

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.

The Company is 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 employee. These charges are recorded as a payable to ATB (note 6.ii) with a corresponding entry to retained earnings (deficit), similar to a distribution.

Non-market performance and service conditions are included in assumptions about the number of notes that are expected to vest. The total liability of the notes is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

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 the income statement. Gains and losses arising from changes in fair value are included directly in the income statement 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, 2013.

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 income. ATBSI has no financial instruments classified as available for sale at March 31, 2013.

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 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, 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 earnings.

p. Financial Instruments – Estimated Fair Value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable and willing parties who are under no compulsion to act. 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 face value of the loans is $989, including $155 current portion which is non-interest bearing relating to expenses paid on behalf of the advisors by ATBIS, at March 31, 2013 and the fair value is $755 which is recorded on the statement of financial position. The difference between the fair value and the carrying value is $234 which will be amortized over the life of the loans. The repayment period for these term loans is between four to nine years. The current portion of the loan represents payments to be made over the next 12 months.

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.

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. 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 $55,942 (March 31, 2012 – $46,972) are classified as level 2 under the fair value hierarchy. There have been no transfers between levels during the year.

The achievement notes (note 6.ii) are recorded at fair value however, they are not considered financial instruments as they are equity settled.

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, 2013, US dollar denominated cash amounted to US $339 (March 31, 2012 – US$731), due from clients amounted to US$1,063 (March 31, 2012 – US$932), due from brokers and dealers amounted to US $147 (March 31, 2012 – US$225), accrued liabilities amounted to US$44 (March 31, 2012 – US$43), due to clients amounted to $504 (March 31, 2012 – US$777), and due to brokers and dealers amounted to US $682 (March 31, 2012 – US$874). A 5% change in US exchange rates would result in a foreign exchange gain or loss of approximately $15 (March 31, 2012 – $10).

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, 2013, 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 $40 (March 31, 2012 – $23).

As at March 31, 2013, ATBSI held $55,942 (March 31, 2012 – $46,972) in highly liquid treasury bills. At March 31, 2013 the three series of treasury bills held were earning yields of 95bps, 96bps and 96bps until they mature on April 11, 2013, May 09, 2013 and May 23, 2013 respectively. As at March 31, 2013, if interest rates were to change by 25bps, the change in interest income would be approximately $140 (March 31, 2012 – $117).

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 ATBSI incurring a financial loss. 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 reputable financial institutions from which management believes the risk of loss is remote.

Short term investments consisting of Canadian Treasury Bills are on deposit with reputable financial institutions 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 $112,675 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. Future Accounting Changes

IFRS 9

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, 2015 with different transitional arrangements depending on the date of initial application. ATBSI is evaluating the impact of adopting IFRS 9 on its financial statements.

IFRS 10

Consolidated financial statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. IFRS 10 is not applicable to ATBSI.

IFRS 11

Addresses joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. IFRS 11 is not applicable to ATBSI.

IFRS 12

Disclosure of interests in other entities is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. IFRS 12 is not applicable to ATBSI.

IFRS 13

Fair value measurement provides a consistent and less complex definition of fair value, establishes a single source for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and applies prospectively from the beginning of the annual period in which the standard is adopted. ATBSI is evaluating the impact of adopting IFRS 13 on its financial statements.

IAS 1

Presentation of financial statements was amended and requires companies to group items presented within Other Comprehensive Income ("OCI") based on whether they may be subsequently reclassified to profit or loss. This amendment to IAS 1 is effective for annual periods beginning on or after January 1, 2013 with full retrospective application. ATBSI has not early adopted and is currently assessing the impact of the adoption of this new standard.

IAS 19

Employee benefits is amended to eliminate the option to defer the recognition of actuarial gains and losses, commonly known as the corridor approach, and requires an entity to recognize actuarial gains and losses in OCI immediately. In addition, the net change in the defined benefit liability or asset must be disaggregated into three components: service cost, net interest and remeasurements. This amended standard is effective for annual periods beginning on or after January 1, 2013, with modified retrospective application. The adoption of these amendments will not affect ATBSI'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, 2013 $	March 31, 2012 $
Due (to) from ATBIM	382	92
Due (to) from ATBIA	(1,170)	(541)
	(788)	(449)

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, 2013 $	March 31, 2012 $
Due to ATB	3,969	2,305

The amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2013 was 3.00% (March 31, 2012 – 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 Financial 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 are redeemed at fair market value, ATBSI will reimburse ATB, through an equity distribution, for payments made to employees of ATBSI in excess of the original subscription amount.

The amount due to ATB (shown below) represents ATBSI's proportionate share of increase in the fair value of the notes owing to ATB.

The amounts due to ATB arising from the issuance of the achievement notes are as follows:

	2013 $	2012 $
Opening	3,957	1,501
Redemption of achievement notes	(433)	(133)
Appreciation of achievement notes (share based payment)	2,753	2,589
	6,277	3,957

7. Property and equipment and intangibles

	Computer Equipment $	Software $	Computer Equipment under development $	Software under development $	Total $
Cost					
Balance at March 31, 2011	1,518	14,852	-	257	16,627
Additions	-	527	-	895	1,422
Transfer to completed asset	-	-	-	(527)	(527)
Disposal	-	(216)	-	-	(216)
Balance at March 31, 2012	1,518	15,163	-	625	17,306
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
Depreciation					
Balance at March 31, 2011	122	3,791	-	-	3,913
Amortization for the year	199	2,240	-	-	2,439
Disposals	-	(216)	-	-	(216)
Balance at March 31, 2012	321	5,815	-	-	6,136
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
Carrying Amounts					
Balance at March 31,2012	1,197	9,348	-	625	11,170
Balance at March 31,2013	1,004	7,732	37	1,706	10,479

Amortization expense charged to the statement of operations and comprehensive loss for the year ended March 31, 2013 was $2,068 (March 31, 2012 – $2,439). There were no impairments recognized during the year ended March 31, 2013 (March 31, 2012 – $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, 2013	March 31, 2012
Class A common shares #	132,739,200	128,739,200
Amount	$132,745	$128,745

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, 2013, ATBSI had RAC of $16,857 which exceeded regulatory requirements set out by IIROC.

	March 31, 2013	March 31, 2012
Total capital	32,617	34,344
Less: Total non-allowable assets	15,404	13,854
Net allowable assets	17,213	20,490
Less: Minimum capital	250	250
Less: Total margin required	106	132
Less: Securities concentration charge	-	-
RAC	16,857	20,108

Under IIROC rules:

- Assets are classified as allowable or non-allowable. Allowable assets are considered to be balances that are liquid and easily convertible into cash or cash equivalents. Non-allowable assets are assets that cannot be disposed of in a short time frame and can include amounts receivable from certain counterparties, commissions and fees receivable, interest and dividends receivable, deferred tax assets, intangible assets, property and equipment, investments in subsidiaries, and other assets.

- Margin rates are established by IIROC to quantify the risk of potential market loss of client and/or inventory security holdings.

- A securities concentration charge is the result of a high exposure to a single security or group of securities of the same issuer, based on historical trading experiences of the type of security.

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	$
2014	640
2015	640
2016	419
	1,699

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, 2013 $	March 31, 2012 $
	Revenue			
ATBIM	ATBIM Trailer fees	Mutual fund commissions	27,632	22,069
ATBIM	ATBIM Referral fees	Client referral fees	1,641	1,675
ATBIM	ATBIM Transaction fees	Client referral fees	503	480
ATBIA	ATBIA Insurance referrals	Client referral fees	93	54
ATB	HISA Trailer fees	Mutual fund commissions	15	-
ATB	ATB GIC Referral fees	Other commissions	3,726	4,194
ATB	ATB Interest income	Interest revenue	63	44
			33,673	28,516
	Administration and Selling Expenses			
ATB	IT and Rent	Other expenses	5,346	4,110
ATB	Marketing	Other expenses	304	-
ATB	Professional services	Professional fees	383	352
			6,033	4,462
	Interest Expense and Standby fees			
ATB	Interest expense and standby fees	Interest expense	35	92

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	2,564	2,493
Deferred Compensation	156	252
Retirement and post employment benefits	157	160
	2,877	2,905

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 loss. For the year ended March 31, 2013, expenses related to the defined contribution plan provision were $2,583 (March 31, 2012 – $2,562).

The total value of all unvested obligations for the long-term incentive plan as at March 31, 2013 is $584. The accrued liability of $295 represents the amortized portion of the present value of the total obligation. The full amount is expected to be amortized over the term of the grants which is three years. Of the total obligation of $584, $279 will become payable in April 2014 and the remaining $305 will become payable in April 2015.

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, 2013. No amounts have been drawn on the facility at March 31, 2013 (March 31, 2012 – $nil) and a standby fee of $37 (March 31, 2012 – $41) 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. This claim is expected to be settled during the fiscal year 2014 and management does not expect its final resolution will have a material impact to the Company's financial statements.

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These Credit Union Deposit Guarantee Corporation (CUDGC) Financial Statements are a copy from the CUDGC 2012 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 statement of financial position as at December 31, 2012 and the statements of net income and 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, 2012, and the results of its operations 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 6, 2013

Edmonton, Alberta

Statements of Financial Position

As at December 31

(thousands of dollars)	Notes	2012	2011
ASSETS			
Current Assets			
Cash and cash equivalents	4	$ 8,519	$ 13,704
Accrued interest receivable		1,063	976
Assessments receivable		4,274	4,302
Prepaid expenses		59	105
Tax receivable		141	40
Total Current Assets		**14,056**	**19,127**
Non Current Assets			
Investments	5	194,062	163,665
Property and equipment	8	581	758
Intangible assets	8	116	126
Total Non Current Assets		**194,759**	**164,549**
TOTAL ASSETS		**$ 208,815**	**$ 183,676**
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	9	$ 1,249	$ 1,532
Provision for financial assistance	10	238	969
Total Current Liabilities		**1,487**	**2,501**
Non Current Liabilities			
Deferred tax liability		1,606	1,704
Long-term unclaimed credit union balances		998	847
Total Non Current Liabilities		**2,604**	**2,551**
TOTAL LIABILITIES		**$ 4,091**	**$ 5,052**
Commitments and contingencies	11		
EQUITY			
Deposit guarantee fund		$ 198,665	$ 172,163
Accumulated other comprehensive income		6,059	6,461
TOTAL EQUITY		**$ 204,724**	**$ 178,624**
TOTAL LIABILITIES AND EQUITY		**$ 208,815**	**$ 183,676**

The accompanying notes are part of these financial statements.

Approved by the Board: March 6, 2013

Original signed by
Ken Motiuk, Director

Original signed by
Loraine Oxley, Director

Statements of Net Income and Comprehensive Income

For the Years Ended December 31

(thousands of dollars)	Notes	2012	2011
NET INCOME (LOSS)			
Revenues:			
Assessment revenue	13	$ 26,706	$ 25,687
Interest income	5	7,006	6,471
Gains (losses) on disposal of investments	5	400	866
		34,112	**33,024**
Expenses:			
(Recovery of) provision for financial assistance	10	(11)	84
Administration expenses	17	7,653	6,689
		7,642	**6,773**
Income before income taxes		26,470	26,251
(Recovery of) income taxes	12	(32)	110
NET INCOME (LOSS) FOR THE YEAR		**26,502**	**26,141**
OTHER COMPREHENSIVE (LOSS) INCOME			
Fair value adjustment, net of tax [tax: 2012 – $25; 2011 – ($978)]		(86)	3,679
Reclassification to net income, net of tax		(316)	(684)
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE YEAR, NET OF TAX		**(402)**	**2,995**
COMPREHENSIVE INCOME		**$ 26,100**	**$ 29,136**

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, 2010	**$ 3,466**	**$ 146,022**	**$ 149,488**
Net income for the year	-	26,141	26,141
Other comprehensive income (loss) for the year, net of tax	2,995	-	2,995
Balance as at December 31, 2011	**6,461**	**172,163**	**178,624**
Net income for the year	-	26,502	26,502
Other comprehensive (loss) income for the year, net of tax	(402)	-	(402)
Balance as at December 31, 2012	**$ 6,059**	**$ 198,665**	**$ 204,724**

The accompanying notes are part of these financial statements.

Statements of Cash Flows

For the Years Ended December 31

	2012	2011
Operating activities:		
Assessments received	$ 26,734	$ 26,110
Interest income received	5,966	6,063
Financial assistance (paid)	(720)	(315)
Interest and bank charges (paid)	(1)	(1)
Income taxes (paid)	(59)	(314)
(Paid) to suppliers and employees	(7,505)	(5,951)
Special contribution (paid)	-	(18,153)
Net cash flows from operating activities	**24,415**	**7,439**
Investing activities:		
Purchase of investments, net	(29,556)	(17,699)
Purchase of property and equipment	(42)	(759)
Purchase of intangible assets	(2)	(86)
Net cash flows used in investing activities	**(29,600)**	**(18,544)**
Cash (outflow) inflow	(5,185)	(11,105)
Cash and cash equivalents at beginning of year	13,704	24,809
Cash and cash equivalents at end of year	**8,519**	**13,704**

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

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 purposes of the Corporation are 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 Province of Alberta ("Province") will ensure that this obligation of the Corporation is carried out. As at December 31, 2012, credit unions in Alberta held deposits, including accrued interest, totaling $18.3 billion (2011 - $17.1 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 Corporation's Statements of Net Income and Comprehensive Income includes deposit guarantee assessments received from credit unions, investment income, provision for financial assistance, administration expenses and other related revenues and expenses.

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 6, 2013.

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 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 10: 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 profit or loss.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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]	One 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 recoverable is based on taxable income for the year. Taxable income differs from net income as reported in the Statements of Net Income and 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 recoverable 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 are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

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.

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.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Interest and Dividend Revenue

Interest and dividend revenue from a financial asset are recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest revenue is accrued on a time basis, by reference to principal outstanding at the effective interest rate applicable, 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 revenue 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 (AFS)
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 (AFS)
AFS 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. 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 other comprehensive 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.

Financial liabilities
Accounts payable and accrued liabilities, provision for financial assistance, lease inducement accrual 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. With the exception of the lease inducement accrual which is amortized over the lease term, unclaimed balances and the provision for financial assistance, which may be dependent on the terms within an indemnity agreement, all other liabilities are short term in nature.

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 into 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.

Effective interest method
The Corporation uses the effective interest method to recognize interest 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 interest 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.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transaction Costs

Transaction costs related to financial assets and liabilities are expensed as incurred as these do not represent material amounts.

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.

The current lease for office premises commenced for a five year period beginning September 1, 2011 with an option to extend the lease term for an additional five years.

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 statement of 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 Comprehensive Income and reflected in net income as gains or losses once securities, classified as AFS, are realized.

Comprehensive income and its components are disclosed in the Statements of Net Income and 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.

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, 2012, and have not been applied in preparing these financial statements.

Standards that may impact the Corporation include:

IAS 1: Presentation of Financial Statements

On June 16, 2011 the IASB issued amendments to IAS 1: Presentation of Financial Statements. This amendment requires all entities to present a single statement of comprehensive income, thus removing the 'two statement approach' (separate statements of income and comprehensive income), effective for financial years beginning on or after 1 July 2012. The Corporation is currently assessing the presentation requirements, which must be applied prospectively for the annual periods beginning on or after January 1, 2013.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 9: Financial Instruments

This standard defines a new way 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 three categories (amortized cost, fair value through profit or loss and fair value through equity) based on the contractual cash flow characteristics of the financial assets. On December 16, 2011 the International Accounting Standards Board (IASB) issued amendments to *IFRS 9: Financial Instruments* deferring the mandatory effective date from January 1, 2013 to January 1, 2015.

Since the impact of the adoption depends on the financial instruments held by the Corporation on the date of adoption, the impact of any changes cannot be quantified at this time.

IFRS 10: Consolidated Financial Statements

On May 12, 2011, the IASB issued *IFRS 10: Consolidated Financial Statements*. *IFRS 10* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. *IFRS 10* includes a new definition of control that determines which entities are consolidated.

The Corporation is currently assessing the presentation and preparation requirements, which must be applied prospectively for the annual periods beginning on or after January 1, 2013.

IFRS 12: Disclosure of Interests in Other Entities

On May 12, 2011, the IASB issued *IFRS 12: Disclosure of Interests in Other Entities*. This new standard establishes the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The Corporation is currently assessing these disclosure requirements, which must be applied prospectively for annual periods beginning on or after January 1, 2013.

IFRS 13: Fair Value Measurement

On May 12, 2011 the IASB issued *IFRS 13: Fair Value Measurement*. *IFRS 13* establishes a single framework for all fair value measurements when the fair value is required or permitted by IFRS. The effective date of implementation for *IFRS 13* is January 1, 2013. *IFRS 13* does not change the manner by which fair value for the Corporation is determined.

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, 2012, securities held in CCITF have a rate of return of 1.3% per annum (2011: 1.3%).

NOTE 5 INVESTMENTS

The Corporation has classified all investments, including units in the 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, 2012 Fair Value[1]	December 31, 2012 Cost	December 31, 2011 Fair Value[1]	December 31, 2011 Cost
Directly held:				
Securities issued or guaranteed by:				
Canada	$ 40,355	$ 38,694	$ 40,689	$ 38,770
Provinces	46,822	43,989	29,602	26,665
Financial institutions	53,221	51,807	48,895	47,258
Asset backed securities and other	21,068	20,517	14,158	13,562
Bond Pool	32,596	31,387	30,321	28,032
Total	**$ 194,062**	**$ 186,394**	**$ 163,665**	**$ 154,287**

[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.

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 One:	The fair value is based on quoted prices in active markets.
Level Two:	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 Three:	The fair value is based on inputs that are not based on observable market data.

(thousands of dollars)	Level One	Level Two	Level Three	Total
Investment:				
Fixed income securities, directly held	$ 15,074	$ 146,277	$ 115	$ 161,466
Bond Pool	3,095	29,501	-	32,596
Dec. 31, 2012 – Total	**18,169**	**175,778**	**115**	**194,062**
Percent	9%	91%	0%	100%
Dec. 31, 2011 – Total	**20,885**	**142,665**	**115**	**163,665**
Percent	13%	87%	0%	100%
(Decrease)/increase during the year	**$ (2,716)**	**$ 33,113**	**$ -**	**$ 30,397**

NOTE 5 **INVESTMENTS** (Continued)

Investment Income

Investment income is as follows:

	2012	2011
Interest income	$ 7,006	$ 6,471
Gain on sale of investments	614	1,583
Loss on sale of investments	(214)	(717)
Total Investment Income	**$ 7,406**	**$ 7,337**

For 2012, no adjustment for impairment losses are required.

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"). AIMCo is a provincial corporation responsible to the Minister of Treasury Board & Finance. The Corporation classified all investments in fixed income securities and the units in the Universe Fixed Income Pool ("Bond Pool") as available-for-sale ("AFS").

In accordance with the Corporate Investment Policy, the Corporation manages investment risk by maintaining a conservative portfolio, and engages AIMCo, an experienced independent fund manager 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. During 2012 the Corporation completed a detailed analysis of the current investment policy and determined that policy revisions were required to increase flexibility in investment strategies in order to improve investment returns with minimal impact on the overall risk level.

Per the revised 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.

NOTE 5 **INVESTMENTS** (Continued)

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, 2012 the fund is at 1.07% of total credit union deposits and borrowings. The Corporation manages capital through the following: quarterly reporting to the Board of Directors through its committees on financial results and capital, 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.

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 limits its credit exposure by dealing with counter-parties having a credit standing A plus or greater.

The table below shows the credit risk exposure, by bond rating, at the end of the reporting period.

(thousands of dollars)	2012			2011		
Bond Rating	**Fair Value**	**Book Value**	**% of Total**	**Fair Value**	**Book Value**	**% of Total**
AAA	$ 61,308	$ 59,096	31.6%	$ 54,732	$ 52,217	33.5%
AAm	53,221	51,807	27.4%	48,894	47,258	29.9%
AAI	17,896	17,304	9.2%	9,076	8,520	5.5%
Ah	28,926	26,685	14.9%	20,527	18,145	12.6%
Pool	32,596	31,387	16.8%	30,321	28,032	18.5%
	$ 193,947	**$ 186,279**	**100.0%**	**$ 163,550**	**$ 154,172**	**100.0%**

Note: Excludes Credit Union Central Alberta Limited ($100,000) and Concentra Financial Services Association shares ($15,000) 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 (2011: $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 impairments which are recognized immediately in net income.

The Corporation is exposed to interest rate fluctuations 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 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 $9,000,000 (2011: $7,523,000) in the fair value of total investments.

As at December 31, 2012, securities directly held (excluding the Universe Fixed Income Pool) have an average effective yield of 1.9% based on fair value (2011: 2.0%). These securities have the following term structure: under one year 3% (2011: 0%), over one year and under five years: 53% (2011: 58%), over five years and under ten years: 44% (2011: 42%).

The Corporation owns units in the Universe Fixed Income Pool representing approximately 0.5% of the Pool's outstanding units. The Pool is comprised of Canadian fixed-income instruments and debt related derivatives. As at December 31, 2012, securities held by the Pool have an average effective market yield of 4.1% per annum (2011: 4.0% per annum) and the following term structure based on principal amount under one year 3% (2011: 3%), one to five years: 41% (2011: 39%) and over five: 56% (2011: 58%). The Pool includes derivative contracts with a total net positive fair value of $169,000 (2011: $55,000). 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 the outstanding balance, owed by credit unions, for the fourth quarter assessment charged by the Corporation. As of November 1, 2012 the assessment rate was reduced from 15 bps to 14 bps. 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 (Oct. 2012: 1.15% and Dec. 2011: -0.2%) 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 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 and the senior management and their close family members, are also deemed to be related parties. The Board Chair for the Corporation reports directly to the Minister of Treasury Board & 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 (see Note 14 Directors' and Management Remuneration).

NOTE 8 CAPITAL ASSETS

Property and Equipment

(thousands of dollars)	2012	2011
Cost	$ 1,386	$ 1,376
Accumulated depreciation	(805)	(618)
Net Book Value	**581**	**758**
Furniture and equipment	61	69
Computer equipment	76	107
Leasehold improvements	444	582
Net Book Value	**$ 581**	**$ 758**

(thousands of dollars)	Furniture & Equipment	Computer Equipment	Leasehold Improvements	Total
Cost				
Balance at December 31, 2011	$ 413	$ 298	$ 665	$ 1,376
Additions	18	24	-	42
Adjustments	-	-	(19)	(19)
Disposals	-	(13)	-	(13)
Balance at December 31, 2012	**431**	**309**	**646**	**1,386**
Accumulated Depreciation				
Balance at December 31, 2011	344	191	83	618
Disposals	-	(13)	-	(13)
Depreciation expense	26	55	119	200
Balance at December 31, 2012	**370**	**233**	**202**	**805**
Net Book Value	**$ 61**	**$ 76**	**$ 444**	**$ 581**

As at December 31, 2012, the cost of fully depreciated capital assets that are still in use are as below:

(thousands of dollars)	2012	2011
Furniture and Equipment	$ 307	$ 283
Computer equipment	141	104
Leasehold improvements	-	-
Total Fully Depreciated Capital Assets	**$ 448**	**$ 387**

NOTE 8 CAPITAL ASSETS (Continued)

Intangible Assets

(thousands of dollars)	2012	2011
Cost	$ 400	$ 401
Accumulated amortization	(284)	(275)
Net Book Value	**$ 116**	**$ 126**

As at December 31, 2012 the cost of fully amortized intangible assets is $283,000 (2011: $265,000).

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)	2012	2011
Accounts payable	$ 36	$ 130
Accrued liabilities	848	937
Accrued lease inducements	365	465
	$ 1,249	**$ 1,532**

NOTE 10 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.

NOTE 10 PROVISION FOR FINANCIAL ASSISTANCE (Continued)

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**

The actual financial assistance required under this provision will be paid by the end of 2013.

(thousands of dollars)	2012	2011
(Recovery of) provision for financial assistance		
Change in financial assistance provision	$ (731)	$ (231)
Financial assistance payments	724	315
Recoveries	(4)	-
(Recovery of) provision for financial assistance	**$ (11)**	**$ 84**

NOTE 11 COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Corporation is a lessee for 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	$ 551
Later than one year and not later than 5 years	$ 1,469
Later than 5 years	$ -

Litigation

There is a legal proceeding pending against the Corporation that arose from normal business activities. Management of the Corporation believes that the financial cost of resolution of this proceeding will not be material to the financial position of the Corporation and that no provision is required.

NOTE 12 INCOME TAXES

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% (2011: 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)	2012	2011
Expected income tax expense on pre-tax net income at the statutory rate	$ 5,559	$ 5,513
Add (deduct) tax effect of:		
Non-taxable assessments	(5,609)	(5,394)
Non-deductible provision for financial assistance	(2)	18
Other	10	(16)
Current Tax	**(42)**	**121**
Adjustments	10	(11)
Total Income Tax Expense (Recovery)	**$ (32)**	**$ 110**

At December 31, 2012 the non depreciated property and equipment values for income tax purposes are lower than the related book values by approximately $53,000 (2011: $25,000). The resulting future income taxes recoverable are reflected in the Statements of Financial Position. The Corporation's future effective income tax rate is 21% (2011: 21%).

NOTE 13 REVENUE

The Corporation charges quarterly deposit guarantee assessments to credit unions to carry out its legislated mandate. In 2012, the Corporation earned $26,706,000 (2011: $25,687,000) from deposit guarantee assessments charged to credit unions. Assessments received by the Corporation from the largest credit union represents 59.4% of the total assessments received.

NOTE 14 DIRECTORS' AND MANAGEMENT REMUNERATION

	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**

	2011			
(thousands of dollars)	Salary[1]	Other Cash Benefits[3]	Other Non Cash Benefits[4]	Total
Chair [5,6]	$ 32	$ -	$ -	$ 32
Board Members [5,6]	132	-	-	132
Current senior management:				
President & Chief Executive Officer	264	98	34	396
Executive Vice President, Regulation & Risk Assessment	192	51	23	266
Vice President, Finance, Governance & Human Resources	187	50	28	265
Vice President, Strategy, Analysis & Information Technology	166	46	21	233
Total Remuneration	**$ 973**	**$ 245**	**$ 106**	**$ 1,324**

[1] Salary includes regular base pay.

[2] In June 2012, the President & Chief Executive Officer retired. From June through December, a board member temporarily filled the position under contract until a new President & Chief Executive Officer was recruited.

[3] Other cash benefits include retirement allowance and vacation pay, bonus, perquisite amounts, computer grant and Employment Insurance refund.

[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, out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, professional memberships and staff fund.

[5] The Chair receives a $10,000 annual retainer. 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 $6,000 (2011: $16,000) and $51,000 (2011: $32,000) respectively. The average amount paid to directors was $29,000 (2011: $20,000).

NOTE 15 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 Comprehensive Income of $212,000 (2011: $217,000) represents contributions payable to these plans by the Corporation. As at December 31, 2012, no contributions (2011: Nil) were due in respect of the 2012 reporting period.

The Corporation does not have any defined benefit plans nor are there any post retirement benefits.

NOTE 16 2012 BUDGET

The 2012 budget was approved by the Board of Directors on September 21, 2011.

NOTE 17 ADMINISTRATION EXPENSES

	2012	2011
Salaries and benefits	$ 5,612	$ 4,933
Lease payments	449	364
Professional fees	364	314
Other	341	147
Board and committee fees	229	164
Depreciation and amortization	212	193
Office	192	325
Staff travel	169	178
Board and committee expenses	85	71
	$ 7,653	**$ 6,689**

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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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Statement of Remissions, Compromises and Write-offs

(Unaudited)
For the year ended March 31, 2013

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 Finance made or approved during the fiscal year.

Remissions	
Personal Income Tax	$ -
Compromises	
Corporate Income Tax	$ -
Write-offs	
Department of Treasury Board and Finance	
Accounts Receivable	
Corporate Income Tax	$ 62,509,388
Tourism Levy	6,587
Tax Exempt Fuel User - Rebate	8,834
Alberta Indian Tax Exemption - Retailer - Tobacco	4,926
International Fuel Tax Agreement	50,195
Tobacco Tax	648
Liquid Propane Tax	35,096
Alberta Indian Tax Exemption - Member - Tobacco	704
Sub-total	62,616,378
Implemented guarantees and indemnities	
Gainers Inc. and subsidiaries	11,652
ATB Financial	
Loans and accounts receivable	30,136,000
Total Remissions, compromises & write-offs	$ 92,764,030

Statement of Borrowings Made Under Section 56(1) of the *Financial Administration Act*

(Unaudited)
For the year ended March 31, 2013

The following has been reported pursuant to section 56(2) of the *Financial Administration Act*.

	Issue Principal	Proceeds
Payable in Canadian dollars:		
Promissory Notes	$ 13,735,000,000	$ 13,718,669,209
Debentures	5,813,810,000	5,816,577,336
	$ 19,548,810,000	$ 19,535,246,545

Statement of the Amount of Debt of the Crown for Which Securities Were Pledged

(Unaudited)
For the year ended March 31, 2013

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 2012-13 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, 2013

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	$ 11,652	$ -

LOCAL AUTHORITIES PENSION PLAN

Financial Statements

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Independent Auditor's Report

To the President of Treasury Board and Minister of Finance and
the Local Authorities Pension Plan Board of Trustees

AUDITOR GENERAL *Alberta*

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, 2012, 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, 2012, and changes in net assets available for benefits and changes in 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, 2013

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2012

	($ thousands)	
	2012	**2011**
Net assets available for benefits		
Assets		
Investments (Note 3)	$22,799,744	$19,615,151
Contributions receivable		
Employers	35,026	30,810
Employees	31,860	28,098
Receivable for investments sales	-	3,426
Accounts receivable and accrued investment income	16,274	7,584
Total Assets	22,882,904	19,685,069
Liabilities		
Accounts payable	20,407	21,120
Liabilities for investment purchases	-	1,139
Total Liabilities	20,407	22,259
Net assets available for benefits	$ 22,862,497	$ 19,662,810
Pension obligation and deficit		
Pension obligation (Note 5)	$27,839,800	$24,302,200
Deficit (Note 6)	(4,977,303)	(4,639,390)
Pension obligation and deficit	$22,862,497	$19,662,810

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2012

	($ thousands)	
	2012	**2011**
Increase in assets		
Contributions (Note 7)	$ 1,905,758	$ 1,642,504
Investment income (Note 8)	2,319,365	1,265,150
Transfers from other plans	79,401	14,473
	4,304,524	2,922,127
Decrease in assets		
Benefit payments (Note 10)	944,308	839,374
Transfers to other plans	26,585	6,824
Investment expenses (Note 11)	104,080	70,286
Administrative expenses (Note 12)	29,864	29,683
	1,104,837	946,167
Increase in net assets	3,199,687	1,975,960
Net assets available for benefits at beginning of year	19,662,810	17,686,850
Net assets available for benefits at end of year	$ 22,862,497	$ 19,662,810

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2012

	($ thousands)	
	2012	**2011**
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 1,582,900	$ 1,424,100
Benefits earned	1,384,200	1,222,100
Net increase caused by changes in funding valuation assumptions due to plan experience (Note 5a)	698,400	-
Net increase due to discount rate changes (Note 5a)	794,100	-
	4,459,600	2,646,200
Decrease in pension obligation		
Benefits, transfers and interest	918,200	856,800
Net experience gains (losses) (Note 5b)	3,800	(190,700)
	922,000	666,100
Net increase in pension obligation	3,537,600	1,980,100
Pension obligation at beginning of year	24,302,200	22,322,100
Pension obligation at end of year (Note 5)	$ 27,839,800	$ 24,302,200

Notes to the Financial Statements

Year ended December 31, 2012

(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, 2012 were 8.91% (2011: 8.49%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and12.74% (2011: 12.13%) of the excess for employees, and 9.91% (2011: 9.49%) of pensionable earnings up to the YMPE and 13.74% (2011: 13.13%) of the excess for 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. As a result of that review, the contribution rates have increased at January 1, 2013 as follows: 9.43% of pensionable salary up to the YMPE and 13.47% of the excess for employees, and 10.43% of pensionable salary up to the YMPE and 14.47% 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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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

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 provided by AIMCo at the close of the sixth 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]			2012	2011
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Fixed income					
Deposits and short-term securities	$ -	$ 222,281	$ -	$ 222,281	$ 234,024
Bonds and mortgages	-	5,877,652	797,290	6,674,942	5,965,574
	-	6,099,933	797,290	6,897,223	6,199,598
Inflation sensitive and alternatives					
Real estate	-	-	3,133,105	3,133,105	2,662,495
Real return bonds	-	1,049,122	-	1,049,122	1,014,003
Infrastructure and private debt and loans	-	-	1,172,205	1,172,205	1,073,065
Timberland	-	-	252,507	252,507	234,299
	-	1,049,122	4,557,817	5,606,939	4,983,862
Short horizon					
Canadian equities	1,757,780	1,009,008		2,766,788	2,461,171
Global developed equities	2,861,702	1,089,571	1,070,424	5,021,697	4,659,775
Emerging market equities	666,927	98,107	-	765,034	349,971
Small cap equity	670,092	-	-	670,092	-
	5,956,501	2,196,686	1,070,424	9,223,611	7,470,917
Long horizon					
Private equities	-	-	1,071,971	1,071,971	960,774
Total investments	$5,956,501	$9,345,741	$7,497,502	$22,799,744	$19,615,151

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 $5,956,501 (2011: $4,625,359).
- ***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 $9,345,741 (2011: $8,361,301). 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 $7,497,502 (2011: $6,628,491).

*** Reconciliation of Level 3 Fair Value Measurement**

	($ thousands)	
	2012	**2011**
Balance, beginning of year	$6,628,491	$5,631,046
Investment income	860,985	713,743
Purchases of Level 3 pooled fund units	8,820,326	4,142,458
Sale of Level 3 pooled fund units	(8,812,300)	(3,858,756)
Balance, end of year	$7,497,502	$6,628,491

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, 2012		December 31, 2011	
		($ thousands)	*%*	*($ thousands)*	*%*
Fixed income	20 - 50%	$ 6,897,223	30.2	$ 6,199,598	31.6
Inflation sensitive and alternatives	20 - 50%	5,606,939	24.6	4,983,862	25.5
Short horizon	25 - 50%	9,223,611	40.5	7,470,917	38.0
Long horizon	3 - 9%	1,071,971	4.7	960,774	4.9
		$22,799,744	100.0	$19,615,151	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, 2012:

Credit rating	2012	2011
Investment Grade (AAA to BBB-)	88%	91%
Speculative Grade (BB+ or lower)	2%	0%
Unrated	10%	9%
	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. 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

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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 26% of the Plan's investments, or $6,001 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (14%) 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 2.6% (2011: 2.7%).

The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2012:

($ millions)

	2012		2011	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 3,149	$ (315)	$ 2,799	$ (280)
Euro	711	(71)	690	(69)
Japanese yen	376	(38)	432	(43)
British pound	403	(40)	401	(40)
Australian dollar	203	(20)	274	(28)
Swiss franc	141	(14)	133	(13)
Other foreign currencies	1,018	(102)	580	(58)
Total foreign currency investments	$ 6,001	$ (600)	$ 5,309	$ (531)

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 3.6% (2011: 3.6%).

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at December 31, 2012:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market Yield
Deposits and short term securities	93%	7%	0%	1.3%
Bonds and mortgages	1%	17%	82%	3.8%
Real return bonds	1%	0%	99%	0.4%

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% (2011: 3.4%). 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	**2012**	**2011**
Contracts in favourable position (current credit exposure)	46	$ 174,094	$ 160,966
Contracts in unfavourable position	17	(49,343)	(105,713)
Net fair value of derivative contracts	63	$ 124,751	$ 55,253

(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 $174,094 (2011: $160,966) 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	**2012**	**2011**
Structured equity replication derivatives	$ 135,329	$ 75,425
Foreign currency derivatives	(16,806)	(7,304)
Interest rate derivatives	8,842	(3,955)
Credit risk derivatives	(2,614)	(8,913)
Net fair value of derivative contracts	$ 124,751	$ 55,253

(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

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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) Contractual maturities: Structured equity replication derivatives and foreign currency derivatives primarily mature within one year. For interest rate derivatives approximately 62% mature within one year; 25% between 1 and 3 years and 13% over 3 years. For credit risk derivatives approximately 51% mature within one year; 6% between 1 and 3 years and 43% over 3 years.

(vi) Deposits: At December 31, 2012 deposits in futures contracts margin accounts totalled $38,859 (2011: $109,071) and deposits as collateral for derivative contracts totalled $Nil (2011: $42).

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 results were then extrapolated to December 31, 2012.

The actuarial assumptions used in determining the value of the pension obligation of $27,839,800 (2011: $24,302,200) 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:

	2012	2011
	%	
Discount rate	5.80	6.00
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50

* In addition to age specific merit and promotion increase assumptions.

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, 2012 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 2013.

b) NET EXPERIENCE GAINS

Experience gains of $3,800 (2011: losses of $190,700) arose from differences between the actuarial assumptions used in the 2011 valuation and 2012 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, 2012:

	($ 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	2,010,900	1.1
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	1,174,500	1.3
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	4,621,000	3.7

[1] The current service cost as a percentage of pensionable earnings as determined by the December 31, 2012 extrapolation was 16.20%.

NOTE 6 DEFICIT

	($ thousands)	
	2012	**2011**
Deficit at beginning of year	$ (4,639,390)	$ (4,635,250)
Increase in net assets available for benefits	3,199,687	1,975,960
Net increase in pension obligation	(3,537,600)	(1,980,100)
Deficit at end of year	$ (4,977,303)	$ (4,639,390)

NOTE 7 CONTRIBUTIONS

	($ thousands) 2012	2011
Current and optional service		
Employers	$ 959,937	$ 849,936
Contribution from Alberta Health Services [a]	44,980	-
Employees	873,287	769,877
Past service		
Employers	7,308	7,014
Employees	20,246	15,677
	$ 1,905,758	$ 1,642,504

[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) 2012	2011
Fixed Income	$ 356,338	$ 781,808
Inflation sensitive and alternatives		
Real estate	433,059	466,063
Real return bonds	32,397	172,545
Infrastructure and private debt and loans	85,971	23,911
Timberland	1,964	42,437
	553,391	704,956
Short horizon		
Canadian equities	306,506	(165,771)
Foreign equities	987,507	(160,072)
Absolute return strategies	-	29,818
	1,294,013	(296,025)
Long horizon		
Private equities	115,623	74,411
	$ 2,319,365	$ 1,265,150

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:

	2012	2011	2010	2009	2008
	in per cent				
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return (loss) on investments	9.4	5.2	11.5	11.1	(10.9)
Value added return (loss) by investment manager	1.4	1.5	(1.6)	(1.5)	(4.2)
Total return (loss) on investments [(a)]	10.8	6.7	9.9	9.6	(15.1)
Other sources [(b)]	5.5	4.5	5.2	4.1	1.8
Per cent change in net assets [(c)]	**16.3**	**11.2**	**15.1**	**13.7**	**(13.3)**
Per cent change in pension obligation [(c)]	**14.6**	**8.9**	**15.3**	**8.0**	**6.9**
Per cent of pension obligation supported by net assets	82	81	79	79	75

(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 3.9% (PBR: 4.9%), ten years is 7.6% (PBR: 7.7%) and nineteen years is 7.3% (PBR: 7.3%). The total return reported for 2011 has been restated to conform to changes made by AIMCo subsequent to the completion of the 2011 financial statements. The total return in 2011 increased by 0.2% from 6.5% to 6.7% 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)	
	2012	**2011**
Retirement benefits	$ 674,643	$ 614,092
Disability benefits	9,809	9,653
Termination benefits	209,502	173,347
Death benefits	50,354	42,282
	$ 944,308	$ 839,374

NOTE 11 INVESTMENT EXPENSES

	($ thousands) 2012	2011
Amount charged by:		
AIMCo [a]	$ 104,028	$ 70,231
Alberta Treasury Board and Finance [b]	52	55
Total investment expenses	$ 104,080	$ 70,286
Average fair value of investments	$21,207,448	$18,631,922
Percent of investments at average fair value	0.49%	0.38%
Investment expenses per member	$ 475	$ 328

[a] For investment management services.

[b] For investment accounting and Plan reporting services.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands) 2012	2011
General administration costs and process improvement costs		
Alberta Pensions Services Corporation (APS)	$ 27,225	$ 27,426
Alberta Local Authorities Pension Plan Corporation (LAPP Corp.)	2,086	1,980
Actuarial fees	492	222
Audit fees	61	55
	29,864	29,683
Member service expenses per member	$ 136	$ 138

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) 2012				2011
	Base Salary [a]	Other Cash Benefits [b]	Other Non-Cash Benefits [c]	Total	Total
Corporation Board Chair [d]	$ -	$ 40	$ -	$ 40	$ 16
Corporation Board Members (excluding Chair) [d]	-	117	-	117	140
President & Chief Executive Officer	209	56	53	318	293
Vice-Presidents:					
Investments [e]	138	49	7	194	142
Pension Policy and Funding [f]	74	11	14	99	161
Stakeholder Relations	134	22	33	189	176

[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 was a 0.6 FTE in 2011 and now is a 0.8 FTE position in 2012.

(f) This position was held by two individuals and was vacant 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 $133,932 (2011: $99,969) or $612 (2011: $466) per member and 0.59% (2011: 0.51%) 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 $22,975,200 at December 31, 2012 (2011: $20,880,100).

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 totalling 6.96% of pensionable earnings shared equally between employers and employees until December 31, 2025. The special payments have been included in the rates in effect at December 31, 2012 (see Note 1b).

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2012 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.

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MANAGEMENT EMPLOYEES PENSION PLAN

Financial Statements

Year Ended December 31, 2012

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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 Management Employees Pension Plan, which comprise the statement of financial position as at December 31, 2012, 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, 2012, and changes in net assets available for benefits and changes in 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, 2013

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2012

	($ thousands)	
	2012	**2011**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 2,984,755	$ 2,634,480
Contributions receivable		
Employers	525	568
Employees	305	336
Accounts receivable and accrued investment income	1,350	2,419
Total Assets	2,986,935	2,637,803
Liabilities		
Accounts payable	585	1,947
Total Liabilities	585	1,947
Net assets available for benefits	$ 2,986,350	$ 2,635,856
Pension obligation and deficit		
Pension obligation (Note 5)	$ 3,289,773	$3,153,582
Deficit (Note 6)	(303,423)	(517,726)
Pension obligation and deficit	$ 2,986,350	$ 2,635,856

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2012

	($ thousands)	
	2012	**2011**
Increase in Assets		
Contributions (Note 7)	$ 168,082	$ 155,835
Investment income (Note 8)	340,083	65,849
Transfers from other plans, net	12,319	1,873
	520,484	223,557
Decrease in Assets		
Benefit payments (Note 10)	153,778	142,152
Investment expenses (Note 11)	14,032	8,150
Administrative expenses (Note 12)	2,180	1,592
	169,990	151,894
Increase in net assets	350,494	71,663
Net assets available for benefits at beginning of year	2,635,856	2,564,193
Net assets available for benefits at end of year	$ 2,986,350	$ 2,635,856

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2012

	($ thousands)	
	2012	**2011**
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 195,418	$ 188,531
Benefits earned	119,266	106,976
Net increase due to actuarial assumption changes (Note 5a)	4,420	37,074
	319,104	332,581
Decrease in pension obligation		
Benefits, transfers and interest	141,459	140,279
Net experience gains (Note 5b)	41,454	-
	182,913	140,279
Net increase in pension obligation	136,191	192,302
Pension obligation at beginning of year	3,153,582	2,961,280
Pension obligation at end of year (Note 5)	$ 3,289,773	$ 3,153,582

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2012

(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, 2012 are unchanged at 11.16% (2011: 11.16%) of pensionable salary up to the maximum pensionable salary limit under the *Income Tax Act* for employees and 19.14% (2011: 19.14%) for employers.

The contribution rates 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.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

b) VALUATION OF INVESTMENTS

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 provided by AIMCo at the close of the sixth 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 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]			2012	2011
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Money market and fixed income					
Deposits and short-term securities	$ -	$ 24,410	$ -	$ 24,410	$ 20,358
Bonds and mortgages	-	297,611	82,838	380,449	374,777
	-	322,021	82,838	404,859	395,135
Equities					
Canadian	262,701	150,926	-	413,627	355,922
Foreign	906,555	293,170	109,078	1,308,803	1,101,023
Private	-	-	133,082	133,082	112,685
	1,169,256	444,096	242,160	1,855,512	1,569,630
Inflation sensitive					
Real estate	-	-	211,335	211,335	178,911
Infrastructure and private debt and loans	-	-	166,521	166,521	152,634
Real return bonds	-	346,528	-	346,528	338,170
	-	346,528	377,856	724,384	669,715
Total investments	$ 1,169,256	$ 1,112,645	$ 702,854	$ 2,984,755	$ 2,634,480

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 $1,169,256 (2011: $1,003,965).
- ***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 $1,112,645 (2011: $991,954). 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 $702,854 (2011: $638,561).

*** Reconciliation of Level 3 Fair Value Measurement**

	($ thousands)	
	2012	**2011**
Balance, beginning of year	$ 638,561	$ 482,090
Investment income	80,091	53,017
Purchases of Level 3 pooled fund units	96,091	205,784
Sale of Level 3 pooled fund units	(111,889)	(102,330)
Balance, end of year	$ 702,854	$ 638,561

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 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, 2012		December 31, 2011	
		($ thousands)	*%*	*($ thousands)*	*%*
Money market and fixed income	10 - 40%	$ 404,859	13.5	$ 395,135	15.0
Equities	40 - 70%	1,855,512	62.2	1,569,630	59.6
Inflation sensitive	15 - 40%	724,384	24.3	669,715	25.4
		$ 2,984,755	100.0	$ 2,634,480	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, 2012:

Credit rating	2012	2011
Investment Grade (AAA to BBB-)	89%	85%
Speculative Grade (BB+ or lower)	1%	0%
Unrated	10%	15%
	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. 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 45% of the Plan's investments, or $1,352 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 to the Plan would be approximately 4.5% (2011: 4.6%).

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, 2012:

($ millions)

	2012		2011	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 711	$ (71)	$ 646	$ (65)
Euro	162	(16)	139	(14)
Japanese yen	81	(8)	94	(9)
British pound	105	(11)	94	(9)
Australian dollar	45	(5)	37	(4)
Swiss franc	33	(3)	28	(3)
Other foreign currencies	215	(21)	163	(16)
Total foreign currency investments	$ 1,352	$ (135)	$ 1,201	$ (120)

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 2.2 % (2011: 2.6%).

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at December 31, 2012:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market Yield
Deposits and short term securities	93%	7%	0%	1.3%
Bonds and mortgages	8%	41%	51%	3.8%
Real return bonds	1%	0%	99%	0.4%

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 6.4% (2011: 5.0%). 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 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	**2012**	**2011**
Contracts in favourable position (current credit exposure)	45	$ 36,462	$ 32,931
Contracts in unfavourable position	18	(16,641)	(20,770)
Net fair value of derivative contracts	63	$ 19,821	$ 12,161

(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 $36,462 (2011: $32,931) 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	**2012**	**2011**
Structured equity replication derivatives	$ 21,481	$ 14,860
Foreign currency derivatives	(1,701)	471
Interest rate derivatives	688	(929)
Credit risk derivatives	(647)	(2,241)
Net fair value of derivative contracts	$ 19,821	$ 12,161

(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) Contractual maturities: Structured equity replication derivatives and foreign currency derivatives primarily mature within one year. For interest rate derivatives approximately 58% mature within one year; 25% between 1 and 3 years and 17% over 3 years. For credit risk derivatives approximately 40% mature within one year; 8% between 1 and 3 years and 52% over 3 years.

(vi) Deposits: At December 31, 2012 deposits in futures contracts margin accounts totalled $7,895 (2011: $16,581) and deposits as collateral for derivative contracts totalled $ nil (2011: $9).

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 Aon Hewitt and was then extrapolated to December 31, 2012.

The actuarial assumptions used in determining the value of the pension obligation of $3,289,773 (2011: $3,153,582) 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:

	2012	2011
	%	
Discount rate	6.30	6.30
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50
Mortality rate	Uninsured Pensioner 1994 table projected generationally	

* In addition to age specific merit and promotion increase assumptions.

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2012. 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 2013.

b) NET EXPERIENCE GAINS

Net experience gains of $41,454 (2011: $ nil) reflect the results of the valuation as at December 31, 2011 extrapolated to December 31, 2012.

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, 2012:

	($ 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	219,600	1.6
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	20,600	0.6
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	434,300	4.4

* The current service cost of accruing benefits (including 0.4% allowance for administration expenses) as a percentage of pensionable earnings as at December 31, 2009 valuation was 21.6%.

NOTE 6 DEFICIT

	($ thousands)	
	2012	**2011**
Deficit at beginning of year	$ (517,726)	$ (397,087)
Increase in net assets available for benefits	350,494	71,663
Net increase in pension obligation	(136,191)	(192,302)
Deficit at end of year	$ (303,423)	$ (517,726)

NOTE 7 CONTRIBUTIONS

	($ thousands)	
	2012	**2011**
Current service		
Employers	$ 104,139	$ 97,324
Employees	60,726	56,811
Past service		
Employers	546	406
Employees	2,671	1,294
	$ 168,082	$ 155,835

NOTE 8 INVESTMENT INCOME

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

	($ thousands)	
	2012	**2011**
Money market and fixed income	$ 24,361	$ 41,999
Equities		
Canadian	44,848	(27,269)
Foreign	202,520	(48,892)
Private	17,992	7,741
Absolute return strategies	-	575
	265,360	(67,845)
Inflation sensitive		
Real estate	29,051	31,208
Infrastructure and private debt and loans	10,402	3,623
Real return bonds	10,909	56,864
	50,362	91,695
	$ 340,083	$ 65,849

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:

	2012	2011	2010	2009	2008
	in per cent				
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return (loss) on investments	9.8	1.5	10.7	15.1	(14.5)
Value added return (loss) by investment manager	2.2	0.9	(0.5)	-	(3.1)
Total return (loss) on investments [(a)]	**12.0**	**2.4**	**10.2**	**15.1**	**(17.6)**
Other sources [(b)]	1.3	0.4	0.9	2.0	1.1
Per cent change in net assets [(c)]	**13.3**	**2.8**	**11.1**	**17.1**	**(16.5)**
Per cent change in pension obligation [(c)]	**4.3**	**6.5**	**6.1**	**9.9**	**3.8**
Per cent of pension obligation supported by net assets	**91**	**84**	**87**	**83**	**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 3.7% (PBR: 3.9%), ten years is 7.1% (PBR: 6.9%) and nineteen years is 7.4% (PBR: 7.2%). The total return reported for 2011 has been restated to

conform to changes made by AIMCo subsequent to the completion of the 2011 financial statements. The total return in 2011 increased by 0.3% from 2.1% to 2.4% 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)	
	2012	**2011**
Retirement benefits	$ 139,803	$ 128,944
Disability benefits	342	350
Termination benefits	8,929	10,311
Death benefits	4,704	2,547
	$ 153,778	$ 142,152

NOTE 11 INVESTMENT EXPENSES

	($ thousands)	
	2012	**2011**
Amount charged by:		
AIMCo [(a)]	$ 13,980	$ 8,095
Alberta Treasury Board and Finance [(b)]	52	55
Total investment expenses	$ 14,032	$ 8,150
Average fair value of investments	$ 2,809,617	$ 2,599,065
Percent of investments at average fair value	0.50%	0.31%
Investment expenses per member	$ 1,396	$ 827

(a) For investment management services.

(b) For investment accounting and Plan reporting services.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands)	
	2012	**2011**
General administration costs	$ 1,701	$ 1,357
Board costs	95	58
Actuarial fees	105	13
Audit fees	50	42
Other professional fees	229	122
	2,180	1,592
Member service expenses per member	$ 217	$ 162

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 $16,212 (2011: $9,742) or $1,613 (2011: $989) per member and 0.54% (2011: 0.37%) 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 $2,850,591 at December 31, 2012 (2011: $2,720,737).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency determined by the December 31, 2009 actuarial funding valuation is being funded by special payments currently totalling 9.4% of pensionable earnings shared between employees and employers until December 31, 2014. Thereafter, the special payments will decrease successively to 7.3% until December 31, 2016; to 2.5% until December 31, 2017; and to 2.1% until December 31, 2024.

The special payments have been included in the rates in effect at December 31, 2012 (see Note 1b).

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2012 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 UNREGISTERD PENSION PLANS

Financial Statements

Year Ended March 31, 2013

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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 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, 2013 and 2012, and the statements of changes in net assets available for benefits and changes in pension obligations for the years 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, 2013 and 2012, and the changes in the plans' net assets available for benefits and changes in the plans' pension obligations for the years then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 12, 2013

Edmonton, Alberta

Statements of Financial Position

As at March 31

	Registered Plan Note 1a ($ thousands)		Unregistered Plan Note 1a ($ thousands)	
	2013	**2012**	**2013**	**2012**
Net Assets Available for Benefits				
Assets				
Cash and cash equivalents (Note 3)	$ -	$ -	$ 134	$ 638
Investments (Note 4)	109,798	102,218	-	-
Receivable from sale of investments	-	1,100	-	-
Contributions receivable				
Employer	93	93	46	910
Employee	44	45	46	924
Province of Alberta	1,005	-	-	-
GST receivable	47	29	-	-
Income tax refundable	-	-	6,290	5,994
Due from Reserve Fund (Note 6)	-	-	112,327	96,094
Total assets	110,987	103,485	118,843	104,560
Liabilities				
Liabilities for investment purchases	-	622	-	-
Accounts payable	33	36	111	107
Total Liabilities	33	658	111	107
Net assets available for benefits	$ 110,954	$ 102,827	$ 118,732	$ 104,453
Pension obligation and (deficit)				
Pension Obligation (Note 7)	112,992	103,599	132,529	109,433
Deficit (Note 8)	(2,038)	(772)	(13,797)	(4,980)
Pension obligation and (deficit)	$ 110,954	$ 102,827	$ 118,732	$ 104,453

The accompanying notes are part of these financial statements.

Statements of Changes in Net Assets Available for Benefits

Year ended March 31

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2013	**2012**	**2013**	**2012**
Increase in assets				
Contributions (Note 9)	$ 4,591	$ 4,635	$ 2,462	$ 3,586
Investment income (Note 10)	11,111	6,276	28	52
Increase in due from Reserve Fund	-	-	16,233	13,246
	15,702	10,911	18,723	16,884
Decrease in assets				
Benefit payments (Note 12)	7,059	6,805	4,307	3,695
Investment expenses (Note 13)	381	394	32	83
Administrative expenses (Note 14)	135	95	105	78
	7,575	7,294	4,444	3,856
Increase in net assets	8,127	3,617	14,279	13,028
Net assets available for benefits at beginning of year	102,827	99,210	104,453	91,425
Net assets available for benefits at end of year	$ 110,954	$ 102,827	$ 118,732	$ 104,453

The accompanying notes are part of these financial statements.

Statements of Changes in Pension Obligation

Year ended March 31

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2013	**2012**	**2013**	**2012**
Increase in pension obligation				
Interest accrued on benefits	$ 5,916	$ 5,748	$ 6,360	$ 4,761
Benefits earned	3,726	3,587	8,352	5,202
Net experience losses (gains)	7,707	(93)	8,645	(42)
Net increase due to actuarial assumption changes	-	-	4,046	2,210
Impact of Judicial Compensation Commission	-	3,225	-	17,779
	17,349	12,467	27,403	29,910
Decrease in pension obligation				
Benefits, transfers and interest	7,059	6,805	4,307	3,695
Net decrease (increase) due to actuarial assumption changes	897	(3,890)	-	-
	7,956	2,915	4,307	3,695
Net increase in pension obligation	9,393	9,552	23,096	26,215
Pension obligation at beginning of year	103,599	94,047	109,433	83,218
Pension obligation at end of year (Note 7)	$ 112,992	$ 103,599	$ 132,529	$ 109,433

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2013

(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, 2013 are 7.00% of *capped salary* for members and 14.65% of *capped salary for* the Province. In addition, annual payments by the Province of $1,005 (2012: $1,005) are 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, 2013 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 31.76% of excess pensionable salary. In addition, annual payments by the Province to the Reserve Fund of $1,089 (2012: 1,089) are 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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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 provided by AIMCo at the close of the sixth 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.

Investment income is recorded on an accrual basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts, including transaction costs, charged by AIMCo (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, 2013, securities held by the CCITF have a time weighted rate of return of 1.3% per annum (2012: 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)]			2013	2012
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest bearing securities					
Deposits and short-term securities	$ -	$ 505	$ -	$ 505	$ 377
Bonds and mortgages	-	39,958	3,213	43,171	41,229
	-	40,463	3,213	43,676	41,606
Public equities					
Canadian	10,834	6,059	-	16,893	15,610
Global developed	25,830	6,923	4,915	37,668	34,725
Emerging markets	383	78	810	1,271	573
	37,047	13,060	5,725	55,832	50,908
Alternatives					
Real estate	-	-	5,770	5,770	5,013
Real return bonds	-	288	-	288	595
Infrastructure and private debt and loans	-	-	4,232	4,232	4,096
	-	288	10,002	10,290	9,704
Total investments	$ 37,047	$ 53,811	$ 18,940	$ 109,798	$ 102,218

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 $37,047 (2012: $33,358).
- ***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 $53,811 (2012: $52,064). 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 $18,940 (2012: $16,796).

*** Reconciliation of Level 3 Fair Value Measurement**

	($ thousands)	
	2013	**2012**
Balance, beginning of year	$ 16,796	$ 14,510
Investment income	2,154	2,045
Purchases of Level 3 pooled fund units	5,739	5,052
Sale of Level 3 pooled fund units	(5,749)	(4,811)
Balance, end of year	$ 18,940	$ 16,796

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 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 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			
		2013		2012	
		($ thousands)	*%*	*($ thousands)*	*%*
Interest bearing securities	40 - 50%	$ 43,676	39.8	$ 41,606	40.7
Public equities and alternatives	50 - 65%	66,122	60.2	60,612	59.3
		$ 109,798	100.0	$ 102,218	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, 2013:

Credit rating	2013	2012
Investment Grade (AAA to BBB-)	93%	93%
Speculative Grade (BB+ or lower)	3%	0%
Unrated	4%	7%
	100%	100%

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. 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 33% of the Plan's investments, or $36 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 (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 3.3% (2012: 3.2%).

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, 2013:

($ millions)

	2013		2012	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 21	$ (2.1)	$ 18	$ (1.8)
Euro	4	(0.4)	4	(0.4)
Japanese yen	3	(0.3)	3	(0.3)
British pound	3	(0.3)	3	(0.3)
Australian dollar	1	(0.1)	1	(0.1)
Swiss franc	1	(0.1)	1	(0.1)
Other foreign currencies	3	(0.3)	2	(0.2)
Total foreign currency investments	$ 36	$ (3.6)	$ 32	$ (3.2)

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 2.4% (2012: 2.6%) of total investments.

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at March 31, 2013:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market Yield
Deposits and short term securities	91%	9%	0%	1.3%
Bonds and mortgages	3%	38%	59%	4.6%
Real return bonds	3%	6%	91%	5.1%

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 5.3% (2012: 5.2%). 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	**2013**	**2012**
Contracts in favourable position (current credit exposure)	38	$ 1,178	$ 1,430
Contracts in unfavourable position	16	(437)	(642)
Net fair value of derivative contracts	54	$ 741	$ 788

(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 $1,178 (2012: $1,430) 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	**2013**	**2012**
Structured equity replication derivatives	$ 585	$ 894
Foreign currency derivatives	(89)	(45)
Interest rate derivatives	325	220
Credit risk derivatives	(80)	(281)
Net fair value of derivative contracts	$ 741	$ 788

(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.

NOTE 5 INVESTMENT RISK MANAGEMENT CONTINUED

(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) Contractual maturities: Structured equity replication derivatives and foreign currency derivatives primarily mature within one year. For interest rate derivatives approximately 1% mature within one year; 15% between 1 and 3 years and 84% over 3 years. For credit risk derivatives approximately 32% mature within one year; 1% between 1 and 3 years and 67% over 3 years.

(vi) Deposits: At March 31, 2013 deposits in futures contracts margin accounts totalled $332 (2012: $139) and deposits as collateral for derivative contracts totalled $114 (2012: $11).

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)

	2013	2012
Interest-bearing securities	$ 49,395	$ 40,676
Public equities	56,724	45,306
Alternatives	5,118	4,689
Receivable from the Province of Alberta	1,090	4,332
Receivable from sale of investments, net	-	1,091
	$ 112,327	**$ 96,094**

During the year, net assets of the Reserve Fund increased by $16,233 (2012: $13,246), comprised of employer contributions of $6,470 (2012: $9,008) and investment income of $10,037 (2012: $4,458) less investment expenses of $274 (2012: $220)

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, 2013. 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 $112,992 (2012: $103,599) 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:

	2013 %	2012 %
Discount rate	5.80	5.70
Inflation rate	2.25	2.25
Salary escalation rate	3.50	3.50

The Unregistered Plan

The major assumptions used in the actuarial extrapolation to March 31, 2013 to determine the pension obligation of $132,529 (2012: 109,433) 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 5.3% per annum (2012: 5.5% until 2016 and 5.7% thereafter).

NET EXPERIENCE LOSSES (GAINS)

The Registered Plan net experience loss of $7,707 (2012 gains of $93) reflect the results of the valuation as at December 31, 2011 extrapolated to March 31, 2013.

The Unregistered Plan net experience loss of $8,645 (2012 gains of $42) reflect the results of the valuation as at December 31, 2011 extrapolated to March 31, 2013.

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, 2013:

		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%	8.4	2.1%
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0%	2.1	1.7%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	12.9	4.4%

* 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, 2013:

	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%	12.6	5.1%
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0%	4.3	3.8%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	19.3	10.3%

* As a % of excess pensionable earnings

NOTE 8 DEFICIT

	Registered Plan *($ thousands)*		Unregistered Plan *($ thousands)*	
	2013	**2012**	**2013**	**2012**
Deficit at beginning of year	$ (772)	$ 5,163	$ (4,980)	$ 8,207
Increase in net assets available for benefits	8,127	3,617	14,279	13,028
Net increase in pension obligation	(9,393)	(9,552)	(23,096)	(26,215)
Deficit at end of year	$ (2,038)	$ (772)	$ (13,797)	$ (4,980)

NOTE 9 CONTRIBUTIONS

	Registered Plan *($ thousands)*		Unregistered Plan *($ thousands)*	
	2013	**2012**	**2013**	**2012**
Current service				
Employer	$ 2,427	$ 2,456	$ 1,231	$ 1,785
Employees	1,159	1,174	1,231	1,801
Province of Alberta	1,005	1,005	-	-
	$ 4,591	$ 4,635	$ 2,462	$ 3,586

NOTE 10 INVESTMENT INCOME

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

	($ thousands)	
	2013	**2012**
Interest bearing securities	$ 3,158	$ 3,719
Public equities		
Canadian	1,384	(848)
Foreign	5,516	2,003
	6,900	1,155
Alternatives		
Real estate	697	950
Real return bonds	16	84
Infrastructure and private debt and loans	339	300
Absolute return strategies	1	68
	1,053	1,402
	$ 11,111	$ 6,276

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 $28 (2012: $52).

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:

	2013	2012	2011	2010	2009
	in per cent				
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return (loss) on investments	8.8	5.2	9.4	16.3	(13.0)
Value added return (loss) by investment manager	1.9	0.9	0.3	3.9	(4.7)
Total return (loss) on investments [a]	**10.7**	**6.1**	**9.7**	**20.2**	**(17.7)**
Other sources [b]	(2.8)	(2.5)	(1.4)	(3.6)	(2.5)
Per cent change in net assets [c]	**7.9**	**3.6**	**8.3**	**16.6**	**(20.2)**
Per cent change in pension obligation [c]	**9.1**	**10.2**	**0.8**	**4.3**	**(13.2)**
Per cent of pension obligation supported by net assets	**98**	**99**	**105**	**98**	**88**

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 5.0% (PBR: 4.9%), ten years is 7.6% (PBR: 7.3%) and nineteen years is 7.3% (PBR: 7.1%).

(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:

	2013	2012	2011	2010	2009
	in per cent				
Per cent change in net assets [(a)]	**13.7**	**14.2**	**13.8**	**22.1**	**(10.5)**
Per cent change in pension obligation [(a)]	**21.1**	**31.5**	**1.7**	**10.5**	**(1.6)**
Per cent of pension obligation supported by net assets	**90**	**95**	**110**	**98**	**89**

(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)*	
	2013	**2012**	**2013**	**2012**
Retirement benefits	$ 6,648	$ 6,362	$ 4,012	$ 3,399
Termination benefits	1	35	2	29
Death benefits	410	408	293	267
	$ 7,059	$ 6,805	$ 4,307	$ 3,695

NOTE 13 INVESTMENT EXPENSES

The Registered Plan has investment expenses of:

	($ thousands)	
	2013	**2012**
Amount charged by:		
AIMCo [(a)]	$ 350	$ 363
Alberta Treasury Board and Finance [(b)]	31	31
Total investment expenses	$ 381	$ 394
Average fair value of investments	$ 106,008	$ 100,731
Percent of investments at average fair value	0.36%	0.39%
Investment expenses per member	$ 1,427	$ 1,498

(a) For investment management services.

(b) For investment accounting and reporting services

The Unregistered Plan investment expenses amounted to $32 (2012: $83) or $120 (2012: $339) per member.

NOTE 14 ADMINISTRATIVE EXPENSES

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2013	2012	2013	2012
General administration costs	$ 104	$ 85	$ 105	$ 78
Board costs	-	4	-	-
Actuarial fees	31	6	-	-
	135	95	105	78
Member service expenses per member	$ 506	$ 361	$ 426	$ 318

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 $516 (2012: $489) or $1,933 (2012: $1,859) per member and 0.47% (2012: 0.48%) of net assets under administration.

Total Unregistered Plan expenses of investment expenses per Note 13 and administrative expenses per Note 14 are $137 (2012: $161) or $555 (2012: $657) per member and 0.12% (2012: 0.15%) 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 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 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, 2013	**March 31, 2012**
Net assets available for benefits - Registered Plan	$ 110,954	$ 102,827
Net assets available for benefits - Unregistered Plan *	118,732	104,453
	229,686	207,280
Pension Obligation - Registered Plan	112,992	103,599
Pension Obligation - Unregistered Plan	132,529	109,433
	245,521	213,032
Deficiency of aggregate assets over aggregate accrued benefits	$ (15,835)	$ (5,752)

* Includes due from Reserve Fund for 2013 $112,327 (2012: $96,094)

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PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

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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 Public Service Management (Closed Membership) Pension Plan, which comprise the statement of financial position as at December 31, 2012, 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) Plan as at December 31, 2012, and changes in net assets available for benefits and changes in 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, 2013

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2012

	($ thousands) 2012	2011
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 5)	$ 10,684	$ 7,029
Accounts receivable	43	51
Total Assets	10,727	7,080
Liabilities		
Accounts payable	6	-
Total Liabilites	6	-
Net assets available for benefits	$ 10,721	$ 7,080
Pension obligation and deficit		
Pension obligation (Note 3)	$ 602,989	$ 629,216
Deficit (Note 4)	(592,268)	(622,136)
Pension obligation and deficit	$ 10,721	$ 7,080

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2012

	($ thousands) 2012	2011
Increase in assets		
Contributions from the Province of Alberta	$ 60,000	$ 60,000
Investment income	124	79
	60,124	60,079
Decrease in net assets		
Benefit payments (Note 6)	56,151	56,785
Administration expenses (Note 7)	332	266
	56,483	57,051
Increase in net assets	3,641	3,028
Net assets available for benefits at beginning of year	7,080	4,052
Net assets available for benefits at end of year	$ 10,721	$ 7,080

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2012

	($ thousands)	
	2012	**2011**
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 26,667	$ 30,199
Net increase due to actuarial assumption changes (Note 3a)	11,797	23,437
	38,464	53,636
Decrease in pension obligation		
Benefits paid	56,151	56,785
Net experience gains (Note 3b)	8,540	-
	64,691	56,785
Net decrease in pension obligation	(26,227)	(3,149)
Pension obligation at beginning of year	629,216	632,365
Pension obligation at end of year (Note 3)	$ 602,989	$ 629,216

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2012

(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 6th 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, 2012.

The actuarial assumptions used in determining the value of the pension obligation of $602,989 (2011: $629,216) 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.

The major assumptions used for accounting purposes were:

	2012	2011
	%	%
Inflation rate	2.25	2.25
Discount rate	4.25	4.50
Mortality rate	Uninsured Pensioner 1994 Table projected generationally using Scale AA	

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 $8,540 (2011: $ nil) reflect the results of the valuation as at December 31, 2011 extrapolated to December 31, 2012.

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, 2012:

	($ thousands)	
	Changes in Assumptions	Increase in Plan Deficiency
	%	$
Inflation rate increase holding the discount rate assumption constant	1.0	$ 29,826
Discount rate decrease holding the inflation rate assumption constant	(1.0)	53,341

NOTE 4 DEFICIT

	($ thousands)	
	2012	**2011**
Deficit at beginning of year	$ (622,136)	$ (628,313)
Increase in net assets available for benefits	3,641	3,028
Net decrease in pension obligation	26,227	3,149
Deficit at end of year	$ (592,268)	$ (622,136)

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, 2012, securities held by the Fund have a time weighted rate of return of 1.29% per annum (2011: 1.3% per annum).

NOTE 6 BENEFIT PAYMENTS

	($ thousands)	
	2012	**2011**
Retirement benefits	$ 54,233	$ 54,846
Disability benefits	306	302
Termination benefits	63	-
Death benefits	1,549	1,637
	$ 56,151	$ 56,785

NOTE 7 ADMINISTRATION EXPENSES

	($ thousands) 2012	2011
General administration costs	$ 301	$ 238
Investment management costs	14	11
Actuarial fees	17	3
Audit fees	-	14
	$ 332	$ 266

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 $153 (2011: $119) 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, 2012

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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, 2012, 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, 2012, and changes in net assets available for benefits and changes in 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, 2013

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2012

	($ thousands)	
	2012	**2011**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 7,292,236	$ 6,470,108
Contributions receivable		
Employers	3,406	5,119
Employees	3,416	5,130
Accounts receivable and accrued investment income	4,747	6,975
Total Assets	7,303,805	6,487,332
Liabilities		
Accounts payable	3,968	6,567
Total Liabilities	3,968	6,567
Net assets available for benefits	$ 7,299,837	$ 6,480,765
Pension obligation and deficit		
Pension obligation (Note 5)	$ 8,944,978	$ 8,271,148
Deficit (Note 6)	(1,645,141)	(1,790,383)
Pension obligation and deficit	$ 7,299,837	$ 6,480,765

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2012

	($ thousands)	
	2012	**2011**
Increase in assets		
Contributions (Note 7)	$ 516,837	$ 456,960
Investment income (Note 8)	779,889	230,357
Transfers from other plans	13,266	2,866
	1,309,992	690,183
Decrease in assets		
Benefit payments (Note 10)	370,384	330,988
Transfers to other plans	78,263	14,348
Investment expenses (Note 11)	31,658	19,827
Administrative expenses (Note 12)	10,615	10,775
	490,920	375,938
Increase in net assets	819,072	314,245
Net assets available for benefits at beginning of year	6,480,765	6,166,520
Net assets available for benefits at end of year	$ 7,299,837	$ 6,480,765

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2012

	($ thousands)	
	2012	**2011**
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 531,862	$ 537,398
Benefits earned	351,836	326,558
Net increase (decrease) due to actuarial assumption changes (Note 5a)	381,552	(351,871)
Net experience losses (gains) (Note 5b)	21,449	(129,272)
	1,286,699	382,813
Decrease in pension obligation		
Benefits, transfers and interest	612,869	345,336
	612,869	345,336
Net increase in pension obligation	673,830	37,477
Pension obligation at beginning of year	8,271,148	8,233,671
Pension obligation at end of year (Note 5)	$ 8,944,978	$ 8,271,148

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2012

(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 2012 were 9.90% (2011: 9.10%) of pensionable salary up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 14.14% (2011: 13.00%) of the excess for employees.

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. As a result of this review, the contribution rates have increased at January 1, 2013 as follows: 11.70% of pensionable salary up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 16.72% of the excess with matching contribution by Employers.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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

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 provided by AIMCo at the close of the sixth 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]			2012	2011
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Money market					
Deposits and short-term securities	$ -	$ 52,203	$ -	$ 52,203	$ 52,154
	-	52,203	-	52,203	52,154
Bonds and mortgages					
Liability matching assets	-	1,362,784	-	1,362,784	1,322,888
Other fixed income	-	777,531	193,119	970,650	890,253
	-	2,140,315	193,119	2,333,434	2,213,141
Equities					
Canadian	561,555	319,979	-	881,534	761,017
Global developed	1,738,159	593,247	292,596	2,624,002	2,300,374
Emerging markets	329,938	39,603	-	369,541	228,442
Private	-	-	115,470	115,470	94,349
	2,629,652	952,829	408,066	3,990,547	3,384,182
Alternatives					
Real estate	-	-	423,022	423,022	357,803
Infrastructure and private debt and loans	-	-	389,823	389,823	367,062
Timberland	-	-	103,207	103,207	95,766
	-	-	916,052	916,052	820,631
Total investments	$2,629,652	$3,145,347	$1,517,237	$7,292,236	$6,470,108

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 $2,629,652 (2011: $2,187,598).
- ***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 $3,145,347 (2011: $2,817,842). 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 $1,517,237 (2011: $1,464,668).

*** Reconciliation of Level 3 Fair Value Measurements:**

	($ thousands)	
	2012	**2011**
Balance, beginning of year	$ 1,464,668	$ 1,229,048
Investment income	172,905	130,422
Purchases of Level 3 pooled fund units	136,218	531,914
Sale of Level 3 pooled fund units	(256,554)	(426,716)
Balance, end of year	$ 1,517,237	$ 1,464,668

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, 2012		December 31, 2011	
		($ thousands)	*%*	*($ thousands)*	*%*
Money market	0 - 3%	$ 52,203	0.7	$ 52,154	0.8
Bonds and mortgages					
Liability matching assets	12 - 25%	1,362,784	18.7	1,322,888	20.4
Other fixed income	6 - 12%	970,650	13.3	890,253	13.8
Equities	41 - 55%	3,990,547	54.7	3,384,182	52.3
Alternatives	20 - 30%	916,052	12.6	820,631	12.7
		$ 7,292,236	100.0	$ 6,470,108	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, 2012:

Credit rating	2012	2011
Investment Grade (AAA to BBB-)	92%	88%
Speculative Grade (BB+ or lower)	1%	0%
Unrated	7%	12%
	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. 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 40% of the Plan's investments, or $2,940 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (21%) 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 4.0% (2011: 4.1%).

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, 2012:

($ millions)

	2012		2011	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 1,503	$ (150)	$ 1,393	$ (139)
Euro	356	(36)	330	(33)
Japanese yen	189	(19)	220	(22)
British pound	236	(23)	217	(22)
Australian dollar	99	(10)	129	(13)
Swiss franc	75	(8)	67	(7)
Other foreign currencies	482	(48)	329	(33)
Total foreign currency investments	$ 2,940	$ (294)	$ 2,685	$ (269)

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% (2011: 3.3%).

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at December 31, 2012:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market Yield
Deposits and short term securities	93%	7%	0%	1.3%
Bonds and mortgages	2%	17%	81%	3.3%

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 5.9% (2011: 4.4%). 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	**2012**	**2011**
Contracts in favourable position (current credit exposure)	43	$ 69,225	$ 74,017
Contracts in unfavourable position	19	(43,496)	(47,769)
Net fair value of derivative contracts	62	$ 25,729	$ 26,248

(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 $69,225 (2011: $74,017) 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	**2012**	**2011**
Structured equity replication derivatives	$ 28,472	$ 32,953
Foreign currency derivatives	(4,370)	(748)
Interest rate derivatives	3,193	(573)
Credit risk derivatives	(1,566)	(5,384)
Net fair value of derivative contracts	$ 25,729	$ 26,248

(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.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

(v) Contractual maturities: Structured equity replication derivatives and foreign currency derivatives primarily mature within one year. For interest rate derivatives approximately 29% mature within one year; 21% between 1 and 3 years and 50% over 3 years. For credit risk derivatives approximately 44% mature within one year; 8% between 1 and 3 years and 48% over 3 years.

(vi) Deposits: At December 31, 2012 deposits in futures contracts margin accounts totalled $16,025 (2011: $42,018) and deposits as collateral for derivative contracts totalled $ nil (2011: $18).

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 Aon Hewitt and results were then extrapolated to December 31, 2012.

The actuarial assumptions used in determining the value of the pension obligation of $8,944,978 (2011: $8,271,148) 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:

	2012	2011
	%	
Discount rate	6.40	6.60
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50

* In addition to age specific merit and promotion increase assumptions.

An actuarial valuation of the Plan as at December 31, 2012 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 LOSSES (GAINS)

Net experience losses of $21,449 (2011: gains $129,272) reflect the results of the valuation as at December 31, 2011 extrapolated to December 31, 2012.

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, 2012:

	($ 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	559,000	0.62
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	291,000	0.91
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	1,317,000	2.75

* The current service cost as a percentage of pensionable earnings is 15.42% at December 31, 2012.

NOTE 6 DEFICIT

	($ thousands)	
	2012	**2011**
Deficit at beginning of year	$ (1,790,383)	$ (2,067,151)
Increase in net assets available for benefits	819,072	314,245
Net increase in pension obligation	(673,830)	(37,477)
Deficit at end of year	$ (1,645,141)	$ (1,790,383)

NOTE 7 CONTRIBUTIONS

	($ thousands)	
	2012	**2011**
Current service		
Employers	$ 256,312	$ 226,627
Employees	255,775	226,239
Past service		
Employers	1,038	989
Employees	3,712	3,105
	$ 516,837	$ 456,960

NOTE 8 INVESTMENT INCOME

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

	($ thousands)	
	2012	**2011**
Money market, bonds and mortgages	$ 119,698	$ 267,257
Equities		
Canadian	100,550	(65,306)
Foreign	455,856	(70,476)
Private	16,841	7,888
	573,247	(127,894)
Alternatives		
Real estate	58,097	62,434
Infrastructure and private debt and loans	28,034	7,725
Collateralized commodities	10	3,490
Timberland	803	17,345
	86,944	90,994
	$ 779,889	$ 230,357

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:

	2012	2011	2010	2009	2008
	in per cent				
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return (loss) on investments	9.1	2.7	10.4	13.1	(15.5)
Value added return (loss) by investment manager	2.0	0.9	(0.7)	1.0	(3.7)
Total return (loss) on investments [(a)]	**11.1**	**3.6**	**9.7**	**14.1**	**(19.2)**
Other sources [(b)]	1.5	1.5	2.7	0.9	0.5
Per cent change in net assets [(c)]	**12.6**	**5.1**	**12.4**	**15.0**	**(18.7)**
Per cent change in pension obligation [(c)]	**8.1**	**0.4**	**14.1**	**21.1**	**-**
Per cent of pension obligation supported by net assets	**82**	**78**	**75**	**76**	**80**

(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 3.1% (PBR: 3.4%), ten years is 6.7% (PBR: 6.6%) and nineteen years is 6.9% (PBR: 6.9%). The total return reported for 2011 has been restated to conform to changes made by AIMCo subsequent to the completion of the 2011 financial statements. The total

return in 2011 increased by 0.3% from 3.3% to 3.6% 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) 2012	2011
Retirement benefits	$ 269,511	$ 249,864
Disability benefits	2,084	2,038
Termination benefits	74,753	59,039
Death benefits	24,036	20,047
	$ 370,384	$ 330,988

NOTE 11 INVESTMENT EXPENSES

	($ thousands) 2012	2011
Amount charged by:		
AIMCo [a]	$ 31,606	$ 19,772
Alberta Treasury Board and Finance [b]	52	55
Total investment expenses	$ 31,658	$ 19,827
Average fair value of investments	$ 6,881,172	$ 6,314,700
Percent of investments at average fair value	0.46%	0.31%
Investment expenses per member	$ 406	$ 257

(a) For investment management services.

(b) For investment accounting and Plan reporting services.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands) 2012	2011
General administration costs	$ 10,209	$ 10,458
Board costs	24	23
Actuarial fees	169	91
Audit fees	49	44
Other professional fees	164	159
	10,615	10,775
Member service expenses per member	$ 136	$ 140

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 $42,273 (2011: $30,602) or $542 (2011: $397) per member and 0.58% (2011: 0.47%) 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 $6,993,000 at December 31, 2012 (2011: $6,739,000). In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency determined by the December 31, 2011 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 from January 1, 2012 until December 31, 2025

The special payments have been included in the rates shown in Note 1(b).

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2012 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, 2012

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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 statements of financial position as at December 31, 2012, December 31, 2011 and January 1, 2011, and the statements of changes in net assets available for benefits and changes in pension obligation for the years ended December 31, 2012 and December 31, 2011, 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 Special Forces Pension Plan as at December 31, 2012, December 31, 2011 and January 1, 2011, and changes in net assets available for benefits and changes in pension obligation for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 24, 2013

Edmonton, Alberta

Statements of Financial Position

As at December 31, 2012, December 31, 2011 and January 1, 2011

($ thousands)

	December 31, 2012	December 31, 2011 (Restated Note 2a)	January 1, 2011 (Restated Note 2a)
Net Assets Available for Benefits			
Assets			
Investments (Note 3)	$ 1,743,779	$ 1,543,615	$ 1,488,917
Contributions receivable			
Employers	2,479	2,364	2,163
Employees	2,302	2,204	2,015
Province of Alberta	358	414	465
Accounts receivable and accrued investment income	809	1,387	18
Total Assets	1,749,727	1,549,984	1,493,578
Liabilities			
Accounts payable	285	84	126
Liability for investment purchases	-	168	90
Total Liabilities	285	252	216
Net assets available for benefits	$ 1,749,442	$ 1,549,732	$ 1,493,362
Pension obligation and deficit			
Pension obligation (Note 5)	$ 2,248,294	$ 2,124,216	$ 2,044,927
Deficit (Note 6)	(498,852)	(574,484)	(551,565)
Pension obligation and deficit	$ 1,749,442	$ 1,549,732	$ 1,493,362

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2012

($ thousands)

	2012			2011
	Plan Fund	Indexing Fund	Total	Total
Increase in assets				
Contributions (Note 7)	$ 106,178	$ 4,999	$ 111,177	$ 101,205
Investment income (Note 8)	185,616	4,437	190,053	46,063
	291,794	9,436	301,230	147,268
Decrease in assets				
Benefit payments (Note 10)	92,219	-	92,219	84,274
Transfers to other plans	36	-	36	-
Investment expenses (Note 11)	7,293	154	7,447	5,118
Administrative expenses (Note 12)	1,818	-	1,818	1,506
	101,366	154	101,520	90,898
Increase in net assets	190,428	9,282	199,710	56,370
Net assets available for benefits at beginning of year	1,514,944	34,788	1,549,732	1,493,362
Net assets available for benefits at end of year	$ 1,705,372	$ 44,070	$ 1,749,442	$ 1,549,732

The accompanying notes are part of these financial statements.

Statements of Changes in Pension Obligation

Year ended December 31, 2012

($ thousands)

	2012			2011
	Pre-1992	Post-1991	Total	Total (Restated Note 2a)
Increase in pension obligation				
Interest accrued on opening pension obligation	$ 51,440	$ 82,632	$ 134,072	$ 126,887
Benefits earned	-	76,467	76,467	70,374
Net experience losses (gains) (Note 5c)	11,058	(3,095)	7,963	(1,270)
	62,498	156,004	218,502	195,991
Decrease in pension obligation				
Benefits, transfers and interest	58,079	36,345	94,424	86,294
Net decrease due to actuarial assumptions changes (Note 5a)	-	-	-	30,408
	58,079	36,345	94,424	116,702
Net increase in pension obligation	4,419	119,659	124,078	79,289
Pension obligation at beginning of year	829,678	1,294,538	2,124,216	2,044,927
Pension obligation at end of year (Note 5)	$ 834,097	$1,414,197	$2,248,294	$2,124,216

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2012

(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, 2012 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, 2012 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, 2012 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, 2012 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 1.4% 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*. An additional temporary bridge benefit of 0.6% for each year of pensionable service is paid to age 65 based on the 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. 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 will be 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.

Prior Year Restatement

In 2012 it was clarified with the Plan actuary, Mercer (Canada) Limited, that in 2010 there was a change in the inclusion of post- 2000 COLA in the actuarial funding valuation impacting the extrapolation of the pension obligation for financial reporting. Prior to 2010 the amount included in the pension obligation for post- 2000 COLA was equal to the amount of the Indexing Fund net assets. In 2010 and subsequently, COLA at 30% of CPI is included in the actuarial extrapolation of the pension obligation. For financial reporting an additional increase in the pension obligation for the amount of Indexing Fund net assets was included in the pension obligation as at January 1, 2011 and December 31, 2011 resulting in an overstatement of the pension obligation. As a result of this clarification the prior year overstatement was identified resulting in:

i) Restatement to 2011 as opening deficit decreased by $29,132 to $551,565 from $580,697; opening pension obligation decreased by $29,132 to $2,044,927 from $2,074,059; net increase in pension obligation decreased by $5,656 to $79,289

from $84,945; closing pension obligation decreased by $34,788 to $2,124,216 from $2,159,004; and the closing deficit decreased by $34,788 to $574,484 from $609,272.

ii) Restatement to January 1, 2011 as opening deficit decreased by $29,132 to $551,565 from $580,697; opening pension obligation decreased by $29,132 to $2,044,927 from $2,074,059.

b) VALUATION OF INVESTMENTS

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 provided by AIMCo at the close of the sixth 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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.

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]			2012	2011
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest-bearing securities					
Cash and short-term securities	$ -	$ 12,479	$ -	$ 12,479	$ 15,826
Bonds and mortgages	-	388,630	48,178	436,808	414,316
	-	401,109	48,178	449,287	430,142
Equities					
Canadian	199,171	113,657	-	312,828	272,216
Global developed	368,590	134,665	54,162	557,417	467,889
Private	-	-	61,274	61,274	52,365
Emerging markets	72,105	10,698	-	82,803	64,778
	639,866	259,020	115,436	1,014,322	857,248
Inflation sensitive					
Real estate	-	-	124,049	124,049	105,083
Infrastructure and private debt and loans	-	-	89,006	89,006	79,949
Real return bonds	-	40,347	-	40,347	46,355
Timberland	-	-	26,768	26,768	24,838
	-	40,347	239,823	280,170	256,225
Total investments	$ 639,866	$ 700,476	$ 403,437	$ 1,743,779	$ 1,543,615

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 $639,866 (2011: $548,659).
- ***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 $700,476 (2011: $630,362). 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 3 INVESTMENTS CONTINUED

- ***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 $403,437 (2011: $364,594).

*** Reconciliation of Level 3 Fair Value Measurements:**

	($ thousands)	
	2012	**2011**
Balance, beginning of year	$ 364,594	$ 291,817
Investment income	42,629	33,361
Purchases of Level 3 pooled fund units	79,189	148,742
Sale of Level 3 pooled fund units	(82,975)	(109,326)
Balance, end of year	$ 403,437	$ 364,594

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:

	Target Asset	Actual Asset Mix			
Asset Class	**Policy Mix**	December 31, 2012		December 31, 2011	
		($ thousands)	*%*	*($ thousands)*	*%*
Interest-bearing securities					
Money market (cash and short-term securities)	0 - 10%	$ 12,479	0.7	$ 15,826	1.0
Fixed income (bonds and mortgages)	18 - 38%	436,808	25.0	414,316	26.9
Equities	38 - 78%	1,014,322	58.2	857,248	55.5
Inflation sensitive	4 - 30%	280,170	16.1	256,225	16.6
		$1,743,779	100.0	$1,543,615	100.0

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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, 2012:

Credit rating	2012	2011
Investment Grade (AAA to BBB-)	88%	88%
Speculative Grade (BB+ or lower)	2%	0%
Unrated	10%	12%
	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. 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 38% of the Plan's investments, or $658 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 (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 3.8% (2011: 3.9%).

The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2012:

($ millions)

	2012		2011	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 346	$ (35)	$ 318	$ (32)
Euro	82	(8)	71	(7)
Japanese yen	40	(4)	46	(5)
British pound	50	(5)	44	(4)
Australian dollar	21	(2)	29	(3)
Swiss franc	16	(2)	14	(1)
Other foreign currencies	103	(10)	81	(8)
Total foreign currency investments	$ 658	$ (66)	$ 603	$ (60)

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 2.7% (2011: 2.8%).

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at December 31, 2012:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market Yield
Deposits and short term securities	93%	7%	0%	1.3%
Bonds and mortgages	2%	22%	76%	3.8%
Real return bonds	1%	0%	99%	0.4%

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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 6.1% (2011: 4.6%). 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	**2012**	**2011**
Contracts in favourable position (current credit exposure)	44	$ 19,293	$ 17,375
Contracts in unfavourable position	19	(7,563)	(11,295)
Net fair value of derivative contracts	63	$ 11,730	$ 6,080

(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 $19,293 (2011: $17,375) 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.

Types of derivatives used in pools	Plan's Indirect Share ($ thousands) 2012	2011
Structured equity replication derivatives	$ 12,260	$ 8,779
Foreign currency derivatives	(771)	(876)
Interest rate derivatives	542	(762)
Credit risk derivatives	(301)	(1,061)
Net fair value of derivative contracts	$ 11,730	$ 6,080

(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) Contractual maturities: Structured equity replication derivatives and foreign currency derivatives primarily mature within one year. For interest rate derivatives approximately 59% mature within one year; 26% between 1 and 3 years and 15% over 3 years. For credit risk derivatives approximately 45% mature within one year; 7% between 1 and 3 years and 48% over 3 years.

(vi) Deposits: At December 31, 2012 deposits in futures contracts margin accounts totalled $4,194 (2011: $9,568) and deposits as collateral for derivative contracts totalled $ nil (2011: $4).

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, 2012.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $2,248,294 (December 31, 2011: $2,124,216) (January 1, 2011: $2,044,927) 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.

NOTE 5 PENSION OBLIGATION CONTINUED

The major assumptions used for accounting purposes were:

	2012	2011
	%	
Discount rate	6.20	6.20
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50

* In addition to age specific merit and promotion increase assumptions.

An actuarial valuation of the Plan as at December 31, 2014, at the latest 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 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.

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, 2012:

	($ 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	137,660	0.8
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	39,992	1.2
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	378,270	5.7

* The current service cost as a % of pensionable earnings as determined by the December 31, 2012 extrapolation is 20.3%.

** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

c) NET EXPERIENCE LOSSES

Net experience losses of $7,963 (2011: gains $1,270) reflect the results of the valuation as at December 31, 2011 extrapolated to December 31, 2012.

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)

	December 31, 2012			December 31, 2011	January 1, 2011
	Pre-1992	Post-1991	Total	Total	Total
				(Restated Note 2a)	(Restated Note 2a)
Deficit at beginning of year	$ (279,966)	$ (294,518)	$ (574,484)	$ (551,565)	$ (374,927)
Increase in Plan Fund net assets available for benefits	15,700	174,728	190,428	50,714	138,209
Increase in Indexing Fund net assets	-	9,282	9,282	5,656	7,472
Net increase in pension obligation	(4,419)	(119,659)	(124,078)	(79,289)	(322,319)
Deficit at end of year	$ (268,685)	$ (230,167)	$ (498,852)	$ (574,484)	$ (551,565)

($ thousands)

	2012			2011
	Pre-1992	Post-1991	Total	Total
Plan opening net assets available for benefits	$ 549,712	$ 1,000,020	$ 1,549,732	$ 1,493,362
Increase in Plan net assets available for benefits	15,700	184,010	199,710	56,370
Plan closing net assets available for benefits	$ 565,412	$ 1,184,030	$ 1,749,442	$ 1,549,732

This Plan deficiency is for accounting purposes and may differ from the Plan Fund deficiency for funding purposes (Note 16).

NOTE 7 CONTRIBUTIONS

($ thousands)

	2012	2011
Current service		
Employers	$ 39,210	$ 35,734
Employees	35,050	31,983
Unfunded liability		
Employers	15,478	14,037
Employees	15,478	14,037
Province of Alberta	4,707	4,269
Past service		
Employers	229	162
Employees	676	749
Transfers from other plans	349	234
	$ 111,177	$ 101,205

NOTE 8 INVESTMENT INCOME

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

	($ thousands)	
	2012	**2011**
Interest-bearing securities	$ 24,899	$ 51,766
Equities		
Canadian	33,380	(21,038)
Foreign	99,247	(22,134)
Private	5,866	2,983
	138,493	(40,189)
Inflation Sensitive		
Real estate	17,060	18,316
Real return bonds	1,299	8,750
Infrastructure and private debt and loans	8,094	2,922
Timberland	208	4,498
	26,661	34,486
	$ 190,053	$ 46,063

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:

	2012	2011	2010	2009	2008
	in per cent				
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return (loss) on investments	9.2	2.2	10.5	13.5	(14.3)
Value added return (loss) by investment manager	2.2	0.8	(0.3)	-	(3.4)
Total return (loss) on investments [a]	**11.4**	**3.0**	**10.2**	**13.5**	**(17.7)**
Other sources [b]	1.5	0.8	0.6	(1.4)	(1.0)
Per cent change in net assets [c]	**12.9**	**3.8**	**10.8**	**12.1**	**(18.7)**
Per cent change in pension obligation [c]	**5.8**	**3.8**	**18.7**	**5.5**	**4.9**
Per cent of pension obligation supported by net assets	**78**	**73**	**73**	**78**	**74**

(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 3.4% (PBR: 3.7%), ten years is 6.7% (PBR: 6.5%) and nineteen years is 7.1% (PBR: 6.9%). The total return reported for 2011 has been restated to conform to changes made by AIMCo subsequent to the completion of the 2011 financial statements. The total return in 2011 increased by 0.3% from 2.7% to 3.0% 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)	
	2012	**2011**
Retirement benefits	$ 83,786	$ 78,725
Disability benefits	351	349
Termination benefits	6,513	4,168
Death benefits	1,569	1,032
	$ 92,219	$ 84,274

NOTE 11 INVESTMENT EXPENSES

	($ thousands)	
	2012	**2011**
Amount charged by:		
AIMCo [(a)]	$ 7,369	$ 5,039
Alberta Treasury Board and Finance [(b)]	78	79
Total investment expenses	$ 7,447	$ 5,118
Average fair value of investments	$ 1,643,697	$ 1,516,266
Percent of investments at average fair value	0.45%	0.34%
Investment expenses per member	$ 1,144	$ 794

(a) For investment management services.

(b) For investment accounting and Plan reporting services.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands)	
	2012	**2011**
General administration costs	$ 1,240	$ 1,001
Board costs	81	78
Actuarial fees	215	165
Audit fees	43	33
Other professional fees	239	229
	$ 1,818	$ 1,506
Member service expenses per member	$ 279	$ 234

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 $9,265 (2011: $6,624) or $1,423 (2011: $1,028) per member and 0.53% (2011: 0.43%) 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

	2012	2011
The following amounts were paid:		
Remuneration		
Chair	$ 15,961	$ 13,675
Members	28,026	29,146
Travel, training and conference expenses		
Chair	9,363	5,985
Members	27,212	27,515

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 2012 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 $1,711,929 at December 31, 2012 (2011: $1,567,109), comprising of $553,070 (2011: $555,685) Pre-1992 and $1,158,859 (2011: 1,011,424) 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, 2012 (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 21, 2000.

NOTE 17 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2012 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, 2012

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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 Supplementary Retirement Plan for Public Service Managers, which comprise the statement of financial position as at December 31, 2012, 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, 2012, and changes in net assets available for benefits and changes in 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, 2013

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2012

	($ thousands) 2012	2011
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 19,340	$ 18,324
Refundable income tax (Note 1(f) and Note 5)	25,241	22,497
Contributions receivable		
Employer	16	21
Employee	16	21
Other receivables	2	2
Due from Alberta Pensions Services Corporation	111	57
Due from SRP Reserve Fund (Note 6)	58,882	46,002
Total Assets	103,608	86,924
Liabilities		
Income tax payable	285	255
Other payables	-	13
Total Liabilities	285	268
Net assets available for benefits	103,323	86,656
Pension obligation and deficit		
Pension obligation (Note 7)	155,193	140,145
Deficit (Note 8)	(51,870)	(53,489)
Pension obligation and deficit	$ 103,323	$ 86,656

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2012

	($ thousands) 2012	2011
Increase in assets		
Contributions (Note 9)	$ 6,348	$ 6,257
Investment income (Note 10)	1,145	1,679
Increase in SRP Reserve Fund (Note 6)	12,880	4,888
	20,373	12,824
Decrease in assets		
Benefit payments (Note 11)	3,118	2,458
Investment expenses (Note 12)	67	94
Administrative expenses (Note 13)	521	484
	3,706	3,036
Increase in net assets	16,667	9,788
Net assets available for benefits at beginning of year	86,656	76,868
Net assets available for benefits at end of year	$ 103,323	$ 86,656

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2012

	($ thousands) 2012	2011
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 5,933	$ 5,425
Benefits earned	12,233	10,729
Net increase due to actuarial assumption changes (Note 7a)	-	10,022
	18,166	26,176
Decrease in pension obligation		
Benefits paid	3,118	2,458
	3,118	2,458
Net increase in pension obligation	15,048	23,718
Pension obligation at beginning of year	140,145	116,427
Pension obligation at end of year (Note 7)	$ 155,193	$ 140,145

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

December 31, 2012

(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, 2012 were unchanged at 11.16% (2011: 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.

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 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.

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

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

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 provided by AIMCo at the close of the sixth 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.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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)]			2012	2011
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest bearing securities					
Cash and short-term securities	$ -	$ 885	$ -	$ 885	$ 633
Bonds	-	15,156	-	15,156	14,491
Real return bonds	-	3,299	-	3,299	3,200
Total Investment	$ -	$ 19,340	$ -	$ 19,340	$ 18,324

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 (2011: $ 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 $19,340 (2011: $18,324). 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 (2011: $ 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 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.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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.

At December 31, 2012, approximately 100% of the investments were Investment Grade (AAA to BBB-).

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. 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 7.0% (2011: 6.6%).

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at December 31, 2012:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market Yield
Deposits and short term securities	93%	7%	0%	1.3%
Bonds and mortgages	4%	36%	60%	4.1%
Real return bonds	1%	0%	99%	0.4%

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	**2012**	**2011**
Contracts in favourable position (current credit exposure)	11	$ 139	$ 174
Contracts in unfavourable position	7	(60)	(148)
Net fair value of derivative contracts	18	$ 79	$ 26

(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 $139 (2011: $174) 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

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	2012	2011
Foreign currency derivatives	$ (11)	$ 6
Interest rate derivatives	125	138
Credit risk derivatives	(35)	(118)
Net fair value of derivative contracts	$ 79	$ 26

(i) 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.

(ii) 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.

(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) Contractual maturities: Foreign currency derivatives primarily mature within one year. For interest rate derivatives approximately 3% mature within one year; 1% between 1 and 3 years and 96% over 3 years. For credit risk derivatives approximately 36% mature within one year; 9% between 1 and 3 years and 55% over 3 years.

(v) Deposits: At December 31, 2012 deposits in futures contracts margin accounts totalled $58 (2011: $34) and deposits as collateral for derivative contracts totalled $ nil (2011: ($1)).

NOTE 5 REFUNDABLE INCOME TAX

	($ thousands)	
	2012	2011
Refundable income tax at beginning of year	$ 22,497	$ 19,327
Tax on employees and employers contributions received	3,180	3,130
Tax on net investment income received plus adjustments of prior year taxes less tax refunds on benefits and refunds payments, net	(436)	40
Refundable income tax at end of year	$ 25,241	$ 22,497

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, 2012, the SRP Reserve Fund had net assets with fair value totalling $58,882 (2011: $46,002), comprising of $58,882 (2011: $46,002) in investments and $ nil (2011: $ nil) in receivables. The increase during the year of $12,880 (2011: $4,888) is attributed to contributions from employers of $6,552 (2011: $4,647) and investment gain of $6,328 (2011: $241).

NOTE 7 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out in 2010 as at December 31, 2009 by Aon Hewitt and was then extrapolated to December 31, 2012.

The actuarial assumptions used in determining the value of the pension obligation of $155,193 (2011: $140,145) 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 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:

	2012	2011
	%	
Discount rate on an after-tax basis	4.10	4.10
Inflation rate	2.25	2.25
Discount rate	5.50	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

* In addition to age specific merit and promotion increases.

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2012. 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 2013.

b) 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, 2012:

	($ 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	10,251	1,209
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	25,852	10,566
Discount rate decrease holding inflation rate and salary escalation assumptions constant*	(1.0)	32,028	4,155

* Sensitivities includes investment return of assets held by the SRP Reserve Fund (Note 6).

NOTE 8 DEFICIT

	($ thousands)	
	2012	**2011**
Deficit at beginning of year	$ (53,489)	$ (39,559)
Increase in net assets available for benefits	16,667	9,788
Net increase in pension obligation	(15,048)	(23,718)
Deficit at end of year	$ (51,870)	$ (53,489)

NOTE 9 CONTRIBUTIONS

	($ thousands)	
	2012	**2011**
Employers	$ 3,174	$ 3,130
Employees	3,174	3,127
	$ 6,348	$ 6,257

NOTE 10 INVESTMENT INCOME

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

	($ thousands)	
	2012	**2011**
Interest-bearing securities	$ 1,145	$ 1,679
	$ 1,145	$ 1,679

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 11 BENEFIT PAYMENTS

	($ thousands) 2012	2011
Retirement benefits	$ 2,329	$ 1,662
Termination benefits	679	737
Death benefits	110	59
	$ 3,118	$ 2,458

NOTE 12 INVESTMENT EXPENSES

	($ thousands) 2012	2011
Amount charged by:		
AIMCo [(a)]	$ 42	$ 78
Alberta Treasury Board and Finance [(b)]	25	16
Total investment expenses	$ 67	$ 94
Average fair value of investments	$ 18,832	$ 17,420
Percent of investments at average fair value	0.35%	0.54%
Investment expenses per member	$ 37	$ 53

(a) For investment management services.

(b) For investment accounting and Plan reporting services.

NOTE 13 ADMINISTRATION EXPENSES

Administration expenses of $521 (2011: $484) were charged to the Plan on a cost recovery basis.

	($ thousands) 2012	2011
General administration costs	$ 487	$ 469
Actuarial fees	20	15
Other professional fees	14	-
	$ 521	$ 484
Member service expenses per member	$ 292	$ 274

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 $588 (2011: $578) or $329 (2011: $327) per member and 0.57% (2011: 0.67%) 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 2012 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
2012	AAA	AA-	AAA	AAA

1.b Percentage change in actual government operating expense from authorized budget

METHODOLOGY

Growth in operating expense is calculated based on data taken from the Executive Summary in the Government of Alberta Annual Report.

SOURCE

The authorized budget for government operating expense for 2012-13 and prior years is found in the Fiscal Plan Overview of all budget documentation (Government Fiscal Plan, Quarterly Reports, Annual Report).

The actual government operating expense in years prior to 2012-13 can be found on an annual basis in the Government of Alberta Annual Report. In 2012-13, government reported an actual on government operating expense in each Quarterly Report.

2. 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 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 year was higher than the previous year's results and the current target as a result of significant recoveries made by applying reassessments made by Canada Revenue Agency

(CRA) in a similar fashion in Alberta. For example, applying six large reassessments made by CRA in the year to Alberta's tax returns led to incremental Alberta reassessments of over $240 million. 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.

3. 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.

NOTES

The measure was consolidated in 2011 to reflect both policy and active management. Prior years' numbers have been restated to be comparable. The fund was 2.1 per cent below target due to the continued effects of losses suffered during the credit crisis in 2009.

5. Percentage of corporate internal audit significant recommendations implemented

METHODOLOGY

The Corporate Internal Audit Services Rating Guide is used by Corporate Internal Audit Services (CIAS) in issuing its reports for work performed in departments. The main objectives of the rating guide are to highlight the more important recommendations for departments, identify which projects will be followed up on by CIAS, and serve as a guide in briefing the Internal Audit Committee. Only projects with key recommendations are followed up on to determine if the recommendations have been implemented. The performance measure actual is a calculation of the ratio of recommendations implemented to the number of recommendations in the original report.

SOURCE

Reports

6.a ATB Financial return on average assets

METHODOLOGY

For the fiscal year ended March 31, 2013:

Net Income/Average Total Assets

SOURCE

Net income - as per annual report.

Average Total Assets - per internal reporting systems

6.b Cost to Alberta local authorities of borrowing from ACFA compared to other municipality/ aggregating agencies for a comparable loan

METHODOLOGY

The Alberta Capital Finance Authority (ACFA) compares Alberta local authorities' indicative loan rates to the cost of borrowing by Ontario municipalities from the Ontario Strategic Infrastructure Financing Authority (OSIFA). ACFA's indicative loan rates are estimates of what the Authority would achieve under similar terms and circumstances to the actual rate used by OSIFA.

SOURCE

OSIFA municipal indicative lending rates as published on Infrastructure Ontario's website.

7.a Public satisfaction with the conduct of liquor business in Alberta

METHODOLOGY

Satisfaction is measured annually through an independently administered survey of adult Albertans (18 years of age and older living in Alberta).

To ensure a random and representative sample, 1,000 survey participants were drawn from the most recent residential phone listings (the last digit of each phone number was randomized to allow inclusion of new and unpublished listings).

Using the latest Statistics Canada population estimates, the number of interviews within each geographic area were proportionate to the population. This included establishing survey quotas which were representative of the Alberta adult population by region, gender and age.

This sampling method provided a margin of error that is no greater than ±3.1 per cent at the 95 per cent confidence level.

Respondents are considered to be satisfied overall if they responded that they are very satisfied or somewhat satisfied to Question #29:

Now, thinking about the liquor business in Alberta, overall, how satisfied are you with the way the liquor business is conducted in Alberta. Would you say you are …

» Very satisfied
» Somewhat satisfied
» Somewhat dissatisfied
» Very dissatisfied
» (Don't Know/Not Stated)

SOURCE

Survey of Albertans - Topline Report

7.b Public satisfaction with the conduct of legal gaming in Alberta

METHODOLOGY

Satisfaction is measured annually through an independently administered survey of adult Albertans (18 years of age and older living in Alberta).

To ensure a random and representative sample, 1,000 survey participants were drawn from the most recent residential phone listings (the last digit of each phone number was randomized to allow inclusion of new and unpublished listings).

Using the latest Statistics Canada population estimates, the number of interviews within each geographic area were proportionate to the population. This included establishing survey quotas which were representative of the Alberta adult population by region, gender and age.

This sampling method provided a margin of error that is no greater than ±3.1 per cent at the 95 per cent confidence level.

Respondents are considered to be satisfied overall if they responded that they are very satisfied or somewhat satisfied to Question #29:

Now, thinking about all the gaming entertainment products and activities that we have just mentioned, overall, how satisfied are you with the conduct of legal gaming in Alberta. Would you say you are …

» Very satisfied
» Somewhat satisfied
» Somewhat dissatisfied
» Very dissatisfied
» (Don't Know/Not Stated)

SOURCE

Survey of Albertans – Topline Report

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