Treasury Board and Finance

Annual Report
2014-2015

Alberta
Government

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For electronic copies of the Annual Report 2014–2015, visit our website at:
www.finance.alberta.ca/publications

ISBN 978-1-4601-2280-8 (Print)
978-1-4601-2281-5 (PDF online)

ISSN 2291-5400 (Print)
2291-5419 (PDF online)

Treasury Board and Finance

Annual Report 2014–2015

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Preface

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

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

On September 15, 2014, the government announced new ministry structures. The 2014-15 ministry annual reports and financial statements have been prepared on this ministry structure.

The Ministry of Treasury Board and Finance now includes Corporate Human Resources and the Regulatory Review Secretariat, previously reported under the Ministry of Executive Council.

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

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

Message from the President of Treasury Board and Minister of Finance

Treasury Board and Finance is responsible for economic analysis, budget planning and providing a coordinated and disciplined approach to the management of government spending. Corporate Human Resources is also part of the ministry with responsibility for human resource policy, management and strategy for the Government of Alberta. Albertans want to know how the province's resources are allocated to deliver on important outcomes. This report highlights results achieved by the Ministry of Treasury Board and Finance in the 2014-15 fiscal year.

Government recognizes Alberta has an economic and social diversity to be celebrated and as we move forward together we will continue to foster the entrepreneurial spirit, hard work and innovation and commitment to excellence that is the foundation for the highest quality of life for Albertans.

I look forward to working with my colleagues, department staff and other stakeholders to ensure that the priorities of Albertans are first and foremost. As a government we will support economic diversification, a fair tax system and enhance the programs and services Albertans need and depend on. We are committed to working together to solve challenges and to seek new opportunities as we continue to build this great province.

[Original signed by]

Joe Ceci
President of Treasury Board and
Minister of Finance

Management's Responsibility for Reporting

The Ministry of Treasury Board and Finance (ministry) includes:

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

The executives of the individual entities (listed above) 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 (Minister). Under the direction of the Minister, the Deputy Minister of Treasury Board and Finance oversees 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 2014.*

In addition to program responsibilities, the Deputy Minister of Treasury Board and Finance is responsible for the ministry's financial administration and reporting functions.

The ministry maintains systems of financial management and internal control which give consideration to costs, benefits and risks that are designed to:

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

In fulfilling my responsibilities for the ministry, I, the Deputy Minister of Treasury Board and Finance, have relied as necessary, on the executives of the individual entities within the ministry.

[Original signed by]

Ray Gilmour
Deputy Minister of Treasury Board and Finance
June 5, 2015

I have fulfilled my responsibilities for the financial administration and reporting functions of Corporate Human Resources as Deputy Minister of Leadership and Talent Development and Public Service Commissioner

[Original signed by]

Lana Lougheed
Deputy Minister of Leadership and Talent Development and Public Service Commissioner
June 5, 2015

Results Analysis

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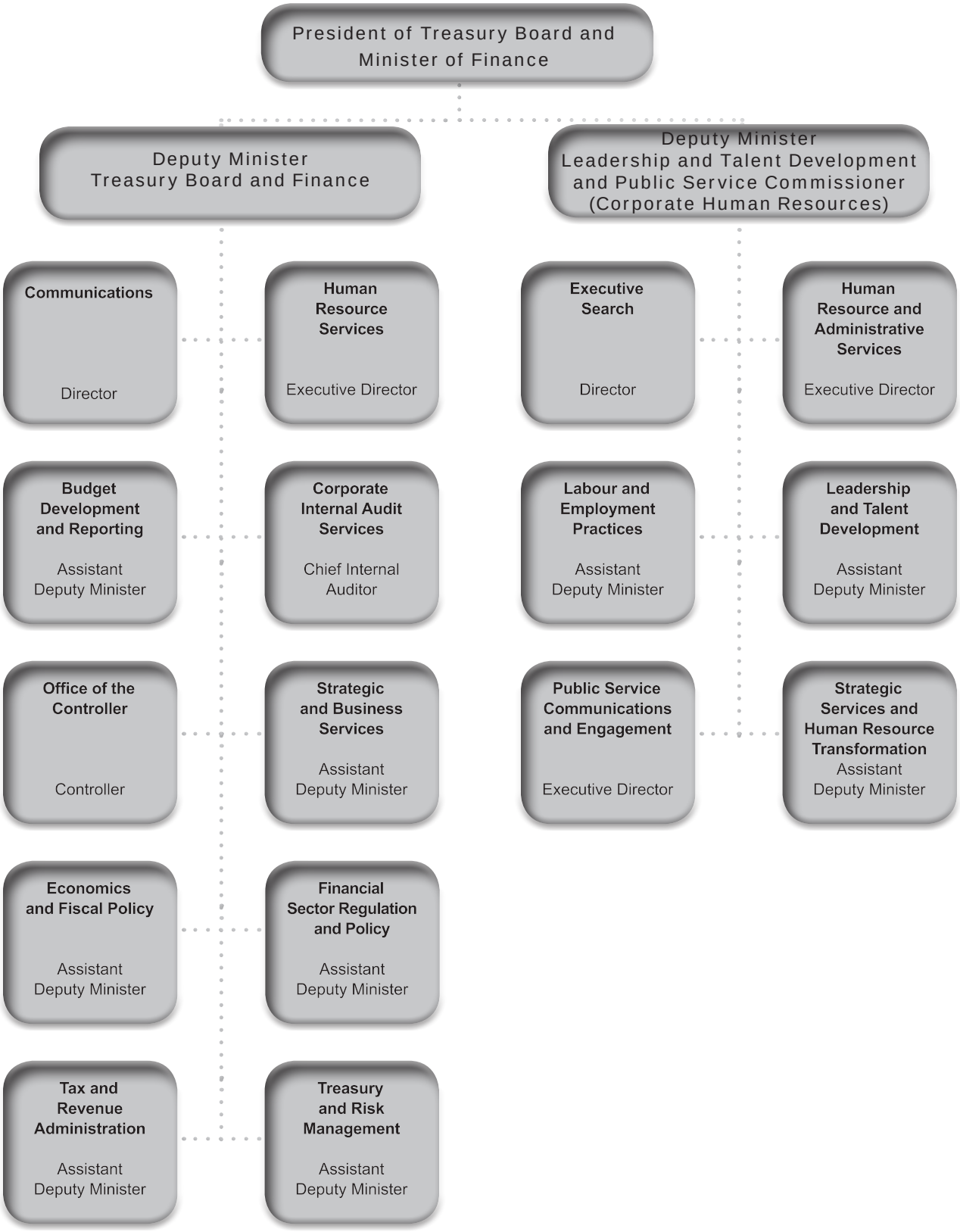
Organizational Chart



Ministry Goals

Goals

Goal 1: Strong and sustainable government finances

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

Goal 3: Effective and efficient government

Goal 4: Alberta Public Service employees are skilled, engaged and able to deliver on business goals (Formerly with Executive Council)

Operational Overview

Treasury Board and Finance:

Budget Development and Reporting

Budget Development and Reporting provides timely, relevant and accurate fiscal planning analysis, advice and recommendations to decision-makers (Minister, Treasury Board Committee, Cabinet, Executive Council and other bodies). The division provides guidance to ministries on budgets, business and strategic planning, as well as performance measurement and reporting. It is accountable for the government's budgeting (annual budget and quarterly updates) and performance reporting processes, including results-based budgeting (RBB).

Communications

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

Corporate Internal Audit Services

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

Economics and Fiscal Policy

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

Financial Sector Regulation and Policy

Financial Sector Regulation and Policy has two primary functions: providing policy support and analysis for insurance, private sector and public sector pension plans, and the Canada Pension Plan; and regulating and supervising loan and trust corporations, financial institutions, insurance companies and registered private sector pension plans.

Human Resource Services

Human Resource Services plans, develops and delivers strategic human resource programs, as well as day-to-day human resource services. The division's responsibilities include promoting strategic human resource 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

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

Strategic and Business Services

Strategic and Business Services supports the ministry's operations by leading and overseeing the ministry's business planning, annual reporting and enterprise risk management activities; offering financial advisory, planning and accounting services; managing information and records, including the administration of processes to meet the requirements of the *Freedom of Information and Protection of Privacy Act*; information technology application maintenance and development and support; managing facility operations; managing the department's emergency management program; supporting the government's relationship with the Alberta Gaming and Liquor Commission and Horse Racing Alberta. In addition the division includes the Regulatory Review Secretariat, which reviews all regulation changes and leads cross-ministry reform initiatives within government.

Tax and Revenue Administration

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

Treasury and Risk Management

Treasury and Risk Management provides investment policy advice as well as portfolio planning and evaluation for investments in the General Revenue Fund and the government endowment funds. In addition, the division 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. It 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.

Corporate Human Resources:

Executive Search

Executive Search provides corporate search programs to attract and recruit executive managers and senior officials to positions across the Alberta Public Service. It facilitates executive assignments to senior leadership roles and contributes to strategic workforce planning, succession and leadership development initiatives. It also provides support for the recruitment of qualified candidates to significant agencies, boards and commissions.

Human Resource and Administrative Services

Human Resource and Administrative Services provides strategic advice, guidance and support to management and staff to assist Corporate Human Resources in furthering departmental priorities and strategies and achieving goals through the full range of human resource programs and services including staffing, classification, employee relations, organization and job design, employee engagement supports, accommodations, workspace support and parking.

Labour and Employment Practices

Labour and Employment Practices represents the Alberta government as the employer in negotiating, interpreting and administering the Collective Agreement and on any employment-related disputes before adjudication boards or administrative tribunals. It develops human resource policies and programs that support terms and conditions of employment to attract and retain a strong public service within a fiscally responsible mandate. It provides expert consulting and training to ministries relating to employee compensation and benefits, job evaluation, labour relations and workplace health. The division also manages employee programs for health and dental (including applicable trust governance), life insurance, long term disability, employee assistance, health and safety, and represents the employer regarding the administration of employee pension plans.

Leadership and Talent Development

Leadership and Talent Development provides all Alberta Public Service employees with access to a full suite of corporate learning and development programs that build and support excellence across the Alberta government. It provides a comprehensive approach to talent management and succession planning, and supports key corporate initiatives such as the Alberta Public Service Vision and Values, enhancing policy capacity through the Alberta Public Service Policy Internship Program and other initiatives, public service recognition programs and Women in Leadership.

Public Service Communications and Engagement

Public Service Communications and Engagement leads the development and implementation of government-wide internal communications strategies, provides communications support and counsel to the Public Service Commissioner and leadership team at Corporate Human Resources and provides correspondence and issues management support to the Commissioner.

Strategic Services and Human Resource Transformation

Strategic Services and Human Resource Transformation identifies and implements human resource policies, strategies and frameworks in collaboration with departments to achieve priorities that strengthen the public service and modernize the human resource system. It provides workforce data and analytics, financial and business planning support and information and technology services, and provides secretariat and policy support to the Premier's Advisory Committee on the Alberta Public Service.

Summary of Key Activities in the Past Year

- Recorded $7.9 billion in revenue from corporate income, fuel, tobacco and insurance taxes, and the tourism levy. Corporate and commodity returns processed exceeded 325,000 and more than 11,000 benefit claims were processed in the same period.
- Undertook research in support of revenue forecasting and various policy initiatives. Topics included the impacts of population aging, productivity, and analysis of Alberta's fiscal situation in light of lower oil prices.
- Provided quarterly economic updates and released the *Weekly Economic Review* and *Economic Trends* and other publications and analysis on major indicators and trends in the Alberta economy. Timely presentations kept government and industry groups informed about the Alberta economy.
- Held forecast consultations in December 2014 with Chief Economists from various institutions across Canada to get their insight on current market trends, the outlook for Alberta's economy, and the impact to Alberta's economy of recent changes in the oil market.
- Compiled detailed demographic and socio-economic profiles for the Alberta provincial electoral divisions and published them on the Treasury Board and Finance website.
- Continued to monitor Alberta-based financial institutions so they operate in a safe and sound manner, to minimize the risk of loss to deposit-holders and consumers of trust products in Alberta.
- Carried out preliminary stakeholder discussions with employer and employee groups to address the competitiveness of public sector pension plans and to help ensure their sustainability.
- Led changes to the *Insurance Act*, Automobile Insurance Premiums Regulation, and Diagnostic and Treatment Protocols Regulation that took effect July 1, 2014. These changes include enhancing consumer protection by providing stronger oversight of auto insurance premiums by the Automobile Insurance Rate Board and by requiring insurers to provide more information to the Office of the Superintendent of Insurance.
- Made it easier for Albertans to find and review grant payment information by publishing it in an open data format on the Government of Alberta website.
- Recovered more than $22.6 million in 2014-15 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.
- Achieved approximately $1.3 billion in increased investment returns over a four-year period for the Alberta Heritage Savings Trust Fund since the new asset mix was implemented, moving away from bonds into stocks and real assets such as real estate and infrastructure. As well, the Heritage Fund reduced its Canadian exposure in favour of a more global outlook. Four years is a common industry timeframe to measure the impact of decisions.
- Closed the Air Transportation Services program, as announced in September 2014. Three of the government's four planes sold for nearly $6.1 million. No compliant bids were received for the fourth aircraft, the DeHavilland Dash 8, which will be sold at a later date. Ministers and government officials now use commercial and charter options when air travel is required.

- Released the third *Results-based Budgeting: Report to Albertans* in December 2014 and completed the third and final cycle of Results-based Budgeting reviews in January 2015, generating more than 250 recommendations.
- Collected 189,618 returns using the ministry's Net File system in 2014-15, constituting 76.9 per cent of all Corporate Income Tax returns. Net File provides Alberta's corporate taxpayers with faster processing than a return sent through the mail, and saves the costs of handling, printing and mailing paper returns.
- Paid out $879,424 to 979 claimants during 2014-15 from the unclaimed property registry. The registry is a service to Albertans who have lost track of their personal or business property such as uncashed government cheques, utility deposits and matured life insurance policies.
- Restructured management of the short-term debt program, which has resulted in an annual savings of approximately $650,000 on top of $250,000 in fee savings.
- Achieved Payment Card Industry (PCI) Compliance for all credit card processing activities. The government adheres to the Payment Card Industry Data Security Standard (PCI DSS) security processes, controls and technologies to protect cardholder data. The operational implications for the Government of Alberta are that policies, procedures and staff ensure payment card data is kept safe and Albertans can be confident throughout the transaction process.
- Recommended amendments to the *Securities Act* to streamline, modernize and harmonize Alberta securities laws.
- Reached a new collective bargaining agreement between the Government of Alberta and the Alberta Union of Provincial Employees (AUPE).
- Worked collaboratively with the AUPE to successfully achieve resolution on all of the issues from the illegal strike in 2013 that began at the Edmonton Remand Centre.
- Launched and implemented a new Respectful Workplace Policy as part of the commitment to ensure a positive and supportive environment that fosters a culture of respect across the public service.
- Supported establishment of the Premier's Advisory Committee on the Alberta Public Service and its inaugural meeting held February 2015.
- Developed and implemented a new orientation program for Assistant Deputy Ministers.

Ministry Financial Highlights

Revenue
(millions of dollars)

2014-15		2013–14
Budget	Actual	Actual
$25,929	$26,553	$ 25,927

Revenue for the ministry is $626 million, or about 2 per cent higher than in 2013-14.

Comparison of year-over-year results (actual to actual)

- Personal income tax revenue was $505 million higher than the previous year due to higher personal incomes in 2014, and adjustments for higher than expected 2013 assessments.
- Corporate income tax revenue along with related interest and penalties was $310 million higher than last year due to higher corporate income from continued strong economic conditions.
- Other tax revenue was higher than the previous year by $29 million. Fuel tax revenue increased $19 million and insurance tax revenue increased $33 million primarily due to increased consumption and premium growth. Other taxes increased by $3 million. These increases were partially offset by a $26 million decrease in tobacco tax revenue mainly due to a one-time adjustment and reduction in tobacco consumption.
- Transfers from the Government of Canada were $42 million higher due to Alberta's increased share of the national population and the resulting proportion of the Canada Social Transfer.
- Net investment income was $435 million lower than the previous year. Market conditions were favourable in 2014-15 but lower compared to 2013-14, which was an exceptional year.
- Net income from government business enterprises was $111 million higher than last year. Income from the Alberta Gaming and Liquor Commission (AGLC) increased by $61 million, including $20 million in liquor revenue and $41 million in lottery revenue. Income from ATB Financial was up by $45 million and the Credit Union Deposit Guarantee Corporation (CUDGC) increased by $5 million.
- Premiums, fees and licences increased by $17 million compared to last year. This was a result of higher payment in lieu of taxes and the deposit guarantee fee from ATB Financial.
- Other revenue was up by $47 million from last year due to a $14 million increase in Alberta Investment Management Corporation (AIMCo) service fee revenue and $33 million mainly from refunds of expenditure and miscellaneous sources.

Revenue for the ministry is $624 million, or 2 per cent higher than budget.

Comparison of budget to actual revenue results

- Personal income tax revenue was $111 million less than budget due to a lower estimated growth rate for primary household incomes in Alberta.

- Corporate income tax revenue, along with related interest and penalties, was $301 million higher than budget due to slightly higher than expected corporate profits.
- Other tax revenue was $41 million lower than budget mainly due to a $21 million decrease in fuel tax revenue as consumption was less than anticipated, and tobacco tax revenue was $34 million lower due to a one-time adjustment and a slight reduction in tobacco consumption. These were offset by a $12 million increase in insurance tax related to premium growth and a $2 million increase in other tax revenues.
- Transfers from the Government of Canada were $10 million less than budget as Alberta's share of the population, which is used to calculate Alberta's Canada Social Transfer portion, was slightly less than anticipated.
- Net investment income was $318 million higher than budget mainly due to higher than anticipated investment income of $222 million for the Alberta Heritage Savings Trust Fund and $96 million for the other endowment funds and department.
- Net income from government business enterprises was $85 million higher than budget due to a strong year for all entity operations comprised of $65 million from AGLC, $15 million from ATB Financial and $5 million from CUDGC.
- Premiums, fees and licences were $11 million higher than budget. This was primarily attributed to the higher payment in lieu of taxes and deposit guarantee fee from ATB Financial.
- Other revenue was $71 million higher than budget due to higher service revenue of $38 million for AIMCo to cover increased investment fees and $33 million mainly from refunds of expenditure and miscellaneous sources.

Expenses

(millions of dollars)

2014–15		2013–14
Budget	Actual	Actual
$2,417	$1,977	$2,982

Ministry expenses are $1 billion, or about 34 per cent less than in 2013-14.

Comparison of year-over-year spending results (actual to actual)

- Investment, Treasury and Risk Management expenses were $19 million higher than last year. This is due to increased investment fees by AIMCo, recoverable through revenue.
- The pension provision was $1 billion less than last year due to a recovery of $404 million, compared to an increase in the provision of $643 million the year before. The recovery was the result of an overall improvement in the pension plan deficits driven by strong global markets and also the result of paying down the pre-1992 Teachers' Pension Plan.
- The provision for change in corporate income tax allowance for doubtful accounts was down $101 million from last year due to less allowances and write-offs.
- Debt servicing costs were $118 million higher than last year comprising $6 million for the Alberta Capital Finance Authority (ACFA) due to increased borrowing to meet client demand, $114 million for general government mainly for increased capital borrowing, and a $2 million decrease for school construction debentures due to reduced principal outstanding.

- The net of all other expenditure variances was an increase of $6 million.

Expenses for the ministry were $440 million, or about 18 per cent under budget.

Comparison of budget to actual spending results

- Investment, Treasury and Risk Management expenses were $58 million higher than budget due to increased AIMCo investment costs of $38 million recovered through revenue, and $20 million for Alberta Risk Management Fund increase in claims expense.
- Financial Sector Regulation and Policy expenses were $16 million under budget mainly due to lower than anticipated funding of $9 million towards pension liabilities. Spending was also down for the Alberta Securities Commission by $2 million, Alberta Pension Services Corporation by $3 million and another $2 million within the department.
- The pension provision was $460 million lower than budget mainly due to a revaluation of the liability which reduced the provision by $404 million in the current year. The revaluation resulted from overall improved returns from strong global markets and of paying down the pre-1992 Teachers' Pension Plan.
- Provision for change in corporate income tax allowance for doubtful accounts was $55 million higher than anticipated.
- Debt servicing costs were $64 million lower than budget. A deferral of planned borrowing for capital purposes reduced debt servicing costs by $78 million. This reduction was partially offset by an increase of $14 million in debt servicing costs of ACFA, driven by increased loan activity.
- Air services was $5 million higher than budget due to a loss on the sale of airplanes as proceeds were less than net amortized book value.
- The net of all other expenditure variances was $18 million lower than budget.

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Review Engagement Report

To the Members of the Legislative Assembly

I have reviewed one of eight performance measures in the Department of Treasury Board and Finance's Annual Report 2014-2015. The reviewed performance measure is the responsibility of the department and is prepared based on the following criteria:

- Reliability – The information used in applying performance measure methodologies agrees with underlying source data for the current and prior years' results.
- Understandability – The performance measure methodology and results are presented clearly.
- Comparability – The methodology for performance measure preparation is applied consistently for the current and prior years' results.
- Completeness – The goal, performance measure and related target match those included in the department's budget 2014.

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

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

Based on my review, nothing has come to my attention that causes me to believe that the performance measure identified as reviewed by Office of the Auditor General in the department's annual report 2014-2015 is 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 11, 2015

Edmonton, Alberta

Performance measure reviewed by the Office of the Auditor General is marked with a double asterisks (**) on the Performance Measures Summary Table.

Performance Measures Summary Table

Goals/Performance Measure(s)	Prior Year's Results				Target	Current Actual
1. Strong and sustainable government finances						
Performance Measures						
*1.a Alberta's credit rating (blended credit rating for domestic debt)	AAA	AAA	AAA	AAA	AAA	AAA
	2010-11	2011-12	2012-13	2013-14		2014-15
1.b Ratio of amounts added to the net tax revenue to costs of administration (as a measure of efficiency)[1]	13:1	13:1	20:1	18:1	12:1	27:1
	2010-11	2011-12	2012-13	2013-14		2014-15
**1.c The Alberta Heritage Savings Trust Fund five-year annualized rate of return	3.5% (3.8% below target)	2.7% (4.7% below target)	5.2% (2.1% below target)	12.7% (5.4% above target)	7.1%	11.7%
	2010-11	2011-12	2012-13	2013-14		2014-15
Performance Indicator						
1.1 Alberta savings ($ millions):						
• The Alberta Heritage Savings Trust Fund book value	14,198	14,652	14,813	15,006	N/A	14,961
• The Contingency Account Balance	11,192	7,497	3,326	4,658	N/A	6,529
	2010-11	2011-12	2012-13	2013-14		2014-15

[1] The ratios for 2012-13, 2013-14 and 2014-15 were higher than previous years' results. This is due to significant recoveries made by applying reassessments in Alberta similar to those used by the Canada Revenue Agency at the federal level. 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, a revised ratio of 13:1 for 2013-14 and a revised ratio of 17.6:1 for 2014-15.

2. Policy and regulatory oversight for the financial, insurance and pensions sectors that is effective, fair and in the interests of Albertans							
Performance Measure							
ATB Financial return on average risk weighted assets		0.99%	0.63%	0.76%	1.10%	1.00%	1.10%
		2010-11	2011-12	2012-13	2013-14		2014-15
3. Effective and efficient government							
Performance Measure							
Sustainable operating spending growth (operating spending relative to the rate of population growth plus CPI)[1]	Operating spending growth	6.3%	2.7%	6.5%	3.3%	Operating spending growth equal to or less than population plus CPI growth	4.3%
	Population plus CPI	2.5%	4.3%	3.6%	5.6%		4.5%
		2010-11	2011-12	2012-13	2013-14		2014-15

[1] In 2014-15, Endowment Fund / Account expense was reported separately from Operating Expense. In previous years this expense was reported as part of Operating Expense and will be reported as such in 2015-16. For comparability, Endowment Fund / Account expense is included in the 2014-15 result for Operating Expense growth.

Performance Measures Summary Table

Goals/Performance Measure(s)	Prior Year's Results			Target	Current Actual
Performance Indicator					
3.1 Financial reporting: • Percentage of unqualified independent auditor's reports on Government of Alberta financial statements	100%	100%	100%	N/A	100%
	2010-11	2011-12	2012-13		2013-14
4. Alberta Public Service employees are skilled, engaged and able to deliver on business goals					
Performance Measures					
4.a Alberta Public Service leadership index[1]	N/A	N/A	N/A	51%	52%	N/A
	2010-11	2011-12	2012-13	2013-14		2014-15
4.b Employee agreement that their organization supports their work related learning and development[2]	N/A	N/A	N/A	70%	71%	N/A
	2010-11	2011-12	2012-13	2013-14		2014-15
4.c Percentage of Alberta Public Service employees who are somewhat or highly engaged[3]	N/A	N/A	N/A	45%	47%	N/A
	2010-11	2011-12	2012-13	2013-14		2014-15

[1] Measure is from the *Executive Council 2014-17 Business Plan.* No new results are available as the survey was not conducted in 2014-15 – it was under review. Index consists of 10 questions that measure the quality of leadership in the Alberta Public Service. The results prior to 2013-14 are reported as not applicable because the index was just introduced in the 2012-13 employee survey and the survey distribution was changed in 2013-14.

[2] Measure is from the *Executive Council 2014-17 Business Plan.* No new results are available as the survey was not conducted in 2014-15 – it was under review. The results prior to 2013-14 are not comparable and reported as not applicable because the survey format and distribution were changed.

[3] Measure is from the *Executive Council 2014-17 Business Plan.* No new results are available as the survey was not conducted in 2014-15 – it was under review. The percentage of employees who are highly engaged, somewhat engaged, not very engaged or not engaged based on their response to the questions included in the Employee Engagement Index. The results prior to 2013-14 are not comparable and reported as not applicable because the survey format and distribution were changed.

Note: For more detailed information please refer to the Appendix: Performance Measures and Performance Indicators Methodology on page 717.

* Indicates Performance Measures that have been audited by the Office of the Auditor General as part of *Measuring Up 2015*.

** 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.

The table contains eight performance measures and three performance indicators. Performance indicators show progress toward achievement of long term outcomes that a ministry does not have direct influence over and, as such, no targets are required.

Discussion and Analysis of Results

GOAL 1

Strong and sustainable government finances

Treasury Board and Finance (TBF) played an important role in providing timely economic forecasts and analysis, which contributed to a strong awareness of the changing financial and economic conditions in the province. The forecasts and analysis took into consideration feedback and input obtained in December 2014 from Chief Economists from various institutions across Canada.

The Alberta Heritage Savings Trust Fund is the government's main savings vehicle. The closing book value of the Alberta Heritage Savings Trust Fund for 2014-15 (in millions) is $14,961. While this represents a 0.3 per cent decrease from the previous year, it is primarily due to $255 million being transferred out of the Fund in support of the Alberta Heritage Scholarship Fund, Agriculture and Rural Development and Access to the Future Fund. These outgoing transfers were partially offset by inflation proofing.

TBF set a new asset mix for the Heritage Fund that came into effect at the end of fiscal year 2010-11. The asset mix called for broader global diversification through an increase to global developed equities and infrastructure as well as emerging market equities. This policy decision has benefited the Fund as those asset classes have substantially outperformed their Canadian equivalents. The policy benchmark, which reflects the asset mix set by TBF, has a four-year annualized return of 11.6 per cent. Had the old asset mix policy been maintained, the policy benchmark return would have been 9.6 per cent.

The Heritage Fund's globally diversified portfolio has benefitted from strong equity market returns both in Canada and worldwide since the credit crisis of 2008-09. The five-year annualized return for the Heritage Fund as of March 31, 2015 is 11.7 per cent. This is significantly ahead of its target of Consumer Price Index plus 5.5 per cent, which is 7.1 per cent as of March 31, 2015.

The Contingency Account is the province's main vehicle for setting aside funds to effectively respond to unexpected or unplanned expenditures, deficits or changes in revenue. The closing book value of the Contingency Account for 2014-15 (in millions) is $6,529, which represents a 40.2 per cent increase from the previous year. This increase is due to 2013-14 results of $1.3 billion that was transferred into the Contingency Account after March 31, 2014, and from the net cash surplus forecast for 2014-15 in March 2015.

TBF restructured management of the short-term debt program. The department assumed responsibility for the Alberta government's issuance of short-term debt effective April 1, 2014. Previously, the province paid the Alberta Investment Management Corporation (AIMCo) $250,000 per year to perform this function. Through structural changes to the program as well as by better integration of our borrowing, cash forecasting and banking processes, the province's cost of funds has been lowered by an average of five basis points. This equates to an annual savings of approximately $650,000 on top of the $250,000 in fee savings.

Alberta's tax system is designed to raise the revenue necessary to pay for programs and services that help make the province a great place to live, work and invest. In 2014, efforts continued to monitor the economic efficiency, fairness and revenue stability of Alberta's

tax system and to provide the government with tax policy information to support decisions related to meeting provincial revenue requirements.

The ministry continued its efforts to optimize administrative efficiency and effectiveness through the advancement of electronic services for its tax and revenue programs. As of March 31, 2015, 76.9 per cent of Corporate Income Tax returns were net filed, and 59.8 per cent of Tourism Levy returns, 64.6 per cent of International Fuel Tax Agreement registration renewals and 100 per cent of Emergency 911 Levy returns were submitted electronically. As of July 1, 2014, the secure online Tax and Revenue Administration Client Self-service (TRACS) system accepted tobacco tax memos electronically from tobacco tax memo suppliers and, as of January 21, 2015, TRACS allowed Tax Exempt Fuel User (TEFU) program participants to renew online.

Effective March 27, 2015 the tax on gasoline and diesel was raised by 4 cents per litre, to a total of 13 cents per litre, to generate additional revenue for the province while maintaining the province's tax competitiveness. To further support Alberta's tobacco reduction efforts, tobacco tax was increased by $5 per carton of 200 cigarettes, with the tax on other tobacco products increasing proportionally.

The Alberta Gaming and Liquor Commission (AGLC) also implemented changes to generate more revenue for the province. Liquor mark-ups went up by 22 cents per litre, with the exception of small brewers and cottage wineries selling at farmers' markets. Mid-sized brewers saw an increase of 11 cents per litre. AGLC continued its work of modernizing Alberta's gaming industry by investing in new technology and game offerings to sustain revenue to the Alberta Lottery Fund. AGLC also continued its ongoing efforts to ensure benefits from charitable gaming are distributed effectively to charities to support worthy causes across the province.

The ministry continued to provide reliable economic and demographic information upon which financial decisions are made. In collaboration with several stakeholder departments within the Government of Alberta, the ministry worked with Statistics Canada on a proposal to refine the North American Industry Classification System (NAICS) codes for reporting on mined and in situ oil and gas, and to address the increasing demand for better oil sands data. The results of these efforts could result in revisions to the upcoming 2017 NAICS updates. The ministry also led a provincial Administrative Data Strategy, which started with the Federal, Provincial and Territorial Administrative Data Project for income support data.

The ministry is currently working with Alberta Innovation and Advanced Education on a post-secondary education administration data project. Data sharing protocols have been developed for these projects and efficiencies are being realized through reuse of these protocols.

GOAL 2

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

TBF remains committed to focusing on legislation related to financial securities as well as providing regulatory oversight to provincial deposit-taking-institutions. As part of ongoing efforts to streamline, modernize and harmonize Alberta securities laws, the ministry took amendments to the *Securities Act* forward in both the fall 2014 and spring 2015 legislative sessions. The fall 2014 amendments dealt with regulation and oversight of over-the-counter derivatives, while the spring 2015 amendments primarily dealt with harmonizing

the regulation of derivatives and clarifying, expanding and refining various enforcement provisions.

The ministry continued to help ensure financial services providers remain strong and that Albertans continue to receive competitive financial services. As well, the ministry assisted financial services consumers and providers by providing guidance and education towards the goal of facilitating a fair marketplace.

TBF continued to provide insurance policy support and analysis and regulatory oversight of the insurance sector. The ministry licensed and monitored 314 insurance companies and special brokers. Of these, 227 are insurance companies (10 provincial), 11 are fraternal societies, 23 are reciprocal insurance exchanges (17 provincial), and 53 are special brokers. One exempt warranty provider also came under the ministry's licensing and monitoring activities.

The ministry monitored 772 private sector pension plans to ensure they complied with the provisions of the *Employment Pension Plans Act*, which includes the obligation to fund promised benefits in accordance with funding standards. Of these plans, 668 are active, six are in the process of being registered, six are suspended, and 92 are in the process of winding down. These plans have over 268,000 active members and over 164,000 deferred and retired members. As of March 31, 2015, total contributions for the year were approximately $3.0 billion. The total market value of assets was approximately $38.1 billion for the year ended March 31, 2015. A vision for sustainable, well governed and well understood public sector pension plans was communicated to the current pension plan system, and employer and employee groups. As well, throughout the year, the ministry provided policy support for the public sector pension system, comprising 10 plans with more than 230,000 active members and more than 150,000 retired members. The plans cover employees of provincial and municipal governments, schools, colleges, universities and health care institutions.

GOAL 3

Effective and efficient government

The third and final cycle of Results-based Budgeting (RBB) reviews ended in January 2015, generating more than 250 recommendations. The third RBB report, *Results-based Budgeting: Report to Albertans*, was released in December 2014 and highlights some of the recommendations resulting from the second RBB cycle. Cycle three recommendations were presented to Treasury Board in February 2015. The RBB process is now complete with well over 500 programs and services reviewed and approximately 650 recommendations being made, with many having already been put into practice. A fourth and final public report to Albertans is expected in the fall of 2015.

TBF set accounting policies and standards that resulted in the Auditor General issuing an unqualified audit report on the government's consolidated financial statements signifying that financial information was presented fairly and not materially misstated. The ministry also provided leadership to the government's financial community by implementing new financial and accounting policies and processes that further increased the effectiveness and efficiency of government services.

In 2014, the ministry led the development of financial and accounting policies related to tangible capital assets. This was an essential step in standardizing processes and accounting standards across the Alberta government, which was using a variety of systems

and processes to track and account for capital assets. The policy is a critical element in Service Alberta's implementation of the standardized capital assets module within the Alberta government's Enterprise Resource Planning (ERP) system.

A new public sector accounting standard for the liability of contaminated sites was implemented. This standard addressed liabilities for remediation related to sites, or parts of a site no longer in active or productive use. TBF assisted all ministries and departments in developing a process of due diligence and interpretation to assess their liabilities and account for them under this new standard.

TBF worked collaboratively with ministries on regulatory reform to improve the quality and relevance of Alberta regulations and to ensure the effective delivery of policy outcomes. More than 240 regulations were reviewed to ensure they met the standards of regulation impact analysis, including financial impact and risk assessment.

The ministry played a key role, along with Service Alberta, in the development of the new *Procurement and Sole Sourcing Directive*. This new directive fosters consistent, government-wide practices in the procurement of goods and services, including in respect of construction, and limits the authority of departments to sole-source in relation to services and construction. Standardized processes of this nature contribute to the overall effectiveness in administering public funds.

In the continued spirit of proactive disclosure, the ministry implemented, with the help of Service Alberta, the disclosure of all government grants through a public portal. This further enhances the transparency of financial activity and allows the public to review the expenditure of public funds. The standardized manner of disclosure also reduced the burden of reporting in other departments who provide similar information in a variety of ways utilizing multiple systems. The standardized process contributes to the overall effectiveness of government reporting.

Finally, TBF developed a Code of Practice that was recently adopted, thereby formalizing the Alberta government's processes for official statistics. The Code of Practice builds upon United Nations' principles and Alberta government best practices for the development of government's official statistics. The ministry has also been working with the Alberta government Statistics Council to develop a Data Quality Framework that will support ongoing development and advancement of government official statistics.

GOAL 4

Alberta Public Service employees are skilled, engaged and able to deliver on business goals

Corporate Human Resources (CHR) remains committed to ensuring Alberta has a professional public service that is skilled, engaged and delivers the programs and services Albertans expect.

Over the past year, CHR underwent several organizational changes to enhance its position as a centre of excellence. The responsibilities and staff of the former separate entity of Leadership and Talent Development were integrated into CHR to allow for a focused approach to enhancing talent management across the public service. A new Public Service Communications and Engagement Division was established to lead enterprise-wide communications and engagement strategies. A Strategic Human Resources Policy Branch was also established to develop integrated policy frameworks and strategies to enhance the effectiveness of the human resource system across the Alberta government.

In July of 2014, the Government of Alberta implemented a new collective agreement that had been collectively bargained with the Alberta Union of Provincial Employees (AUPE).

In March 2015, the Government of Alberta and AUPE successfully negotiated a resolution to all outstanding litigation matters from the 2013 illegal strike that began at the Edmonton Remand Centre.

In February 2015, CHR led the launch of the Respectful Workplace Policy and Guidebook for the Government of Alberta in conjunction with Pink Shirt Day—the national movement against bullying. CHR continues to work across government to support the implementation of the Respectful Workplace Policy, including facilitating training and information sharing.

In December 2014, the Premier's Advisory Committee (PAC) on the Alberta Public Service was established to provide advice on strengthening the public service to ensure it is best positioned to meet the needs of Albertans. CHR provided support to the Committee to assist with its inaugural meeting in February 2015 and will provide ongoing secretariat services for the Committee.

In recognition of the critical importance of leadership development and succession planning across the public service, CHR led the development of a series of executive talent management and leadership development initiatives. This included the development of a new Assistant Deputy Minister orientation program which was launched in March 2015.

CHR also initiated work on a number of initiatives to promote excellence across the public service and strengthen employee engagement. This included commencing a review of the Corporate Employee Engagement Survey, Exit Survey and other tools used to gather employees' input to identify opportunities to enhance their effectiveness. It also included initiating the development of a new corporate recognition program to recognize excellence in service delivery and policy development.

As part of ongoing efforts to build and strengthen policy capacity in the Alberta Public Service, CHR continues to manage the Policy Internship program, deliver training and learning events for policy professionals and identify relevant strategies and actions to further enhance these initiatives.

In recognition of the current gender imbalance in senior leadership in the Alberta Public Service, CHR has taken the lead to develop a formal Women in Leadership strategy. The strategy will uncover and address current barriers to women rising to senior leadership, improve mobility and career progression for women throughout the Alberta Public Service, and increase awareness of the value of diversity in leadership. Strategy development began in March 2015 and is expected to be completed in September 2015.

Financial Information

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

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Ministry of Treasury Board and Finance

Consolidated Financial Statements

Year Ended March 31, 2015

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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, 2015, 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, 2015, 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 5, 2015

Edmonton, Alberta

Consolidated Statement of Operations

Year ended March 31, 2015

($ millions)

	2015		2014
	Constructed Budget	Actual	Actual
	(Schedule 2)		(Restated Note 4)
Revenues (Schedules 1 and 2)			
Income taxes	$ 16,648	$ 16,838	$ 16,023
Other taxes	2,365	2,324	2,295
Transfers from Government of Canada	1,467	1,457	1,415
Net investment income	2,405	2,723	3,158
Net income from government business enterprises	2,566	2,651	2,540
Premiums, fees and licences	174	185	168
Other revenue	304	375	328
	25,929	26,553	25,927
Expenses (Schedules 2 and 3)			
Ministry Support Services	28	22	24
Budget Development and Reporting	6	4	5
Fiscal Planning and Economic Analysis	6	6	6
Investment, Treasury and Risk Management	682	740	721
Office of the Controller	3	3	4
Corporate Internal Audit Services	4	4	4
Tax and Revenue Management	33	34	34
Financial Sector Regulation and Policy	190	174	171
Corporate Human Resources	22	19	14
Air Services	7	12	8
Gaming	34	29	29
Alberta Family Employment / Scientific Research and Experimental Development Tax Credit	202	198	210
Teachers' pre-1992 pension liability funding	455	456	446
Pension (recovery) / provision (Schedule 14)	56	(404)	643
Corporate income tax provision for doubtful accounts	16	71	172
Debt servicing - school construction debentures	4	4	6
Debt servicing - Alberta Capital Finance Authority	216	230	224
Debt servicing - general government	453	375	261
	2,417	1,977	2,982
Net operating results	$ 23,512	$ 24,576	$ 22,945

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

Consolidated Statement of Financial Position

As at March 31, 2015

	($ millions)	
	2015	**2014 (Restated Note 4)**
Assets		
Cash and cash equivalents (Schedule 4)	$ 3,864	$ 2,241
Accrued interest and accounts receivable (Schedule 5)	1,861	2,538
Portfolio investments (Schedule 6)	24,092	23,218
Equity in government business enterprises (Schedule 7)	3,984	3,414
Loans and advances to government entities (Schedule 8)	2,282	2,009
Other loans and advances (Schedule 9)	14,824	13,963
Tangible capital assets (Schedule 10)	145	145
	$ 51,052	$ 47,528
Liabilities		
Accrued interest and accounts payable (Schedule 11)	$ 1,832	$ 1,658
Unmatured debt (Schedule 12)	12,516	9,450
Debt of Alberta Capital Finance Authority (Schedule 13)	14,585	13,848
Pension obligations (Schedule 14)	10,274	10,678
Other accrued liabilities (Schedule 15)	96	117
	39,303	35,751
Net Assets		
Net assets at beginning of year	11,777	13,962
Net operating results	24,576	22,945
Net financing provided for general revenues (Note 3b)	(24,708)	(25,177)
Change in accumulated unrealized losses (Schedule 7)	104	47
Net assets at end of year	11,749	11,777
	$ 51,052	$ 47,528

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

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

Consolidated Statement of Cash Flows

Year ended March 31, 2015

	($ millions)	
	2015	**2014**
Operating transactions		
Net operating results, as restated (Note 4)	$ 24,576	$ 22,945
Non-cash items included in net operating results	(1,081)	99
	23,495	23,044
Decrease / (Increase) in accounts and accrued interest receivable	605	(659)
Increase / (Decrease) in accounts and accrued interest payable	178	(204)
Other	(74)	(24)
Cash provided by operating activities	24,204	22,157
Capital transactions		
Purchase of tangible capital assets	(17)	(37)
Cash applied to capital activities	(17)	(37)
Investing transactions		
Proceeds from disposals, repayments and redemptions of portfolio investments	6,599	6,862
Portfolio investments purchased	(7,111)	(7,834)
Repayments of loans and advances	1,170	840
Loans and advances made	(2,278)	(2,246)
Cash provided by investing activities	(1,620)	(2,378)
Financing transactions		
Debt issues	19,678	18,261
Debt retirement	(15,899)	(12,828)
Grants for school construction debenture principal repayment	(15)	(20)
Net financing provided for general revenues	(24,708)	(25,177)
Cash applied to financing activities	(20,944)	(19,764)
Increase in cash and cash equivalents	1,623	(29)
Cash and cash equivalents at beginning of year	2,241	2,270
Cash and cash equivalents at end of year	$ 3,864	$ 2,241

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

Notes to the Consolidated Financial Statements

March 31, 2015

NOTE 1 AUTHORITY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 PURPOSE

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

- budget development and reporting;
- economics and fiscal policy;
- treasury management;
- risk management and insurance;
- government accounting standards and financial management policies;
- tax and revenue administration;
- financial sector regulation and policy;
- responsible liquor and gaming regulation;
- regulatory review secretariat; and
- strategic leadership of human resources management for the Alberta Public Service.

On September 16, 2014 the Government of Alberta announced the end of the government air transportation services program.

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

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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) FUTURE CHANGES IN ACCOUNTING POLICY

PS 3450 Financial Instruments

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

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

PS 2200 Related Party Disclosure

In March 2015 the Public Sector Accounting Board issued PS 2200 – Related party disclosures . Related party disclosures defines a related party and identifies disclosures for related parties and related party transactions, including key management personnel and close family members. This accounting standard is effective for fiscal years starting on or after April 1, 2017. Management is currently assessing the impact of this new standard on the financial statements.

PS3420 - Inter-entity Transactions

In March 2015 the Public Sector Accounting Board issued PS 3420 – Inter-entity transactions. Inter-entity transactions, establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. This accounting standard is effective for fiscal years starting on or after April 1, 2017. Management is currently assessing the impact of this new standard on the financial statements.

d) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported using the accrual method of accounting.

Income Taxes

Corporate income tax revenue is recognized when installments are received from taxpayer corporations. Corporate income tax refunds payable are accrued based on the prior year's corporate income tax refunds paid on assessments. Corporate income tax receipts from corporations in anticipation of an upward reassessment of Alberta income tax payable are described as corporate income tax receipts in abeyance and recorded as accounts payable. The difference between actual corporate income tax receivable and the estimate of the collectability is recorded as an allowance. The change in allowance is recorded as 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.

Tax Credits

The Scientific Research and Development Tax Credit is administered through the corporate income tax system with the value of the tax credit presented as an expense. Scientific Research and Experimental Development Tax Credits are recognized when a corporate income tax return has been filed and assessed.

Alberta Family Employment Tax Credit is administered by the federal government and delievered outside the Tax Collection Agreement. The credits are paid January 1st and July 1st and are reported as expenditures in the fiscal year they are incurred.

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

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Transfer entitlements and transfers received before revenue recognition criteria have been met are included in accounts payable and accrued liabilities.

Expenses

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

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

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

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

Derivative Contracts

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

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

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.

Portfolio Investments

Portfolio investments, which are investments authorized by legislation to provide income for the long term or for other special purposes, are carried at cost. Cost includes amortization

of discount or premium using the straight line method over the life of the investments. Realized gains and losses on disposals of these investments are included in the determination of net operating results for the year. Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

Loans

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

Tangible Capital Assets

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

Liabilities

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

The value of pension obligations and changes therein during the year are based on an actuarial extrapolation, of the most recent actuarial valuation, which uses the projected benefit method pro-rated on service, and management's best estimate as at the extrapolation date of various economic and non-economic assumptions. Where the Province is a participating employer in the plan, experience gains and losses to the extent of the Province's employer share are amortized over the estimated average remaining service life of employees. Where the Province has a liability for pre-1992 pension obligations only experience gains or losses are recognized in the year incurred.

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.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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 $11,042 million (2014: $10,537 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 household income growth used in determining personal income tax for the current fiscal year is 6.4% for 2014 (6.7% for 2013) and 2.6% for 2015 (6.7% for 2014). Based on historical data, there is an uncertainty of plus or minus $557 million (2014: $536 million) in the personal income tax revenue estimate.

Corporate income tax revenue, totaling $5,562 million (2014: $5,358 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 $10,274 million (2014: $10,678 million), schedule 14, are subject to measurement uncertainty because a pension plan's actual experience may differ significantly from assumptions used in the calculation of the pension obligations.

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

NOTE 4 TRANSFER OF CORPORATE HUMAN RESOURCES AND REGULATORY REVIEW SECRETARIAT

Corporate Human Resources and Regulatory Review Secretariat, as of September 15, 2014, were transferred to the Ministry. The 2014 comparatives for Treasury Board and Finance have been restated as follows: revenue increased by $1 million from $25,926 million to $25,927 million; expenses increased by $15 million from $2,967 million to $2,982 million; net operating results decreased by $14 million from $22,959 million to $22,945 million and net financing provided for general revenues decreased by $18 million from $25,195 million to $25,177 million;accounts payable increased by $3 million from $1,655 million to $1,658 million; and opening net assets decreased by $7 million from $13,969 million to $13,962 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

NOTE 5 VALUATION OF FINANCIAL ASSETS AND LIABILITIES CONTINUED

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.

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, 2015 amounted to $301 million (2014: $433 million), of which $136 million (2014: $237 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 contracts and leases are as follows:

	($ millions)
2015-16	$ 133
2016-17	52
2017-18	39
2018-19	22
2019-20	16
Thereafter	39
	$ 301

In addition, the Ministry has outstanding loan commitments of $15,737 million of which $15,687 million is for the government business enterprise of ATB Financial.

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 $3,632 million (2014: $4,834 million) and Alberta Social Housing Corporation of $62 million (2014: $65 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, 2015, credit unions in Alberta held deposits totaling $20,778 million (2014: $20,053 million). Substantial assets are available from credit unions to safeguard the Department from the risk of loss from its potential obligation under the Act.

NOTE 8 CONTINGENT LIABILITIES CONTINUED

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 $43 million (2014: $38 million) payable by ATB Financial. Payments under the guarantee are under authority of a supply vote. At March 31, 2015, ATB Financial had deposits totalling $33,633 million (2014: $30,011 million).

ATB Financial, at March 31, 2015, had a potential liability under guarantees and letters of credit amounting to $524 million (2014: $550 million).

The Province, through the Ministry and Alberta Agriculture and Rural Development, provide guarantees of $55 million (2014: $47 million) to feeder associations.

The Ministry, through the Canadian Securities Administrators National Systems operations management and governance agreement, have committed to pay 25 per cent of any shortfall from approved system operating costs that exceed revenues should there not be an accumulated operating surplus available to offset. As at March 31, 2015 the accumulated operating surplus is $128.8 million (2014: $115.7 million).

Payments under guarantees are a statutory charge on the Ministry.

b) LEGAL ACTIONS

At March 31, 2015, the Ministry was involved in various legal actions through the consolidated entities. 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 Ministry is jointly or separately named as a defendant in fifty-five (2014: fifty-six) legal claims of which the outcome is not determinable. Of the fifty-five claims, forty-three have specified amounts totaling approximately $504 million (2014: $475 million) and twelve claims have no specified amount. Ten (2014: nine) claims totaling $35 million (2014: $3 million) are covered by the Alberta Risk Management Fund.

In addition, at March 31, 2015, 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.

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

	($ millions)	
	2015	**2014**
	Fair Value [(a)(b)(c)]	**Fair Value**
Interest rate derivatives [(d)]	$ (448)	$ (152)
Equity replication derivatives [(e)]	10	108
Foreign currency derivatives [(f)]	(117)	(80)
Credit risk derivatives [(g)]	6	(4)
Commodity derivatives [(h)]	20	10
Derivative-related receivables, net	(529)	(118)
Deposits in futures contracts margin accounts	63	108
Deposits as collateral for derivative contracts	93	21
Net derivatives	$ (373)	$ 11

(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 $196 million (2014: $68 million). The exposure to credit risk on the fair value of our derivatives of $684 million (2014: $430 million) is impacted by $183 million (2014: $81 million) entering into master netting agreements and is reduced by $447 million (2014: $nil) in collateral agreements (2014: $nil) with counterparties resulting in a residual credit exposure of $55 million (2014: $349 million).

Includes ACFA interest rate derivatives with a net fair value of $(598) million (2014: $(220) million) of which 12% will mature in under one year, 18% in one to three years and 70% 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.

(h) Commodity price risk arises when ATB Financial offers deposit or derivative products where the value of the derivative instrument or rate of return on the deposit is linked to changes in the price of the underlying commodity. ATB Financial uses commodity-linked derivatives to fully hedge their associated commodity risk exposure on these products and does not accept any net direct commodity price risk.

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.

NOTE 10 TRUST AND OTHER FUNDS UNDER ADMINISTRATION CONTINUED

As at March 31, 2015, the fair value of trust and other funds under administration were as follows:

	($ millions)	
	2015	**2014**
Local Authorities Pension Plan Fund	$ 32,978	$ 27,960
Public Service Pension Plan Fund	10,492	8,989
Management Employees Pension Plan Fund	4,167	3,632
Special Forces Pension Plan Fund	2,437	2,125
Long term Disability Income Plan, Bargaining Unit	256	230
Long term Disability Income Plan, Management, opted out and Excluded	75	68
Group Life Insurance Plan, Bargaining Unit	9	10
Group Life Insurance Plan, Management, opted out and Excluded	29	27
Government of Alberta Dental Plan Trust	12	11
Government Employees' Group Extended Medical Benefits and Prescription Drugs Plan Trust	32	26
AGLC charitable proceeds under administration	19	16
Other	558	529
	$ 51,064	$ 43,623

In addition, AIMCo, which provides investment management services on behalf of certain Province of Alberta endowment funds, other government funds and certain public sector pension plans has $7,472 million of assets under administration that are not reported as assets or trusts by the Ministry.

NOTE 11 DEFINED BENEFIT PLANS

The Ministry jointly sponsors and participates in three multi-employer pension plan: Management Employees Pension Plan, the Public Service Pension Plan and the Supplementary Retirement Plan for Public Service Managers. The expense for these plans is equivalent to the annual contributions of $11 million for the year ended March 31, 2015 (2014: $8 million). The Ministry is not responsible for future funding of the plans' deficits other than through contribution increases.

At December 31, 2014, the Management Employees Pension Plan reported a surplus of $76 million (2014: $50 million), Public Service Pension Plan reported a deficiency of $803 million (2014: $1,254 million) and Supplementary Retirement Plan for Public Service Managers reported a deficiency of $17 million (2014: $12 million).

Long Term Disability Income Continuance Plans

The ministry administers the Long Term Disability Income Continuance Plans. These plans are defined benefit plans to which participating employers contribute on a defined contribution basis.

For the Bargaining Unit plan, effective September 28, 2014, the employers contribute at a rate of 1.625 per cent of insurable salary. Long term disability benefits are funded equally

by the employer and employees of this plan. At March 31, 2015, the Bargaining Unit Plan reported an actuarial surplus of $87 million (2014: surplus $75 million).

For the Management, Opted Out and Excluded plan, effective September 28, 2014, the employers contribute at a rate of 1.20 per cent of insurable salary. At March 31, 2015 the Management, Opted Out and Excluded plan reported an actuarial surplus of $32 million (2014: surplus $24 million). Long term disability benefits are funded by the employers of this Plan.

At March 31, 2015, the Government of Alberta's share of the estimated accrued benefit liability for these two plans is $nil (2014: $nil). This amount is actuarially determined as the cost of the employee benefits earned net of employer's contributions, interest expense on the accrued benefit obligation, expected return on the plan assets and amortization of deferred amounts using management's best estimates and actuarial assumptions. The ministry, together with other participating ministries, records their share of employer contributions as expenses in their respective financial statements.

Group Life Insurance Plans

The ministry also administers the Group Life Insurance Plans on behalf of the Government of Alberta. These plans are defined benefit plans to which participating employers contribute on a defined contribution basis.

The Basic Group Life Insurance and Accidental Death and Dismemberment Insurance are funded two-thirds by the employers and one-third by employees for the Bargaining Unit plan and the Management, Opted Out and Excluded plan. All additional coverage is optional and funded by the employees for both plans.

At March 31, 2015, the Bargaining Unit plan reported net assets of $9 million (2014: $10 million) and the Management, Opted Out and Excluded plan reported net assets of $29 million (2014: $27 million). These amounts currently subsidize claim costs and stabilize premium rates for the plans. Management produced estimates based on available March 2014 data, which was reviewed by the actuary for reasonableness. The ministry, together with other participating ministries, records their share of employer contributions as expenses in their respective financial statements.

Dental and Extended Medical Benefits and Prescription Drug Plan Trusts

Boards of Trustees administer the Group Dental and Extended Medical Benefits and Prescription Drug Plan Trusts on behalf of the employees of Government of Alberta. These plans are defined benefit plans to which the employer contributes on a defined contribution basis.

Premium rates are recommended by the trustees to the Government of Alberta. All additional coverage for the participating employees is optional and funded by the employees.

At December 31, 2014, the Government of Alberta Dental Plan Trust reported net assets of $12 million (2013: $11 million) and the Government Employees' Group Extended Medical Benefits and Prescription Drug Plan Trust reported net assets of $32 million (2013: $26 million). The trusts receive contributions from participating employers. The employer withholds contributions from employees and remits both employee and employer contributions to the Trusts. The ministry, together with the participating ministries, records their share of employer contributions as expenses in their respective financial statements.

NOTE 11 DEFINED BENEFIT PLANS CONTINUED

Public Service Health Spending Account Plan
(amounts in dollars)

The ministry also administers the Public Service Health Spending Account Plan on behalf of the Government of Alberta. The Plan came into effect April 1, 2012. The Plan provides a non-taxable employee benefit in the form of an annual credit. Any unused credits will be carried forward for one fiscal year after the year in which the credits were allocated.

Contributions are funded by the employer at specified contributions rates per employee. The rates in effect April 1, 2014 are $950 per management, opted out and excluded employee and $750 per bargaining unit employee.

At March 31, 2015, the Public Service Health Spending Account Plan reported net assets of $300,167. The Plan is designed such that contributions are sufficient to cover claims and expenses each plan year.

NOTE 12 COMPARATIVE FIGURES

Comparative figures have been reclassified, where necessary, to conform to 2015 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, 2015

REVENUES

SCHEDULE 1

($ millions)

	2015		2014
	Constructed Budget	**Actual**	**Actual**
			(Restated Note 4)
Income taxes			
Personal income tax	$ 11,153	$ 11,042	$ 10,537
Corporate income tax	5,495	5,562	5,358
Interest and penalties on corporate income tax	-	234	128
	16,648	16,838	16,023
Other taxes			
Tobacco tax	930	896	922
Fuel tax	965	944	925
Insurance taxes	373	385	352
Alberta tourism levy	90	91	87
Special broker tax	7	6	7
Interest and penalties on other tax	-	2	2
	2,365	2,324	2,295
Transfers from Government of Canada			
Canada Social Transfer	1,462	1,452	1,410
Unconditional subsidy	5	5	5
	1,467	1,457	1,415
Net investment income	2,405	2,723	3,158
Net income from government business enterprises			
Alberta Gaming and Liquor Commission	2,228	2,293	2,232
ATB Financial	310	325	280
Credit Union Deposit Guarantee Corp.	28	33	28
	2,566	2,651	2,540
Premiums, fees, and licences			
ATB Financial payment in lieu of taxes	93	97	84
ATB Financial deposit guarantee fee	39	43	38
Alberta Securities Commission	30	31	30
Alberta Insurance Council	5	5	5
Other	7	9	11
	174	185	168
Other revenue			
Pensions administration	56	53	47
Service revenue	228	266	252
Insurance services	17	16	23
Securities settlements	2	3	3
Refunds of expenditure and miscellaneous	1	37	3
	304	375	328
	$ 25,929	$ 26,553	$ 25,927

BUDGET **SCHEDULE 2**

($ millions)

	2014-15 Estimates (a)	Adjustment to conform to Accounting Policy (b)(c)	2014-15 Constructed Budget (d)
Revenues			
Income taxes	$ 16,648	$ -	$ 16,648
Other taxes	2,365	-	2,365
Transfers from Government of Canada	1,467	-	1,467
Net investment income	2,405	-	2,405
Net income from government business enterprises	2,566	-	2,566
Premiums, fees, and licences	174	-	174
Other revenue	304	-	304
	25,929	-	25,929
Expenses			
Ministry Support Services [(e)]	28	-	28
Budget Development and Reporting	6	-	6
Fiscal Planning and Economic Analysis	6	-	6
Investment, Treasury and Risk Management	682	-	682
Office of the Controller	3	-	3
Corporate Internal Audit Services	4	-	4
Tax and Revenue Management	33	-	33
Financial Sector Regulation and Policy	190	-	190
Corporate Human Resources [(e)]	22	-	22
Air Services	7	-	7
Gaming	34	-	34
Teachers' pre-1992 pension liability funding	455	-	455
Alberta Family Employment / Scientific Research and Experimental Development Tax Credit	202	-	202
Pension Provisions	-	56	56
Corporate income tax provision for doubtful accounts	16	-	16
Debt servicing costs			
School boards	4	-	4
ACFA	216	-	216
General government	134	319	453
	2,042	375	2,417
Net operating results	$ 23,887	$ (375)	$ 23,512

(a) Estimates were approved on March 6, 2014.

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

(c) Subject to the *Fiscal Responsibility Act*, expense estimates excludes annual changes in unfunded pension obligations, which are a non-cash expense reported by the Department at year end. The amount estimated for pension provisions for 2015 was $56 million.

(d) There were no adjustments or supplementary estimates to the Ministry 2015 estimates.

(e) Corporate Human Resources and Regulatory Review Secretariat (included in Ministry Support Services) were transferred to the Ministry in 2014-15.

EXPENSE BY OBJECT — SCHEDULE 3

($ millions)

	2015		2014
	Constructed Budget	Actual	Actual
			(Restated Note 4)
Salaries, wages and employee benefits	$ 189	$ 227	$ 220
Supplies and services	434	448	430
Grants	486	491	508
Interest and amortization of unrealized exchange gains and losses	-	(16)	(21)
Pension liability funding	534	526	522
Interest payments on corporate tax refunds	9	10	11
Pension (recovery) / provision (Schedule 14)	56	(404)	643
Corporate income tax allowance provision	16	71	172
Amortization of tangible capital assets	21	17	16
Other financial transactions	3	2	(4)
Debt servicing costs	669	605	485
	$ 2,417	$ 1,977	$ 2,982

CASH AND CASH EQUIVALENTS — SCHEDULE 4

($ millions)

	2015	2014
Cash	$ 1,946	$ (43)
Cash equivalents	1,918	2,284
	$ 3,864	$ 2,241

At March 31, 2015, deposits in banks had a time-weighted return of 1.2% (2014: 1.2%) per annum and securities have an average effective yield of 0.9% (2014: 1.2%) per annum.

ACCRUED INTEREST AND ACCOUNTS RECEIVABLE

SCHEDULE 5

	($ millions)	
	2015	**2014**
Corporate income tax[(a)]	$ 784	$ 629
Personal income tax	541	841
Proceeds from debt issuance	-	595
Accrued interest and receivable from sale of investments	228	222
Interest and penalties receivable on taxes	337	256
Receivable from ATB Financial [(b)]	141	121
Insurance corporations tax	101	93
Fuel tax	80	76
Tobacco tax	2	9
Tourism levy	8	8
Financial institutions capital tax	2	2
Other	69	64
	2,293	2,916
Less corporate income tax allowance	(431)	(377)
Less allowance for doubtful accounts	(1)	(1)
	$ 1,861	$ 2,538

(a) Corporate income tax receivable including interests and penalties aging is as follows:

	2015	**2014**
Less than one year	$ 458	$ 327
1-2 years	150	152
2-3 years	118	76
3-4 years	74	55
4-5 years	55	20
Over 5 years	266	255
Total	$ 1,121	$ 885

As at March 31, 2015, $784 million was corporate income tax receivable and $337 million was interest and penalty receivable on taxes. Comparatively at March 31, 2014, $629 million was corporate income tax receivable and $256 million was interest and penalty receivable on taxes.

At March 31, 2015, 898 corporate income tax files totaling $547 million were under objection/dispute. Comparatively at March 31, 2014, 851 corporate income tax files totaling $401 million were under objection/dispute. The outcome of the disputes are uncertain; therefore, the outcome of collection may change.

PORTFOLIO INVESTMENTS

SCHEDULE 6

($ millions)

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Interest-bearing securitites				
Bonds, mortgages and private debt	$ 9,092	$ 9,244	$ 8,884	$ 8,904
	9,092	9,244	8,884	8,904
Equities				
Canadian	1,680	1,857	1,558	1,755
Global developed	6,483	7,350	6,363	7,262
Emerging markets	650	851	724	851
Private	1,195	1,554	1,211	1,462
	10,008	11,612	9,856	11,330
Inflation sensitive and alternative investments				
Private real estate	3,025	4,342	2,726	3,810
Private infastructure investments	1,350	1,636	1,221	1,383
Timberland	319	471	317	438
	4,694	6,449	4,264	5,631
Strategic opportunities and tactical allocations	$ 298	$ 343	$ 214	$ 245
Total portfolio investments	$ 24,092	$ 27,648	$ 23,218	$ 26,110
Interest-bearing securitites				
Department	$ 4,719	$ 4,748	$ 4,562	$ 4,522
Alberta Heritage Savings Trust Fund	3,029	3,129	3,053	3,113
Other entities	1,344	1,367	1,269	1,269
	$ 9,092	$ 9,244	$ 8,884	$ 8,904

EQUITY IN GOVERNMENT BUSINESS ENTERPRISES

SCHEDULE 7

	($ millions)	
	2015	**2014**
Accumulated surpluses at beginning of year	$ 3,185	$ 2,832
Total revenue	5,780	5,484
Total expense [(a)]	3,129	2,944
Net income	2,651	2,540
Change in accumulated unrealized gains	104	47
Transfers from AGLC to Finance	(2,267)	(2,234)
Accumulated surpluses at end of year	$ 3,673	$ 3,185
Represented by		
Assets		
Loans	$ 37,690	$ 33,892
Investments	2,437	1,178
Other assets	3,834	3,382
Total assets	43,961	38,452
Liabilities		
Accounts payable	2,380	1,594
Deposits [(b)]	33,634	30,011
Unmatured debt	4,274	3,411
Capital investment deposits	-	251
Total liabilities	40,288	35,267
	$ 3,673	$ 3,185
Accumulated surpluses at end of year		
ATB Financial	$ 3,008	$ 2,588
Alberta Gaming & Liquor Commission	386	361
Credit Union Deposit Guarantee Corporation	279	236
	3,673	3,185
Subordinated debentures in support of deposit guarantees	311	229
Equity in commercial enterprises at end of year	$ 3,984	$ 3,414

(a) Included in total expense is $46 million (2014: $46 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.

(b) Included in the deposits are ATB Financial wholesale borrowings that include amounts borrowed by the Province on behalf of ATB Financial totaling $3,044 million (2014: $2,694 million).

The accumulated unrealized gains of the government business enterprises are as follows:

	2015	**2014**
Opening accumulated unrealized losses	(6)	(53)
Change	104	47
Ending accumulated unrealized gains / (losses)	98	(6)

LOANS AND ADVANCES TO GOVERNMENT ENTITIES

SCHEDULE 8

($ millions)

	Effective rate	Modified duration	2015	2014
Agriculture Financial Services Corporation	1.54%	6.03	$ 2,008	$ 1,931
Alberta Social Housing Corporation	0.84%	0.95	48	78
Alberta Petroleum Marketing Commission	0.67%	0.38	226	-
			$ 2,282	$ 2,009

The effective rate includes the effect of interest rate and currency rate swaps. The modified duration is the weighted average term to maturity of cash flow, including interest and principal.

OTHER LOANS AND ADVANCES

SCHEDULE 9

($ millions)

	2015	2014
ACFA loans [(a)]	$ 14,824	$ 13,807
Alberta Heritage Savings Trust Fund Act	-	156
	$ 14,824	$ 13,963

(a) The fair value of the ACFA loans as at March 31, 2015 was $17,030 million (2014: $14,755 million). Loans to the municipal and SUCH (schools, universities, colleges and hospitals) sectors on average yield 4.02% per annum (2014: 4.16%).

TANGIBLE CAPITAL ASSETS

SCHEDULE 10

($ millions)

	2015				
	Equipment	Computer Hardware and Software	Leaseholds	Other	Total
Estimated useful life	10 years	5 years	10 years	2-25 years	
Historical Cost					
Beginning of year	$ 8	$ 159	$ 23	$ 29	$ 219
Additions	-	29	-	-	29
Disposals - including write-downs	-	(11)	-	(19)	(30)
	8	177	23	10	218
Accumulated Amortization					
Beginning of year	(3)	(50)	(8)	(12)	(73)
Amortization expense	(1)	(13)	(3)	-	(17)
Effect of disposals	-	11	-	6	17
	(4)	(52)	(11)	(6)	(73)
Net book value at March 31, 2015	$ 4	$ 125	$ 12	$ 4	$ 145
Net book value at March 31, 2014	$ 5	$ 110	$ 14	$ 16	$ 145

ACCRUED INTEREST AND ACCOUNTS PAYABLE

SCHEDULE 11

	2015	2014
Corporate income tax receipts in abeyance	$ 594	$ 605
Corporate income tax refunds payable	553	472
Accrued interest on unmatured debt of the Department and debt of ACFA	272	235
Other	413	346
	$ 1,832	$ 1,658

UNMATURED DEBT

SCHEDULE 12

($ millions)

	2015				2014	
	Effective Rate (a)	Modified Duration (b)	Book Value (a)	Fair Value (a)	Book Value (a)	Fair Value (a)
	%	years				
Canadian dollar debt						
Floating rate and short-term fixed rate [c]	1.10	2.38	$ 863	$ 889	$ 1,723	$ 1,739
Fixed rate long-term	2.12	10.92	11,653	13,012	7,727	8,000
	2.05	10.38	$ 12,516	$ 13,901	$ 9,450	$ 9,739
Total unmatured debt is comprised of:						
Amounts borrowed on behalf of Government entities: [d]						
Agriculture Financial Services Corporation			2,008	2,218	1,931	2,012
Alberta Petroleum Marketing Commission			226	227	-	-
Alberta Social Housing Corporation			48	50	78	83
			$ 2,282	$ 2,495	$ 2,009	$ 2,095
Amounts borrowed for other purposes:						
Teachers' Pension Plan liability			941	1,188	1,187	1,303
Capital borrowing			9,293	10,218	6,254	6,341
			$ 12,516	$ 13,901	$ 9,450	$ 9,739

(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 $3,044 million (2014: $2,694 million) (see schedule 7) and ACFA totaling $10,956 million (2014: $9,564 million) (see schedule 13).

The consolidated gross debt of the Ministry totaling $30,145 million (2014: $25,992 million) is comprised of direct unmatured of the Ministry totaling $12,516 million (2014: $9,450 million) (schedule 12), unmatured debt of ACFA totaling $14,585 million (2014: $13,848 million) (schedule 13) and unmatured debt of ATB Financial totaling $3,044 million (2014: $2,694 million).

The total debt servicing cost of the Ministry totaling $610 million (2014: $537 million) is comprised of $375 million (2014: $261 million) for general government, $231 million (2014: $224 million) for ACFA, $4 million (2014: $6 million) for school construction debentures, all reported on the statement of operations, as well as $46 million (2014: $46 million) for ATB Financial for amounts borrowed directly by the Province on behalf of ATB Financial.

UNMATURED DEBT — SCHEDULE 12, CONTINUED

Debt principal repayment requirements at par in each of the next five years, including short-term debt maturing in 2015-16, and thereafter, are as follows:

	($ millions)
2015-16	$ 367
2016-17	202
2017-18	69
2018-19	686
2019-20	1,543
Thereafter to 2040	9,775
	12,642
Unamortized discount	(126)
	$ 12,516

None of the debt has call provisions (2014: none).

DEBT OF ALBERTA CAPITAL FINANCE AUTHORITY — SCHEDULE 13

	($ millions)			
	2015		2014	
	Book Value	Fair Value	Book Value	Fair Value
ACFA Canadian dollar and foreign currency fixed rate debt [(a)]	$ 11,819	$ 13,048	$ 10,294	$ 10,872
ACFA Canadian dollar floating rate debt	2,766	3,064	3,554	3,607
Total [(b)]	$ 14,585	$ 16,112	$ 13,848	$ 14,479
Effective rate per annum		4.03%		4.06%

(a) Includes fixed note US dollar debt of $600 million (fair value: $766 million Canadian dollars) and floating note US dollar debt of $700 million (fair value: $888 million Canadian dollars).

(b) Included in the total ACFA debt are amounts borrowed directly by the Province on behalf of ACFA totaling $10,956 million (2014: $9,654 million).

Debt principal repayment requirements in each of the next five years, including short-term debt maturing in 2015-16 and thereafter are as follows:

	($ millions)
2015-16	$ 3,053
2016-17	1,500
2017-18	2,567
2018-19	1,600
2019-20	275
Thereafter	5,639
	14,634
Unamortized discount	(49)
	$ 14,585

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, 2014 year end or March 31, 2015 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 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.

The following is a summary of the plans for the year ending March 31, 2015:

Pension Plan [a]	Approximate Number of Active Employees	Average Age of Active Employees	Number of Retirees Receiving Benefits	Employee Contributions	Employer Contributions	Benefit Payments	Deferred Members
				($ millions)			
LAPP	153,972	45	56,048	$ 1,165	$ 1,249	$ 1,222	29,384
PSPP	42,229	44	24,141	341	338	466	15,916
MEPP	5,318	48	4,475	79	132	187	1,155
MSRP	1,057	52	824	4	4	5	168
Teachers' Pre92	7,862	54	24,402	-	-	454	1,296
UAPP Pre92 [b]	1,047	60	3,491	12	12	131	N/A
PJMCPP [b]	130	60	150	1	2	8	2
PSMC [b]	-	-	1,868	-	-	54	95
SFPP [b]	4,278	39	2,442	37	41	110	182

(a) The plans provide a defined benefit retirement income based on a formula for each plan that considers final average years of salary, length of service and a percentage ranging from 1.4% to 2% per year of service.
(b) These four plans also received during the year contributions, primarily related to pre-1992 commitments, from the Province of Alberta as follows: UAPP Pre92 $13 million, PJMCPP $1 million, PSMC $53 million, and SFPP $5 million.

LIABILITY FOR PENSION OBLIGATIONS

SCHEDULE 14, CONTINUED

The liability for the pension obligations is as follows:

	($ millions)		
	2015 Pension Obligation	**2015 Pension Provision (Recovery)**	**2014 Pension Obligation**
Liability for pension obligations for the Province as a participating employer (Table A)			
Local Authorities Pension Plan [a]	$ 489	$ (22)	$ 511
Management Employees Pension Plan [b]	26	(37)	63
Public Service Pension Plan [c]	249	(31)	280
Supplementary Retirement Plan for Public Service Managers [d]	17	5	12
Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans [e]	15	(1)	16
	796	(86)	882
Liability for pension obligations for Province's commitment towards pre-1992			
Teachers' Pension Plan [f]	8,432	(295)	8,727
Public Service Management (Closed Membership) Pension Plan [g]	595	(22)	617
Universities Academic Pension Plan [h]	314	3	311
Special Forces Pension Plan [h]	91	(4)	95
	9,432	(318)	9,750
Obligations to the Members of the Legislative Assembly [i]	46	-	46
	$ 10,274	$ (404)	$ 10,678

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]	$ 44,865	$ 30,790	$ 3,884	$ 9,787	$ 404
Pension obligation [2]	48,080	33,245	3,808	10,590	437
Pension plan deficit/(surplus)	$ 3,215	$ 2,455	$ (76)	$ 803	$ 33
Employee and non-Provincial employer	(2,046)				
Unamortized losses [3]	(291)				
Timing differences and adjustments [4][5]	(82)				
Pension obligation at March 31, 2015	$ 796				

(1) These are the net assets reported on the 2014 financial statements of the pension plan.

(2) This is the pension obligation reported on the 2014 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, 2015 to March 31, 2015 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 7.40% of pensionable earnings shared equally between employers and employees until December 31, 2026. Current services costs are funded by employers and employees.

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

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

d) The Supplementary Retirement Plan is a contributory defined benefit pension plan for certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the maximum pensionable salary limit under the *Income Tax Act*. The Plan is supplementary to the MEPP. The contribution rates in effect at December 31, 2014 were at 12.80% (2013: 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 Registered and Unregistered Pension Plans collectively are contributory defined benefit pension plans for Judges and Masters in Chambers of the Province of Alberta. Current service costs in the Registered Plan 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, 2015 are 7.00% of capped salary for plan members and 13.12% of capped salary for the Province. The Unregistered Plan contribution rates in effect at March 31, 2015 are unchanged at 7.00% of pensionable salary in excess of capped salary for members and 7.00% of the excess for the Province. Benefits are payable by the Province of Alberta if assets are insufficient to pay for all benefits under the Plans.

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

LIABILITY FOR PENSION OBLIGATIONS **SCHEDULE 14, CONTINUED**

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, 2013
Management Employees Pension Plan	Aon Hewitt	Dec. 31, 2012
Supplementary Retirement Plan	Aon Hewitt	Dec. 31, 2012
Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans	Aon Hewitt	Dec. 31, 2011
Public Service Pension Plan	Aon Hewitt	Dec. 31, 2013
Teachers' Pre-1992 Pension Plan	Aon Hewitt	Aug. 31, 2014
Public Service Management (Closed Membership) Pension Plan	Aon Hewitt	Dec. 31, 2011
Universities Academic Pension Plan	Aon Hewitt	Dec. 31, 2012
Special Forces Pension Plan	Mercer (Canada) Limited	Dec. 31, 2013
Members of the Legislative Assembly Pension Plan	Aon Hewitt	Mar. 31, 2012

The liabilities for pension obligations are based upon actuarial extrapolations performed at December 31, 2014 or March 31, 2015 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.

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, 2014	3.50	2.25	5.80
Management Employees Pension Plan	Dec. 31, 2014	3.50	2.25	6.40
Provincial Judges and Masters in Chambers Registered Pension Plan	Mar. 31, 2014	3.50	2.25	6.00
Provincial Judges and Masters in Chambers Unregistered Pension Plan	Mar. 31, 2014	3.50	2.25	5.50
Public Service Management (Closed Membership) Pension Plan	Dec. 31, 2014	N/A	2.25	3.90
Public Service Pension Plan	Dec. 31, 2014	3.50	2.25	6.20
Special Forces Pension Plan	Dec. 31, 2014	3.50	2.25	6.30
Supplementary Retirement Plan for Public Service Managers	Dec. 31, 2014	3.50	2.25	6.20
Universities Academic Pension Plan	Mar. 31, 2015	3.50	2.25	6.10
Teachers' Pre-1992 Pension Plan	Mar. 31, 2015	3.50	2.25	3.90
Members of the Legislative Assembly Pension Plan	Mar. 31, 2014	N/A	2.25	3.90

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 $155 million (2014: $122 million) comprised of $147 million (2014: $122 million) for employees in PSPP, MEPP and MSRP and $8 million (2014: $ nil) in other pension plans.

OTHER ACCRUED LIABILITIES

SCHEDULE 15

	2015	2014
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 31	$ 46
AIMCo employee benefits liability	56	64
Vacation entitlements	9	7
	$ 96	$ 117

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)	
	2015	**2014**
Revenues		
Interest from loans and advances to government entities	$ 77	$ 76
Interest from loans and advances to SUCH sector	60	57
Charges for services	18	18
	$ 155	$ 151
Expenses		
Debt servicing costs - school boards debt	$ 4	$ 6
Transfers	245	243
Cost of services	2	4
	$ 251	$ 253
Assets		
Accounts receivable	$ -	$ -
Accrued interest receivable from government entities	15	14
Accrued interest receivable from SUCH sector	13	14
Loans and advances to government entities	2,056	2,009
Loans and advances to SUCH sector	1,359	1,248
	$ 3,443	$ 3,285
Liabilities		
Other accrued liabilities		
Accounts and accrued interest payable	$ 6	$ 7
Future funding of school boards debt	31	46
	$ 37	$ 53

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

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	
	2015	**2014**	**2015**	**2014**
Accommodations	$ -	$ -	$ 10	$ 7
Corporate services	-	-	4	4
Government of Alberta Learning Centre	1	1	-	-
Legal services	-	-	4	4
Air travel	5	5	-	-
Internal audit services	1	1	-	-
	$ 7	$ 7	$ 18	$ 15

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Department of Treasury Board and Finance

Financial Statements

Year Ended March 31, 2015

Table of Contents

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Department of Treasury Board and Finance, which comprise the statement of financial position as at March 31, 2015, 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, 2015, 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 5, 2015

Edmonton, Alberta

Statement of Operations

Year ended March 31, 2015

($ millions)

	2015		2014
	Constructed Budget	Actual	Actual
	(Schedule 3)		(Restated Note 4)
Revenues (Schedule 1)			
Internal government transfers	$ 3,325	$ 3,766	$ 4,152
Income taxes	16,648	16,838	16,023
Other taxes	2,365	2,324	2,295
Transfers from Government of Canada	1,467	1,457	1,415
Investment income	443	498	377
Premiums, fees and licences	139	148	133
Other revenue	5	43	8
	24,392	25,074	24,403
Expenses - Directly Incurred (Note 2, Schedule 15, 16)			
Program (Schedules 2 and 4)			
Ministry Support Services	28	24	24
Budget Development and Reporting	6	4	5
Fiscal Planning and Economic Analysis	6	6	6
Investment, Treasury and Risk Management	14	12	62
Office of the Controller	3	3	4
Corporate Internal Audit Services	4	4	4
Tax and Revenue Management	33	34	34
Financial Sector Regulation and Policy	87	77	82
Corporate Human Resources	22	19	14
Air Services	7	12	8
Gaming	34	29	29
Alberta Family Employment Tax Credit / Scientific Research and Experimental Development Tax Credit	202	198	210
Teachers' pre-1992 pension liability funding	455	456	446
Pension provision	56	(404)	643
Corporate income tax provision for doubtful accounts	16	71	172
	973	545	1,743
Debt servicing			
School construction debentures	4	4	6
General government	669	638	451
	673	642	457
	1,646	1,187	2,200
Net operating results	$ 22,746	$ 23,887	$ 22,203

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

Statement of Financial Position

As at March 31, 2015

	($ millions)	
	2015	**2014 (Restated Note 4)**
Assets		
Cash and cash equivalents (Schedule 6)	$ 3,638	$ 1,814
Accounts and accrued interest receivable (Schedule 7)	2,756	3,066
Portfolio investments (Schedule 8)	4,719	4,562
Loans and advances to government entities (Schedule 9)	16,348	14,339
Tangible capital assets (Schedule 10)	18	30
	$ 27,479	$ 23,811
Liabilities		
Accounts and accrued interest payable (Schedule 11)	$ 1,334	$ 1,235
Unmatured debt (Schedule 12)	26,516	21,709
Pension obligations (Schedule 13)	10,274	10,678
Other accrued liabilities (Schedule 14)	39	52
	38,163	33,674
Net Assets		
Net assets at beginning of year	(9,863)	(6,889)
Net operating results	23,887	22,203
Net financing provided for general revenues (Notes 2b)	(24,708)	(25,177)
Net assets at end of year	(10,684)	(9,863)
	$ 27,479	$ 23,811

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, 2015

	($ millions)	
	2015	**2014**
Operating transactions		**(Restated, Note 4)**
Net operating results	$ 23,887	$ 22,203
Non-cash items included in net operating results		
Amortization, gains and losses on investments and debt, net	(18)	(20)
Amortization of tangible capital assets (Schedule 2)	2	3
Loss on disposal of capital assets and writedown of inventory	6	-
Provision for Government of Alberta's share of Long Term Disability Income Continuance Plan Liability	-	(5)
Pension provision	(404)	643
Corporate income tax allowance provision	71	172
	23,544	22,996
Decrease/(Increase) in accounts and accrued interest receivable	241	(549)
Increase/(Decrease) in accounts and accrued interest payable	99	(5)
Cash provided by operating transactions	23,884	22,442
Capital transactions		
Acquisition of tangible capital assets (Schedule 10)	(3)	(3)
Proceeds from disposal of tangible capital assets	6	-
Cash applied to capital transactions	3	(3)
Investing transactions		
Disposals of portfolio investments	2,744	2,527
Portfolio investments purchased	(2,900)	(3,747)
Repayments of loans and advances		
Government entities	5,910	7,687
Other	37	3
Loans and advances to government entities	(7,904)	(11,133)
Cash provided by (applied to) investing transactions	(2,113)	(4,663)
Financing transactions		
Debt issues	20,377	19,749
Debt retirement	(15,604)	(12,502)
Grants for school construction debenture principal repayment (Schedule 4)	(15)	(20)
Net financing provided for general revenues	(24,708)	(25,177)
Cash applied to financing transactions	(19,950)	(17,950)
Increase in cash and cash equivalents	1,824	(174)
Cash and cash equivalents at beginning of year	1,814	1,988
Cash and cash equivalents at end of year	$ 3,638	$ 1,814

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

Notes to the Financial Statements

March 31, 2015

NOTE 1 AUTHORITY AND PURPOSE

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

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

- budget development and reporting;
- economics and fiscal policy;
- treasury management;
- risk management and insurance;
- government accounting standards and financial management policies;
- tax and revenue administration;
- financial sector regulation and policy;
- responsible liquor and gaming regulation;
- government air transportation services,
- regulatory review secretariat;and
- strategic leadership of human resources management for the Alberta Public Service.

On September 16, 2014 the Government of Alberta announced the end of the government air transportation services program.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

a) REPORTING ENTITY

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

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

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

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

b) NET FINANCING PROVIDED FOR GENERAL REVENUES

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

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

c) FUTURE CHANGES IN ACCOUNTING POLICY

PS 3450 Financial Instruments

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

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

PS 2200 Related Party Disclosure

In March 2015 the Public Sector Accounting Board issued PS 2200 – Related party disclosures . Related party disclosures defines a related party and identifies disclosures for related parties and related party transactions, including key management personnel and close family members. This accounting standard is effective for fiscal years starting on or after April 1, 2017. Management does not expect the implementation of this standard to have a significant impact on the financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

PS3420 - Inter-entity Transactions

In March 2015 the Public Sector Accounting Board issued PS 3420 – Inter-entity transactions. Inter-entity transactions, establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. This accounting standard is effective for fiscal years starting on or after April 1, 2017. Management does not expect the implementation of this standard to have a significant impact on the financial statements.

d) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported using the accrual method of accounting.

Income Taxes

Corporate income tax revenue is recognized when installments are received from taxpayer corporations. Corporate income tax refunds payable are accrued based on the prior year's corporate income tax refunds paid on assessments. Corporate income tax receipts from corporations in anticipation of an upward reassessment of Alberta income tax payable are described as corporate income tax receipts in abeyance and recorded as accounts payable. The difference between actual corporate income tax receivable and the estimate of the collectability is recorded as an allowance. The change in allowance is recorded as 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.

Tax Credits

The Scientific Research and Development Tax Credit is administered through the corporate income tax system with the value of the tax credit presented as an expense. Scientific Research and Experimental Development Tax Credits are recognized when a corporate income tax return has been filed and assessed.

Alberta Family Employment Tax Credit is administered by the federal government and delievered outside the Tax Collection Agreement. The credits are paid January 1st and July 1st and are reported as expenditures in the fiscal year they are incurred.

Internal Government Transfers

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

Internal Government Transfers - Alberta Lottery Fund

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

Internal Government Transfers - Alberta Heritage Savings Trust Fund

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

Internal Government Transfers - Alberta Gaming and Liquor Commission

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

Transfers from Government of Canada

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

Expenses

Directly Incurred

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

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

- Amortization of tangible capital assets.
- Pension costs, which comprise the cost of employer contributions for current service of employees during the year and additional government contributions for service relating to prior years.
- A pension provision for the change in pension obligation (Schedule 13).
- A provision for the change in the long term disabilities plans liability (Schedule 11).
- A corporate income tax allowance provision for the change in the corporate income tax allowance (Schedule 7).
- Grants are recognized when authorized and eligibility criteria are met.

Incurred by Others

Services contributed by other entities in support of the Department's operations are not recognized and are disclosed in Schedule 15 and allocated to programs in Schedule 16.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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.

Portfolio Investments

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

Loans

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

Tangible Capital Assets

Tangible capital assets acquired by right are not included. Tangible capital assets of the Department are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems 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. Where the Province has a liability for pre-1992 pension obligations any experience gains or losses are recognized in the year incurred.

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

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

Foreign Currency

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

Derivatives

Derivative contracts are used for hedging purposes. These derivatives are recorded at cost plus accrued interest. The estimated amounts receivable and payable from derivative contracts are included in the statement of financial position.

Gains and losses from these derivatives are recognized in the same period as the gains and losses of the hedged assets and liabilities. Income and expense from derivatives are included in investment income or debt servicing costs.

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, provisions for pensions, and provision for the Long Term Disability Continuance Plans. 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, the effect on accrued pension obligations and Long Term Disability Insurance Continuance Plans of actual experience compared to assumptions.

Personal income tax revenue, totaling $11,042 million (2014: $10,537 million), see Schedule 1, is subject to measurement uncertainty due primarily to the use of economic estimates of personal income growth. Personal income growth is inherently difficult to estimate due to subsequent revisions to personal income data. The estimate of primary household income growth used in determining personal income tax for the current fiscal year is 6.4% for 2014 (6.7% for 2013) and 2.6% for 2015 (6.7% for 2014). Based on historical data, there is an uncertainty of plus or minus $557 million (2014: $536 million) in the personal income tax revenue estimate.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Corporate income tax revenue, totaling $5,562 million (2014: $5,358 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 $10,274 million (2014: $10,678 million), see Schedule 13, are subject to measurement uncertainty because a Plan's actual experience may differ significantly from assumptions used in the calculation of the pension obligations.

The accrued liability of $nil (2014: $nil), see Schedule 11, is subject to measurement uncertainty because the Long Term Disability Insurance Continuance Plans' actual experience may differ significantly from assumptions used in the calculation.

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

NOTE 3 VALUATIONS OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

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

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

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

NOTE 4 TRANSFER OF CORPORATE HUMAN RESOURCES AND REGULATORY REVIEW SECRETARIAT

Corporate Human Resources and Regulatory Review Secretariat, as of September 15, 2014, were transferred to the department. The 2014 comparatives for the department have been restated as follows: revenue increased by $1 million from $24,402 million to $24,403 million; expenses increased by $15 million from $2,185 million to $2,200 million; net operating results decreased by $14 million from $22,217 million to $22,203 million; accounts payables increased by $3 million from $1,232 million to $1,235 million; opening net liabilities decreased by $7 million from $6,882 million to $6,889 million; and net financing provided for general revenues decreased by $18 million from $(25,195 million) to $(25,177 million).

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)	
	2015	**2014**
		(Restated)
Obligations under Operating Leases, Contracts and Programs	$ 60,518	$ 89,305

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

Obligations under Operating Leases, Contracts and Programs

	($ thousands)
	Total
2015-16	45,393
2016-17	2,660
2017-18	4,255
2018-19	4,140
2019-20	4,070
Thereafter	-
	$ 60,518

NOTE 7 CONTINGENT LIABILITIES

a) GUARANTEES AND INDEMNITIES

The Province ensures the debt of Alberta Capital Finance Authority of $3,632 million (2014: $4,834 million) and Alberta Social Housing Corporation of $62 million (2014: $65 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, 2015 credit unions in Alberta held deposits totaling $20,778 million (2014: $20,053 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 $43 million (2014: $38 million) by ATB Financial. Payments under the guarantee are under authority of a supply vote. At March 31, 2015, ATB Financial had deposits totalling $33,633 million (2014: $30,011 million).

The Province, through the Department and Alberta Agriculture and Rural Development, provide guarantees of $55 million (2014: $47 million) to feeder associations.

b) LEGAL ACTIONS

At March 31, 2015, 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, 2015, the Department is jointly or separately named as a defendant in twenty-two (2014: seventeen) legal claims of which the outcome is not determinable. Of the twenty-two claims, fifteen (2014: thirteen) have specified amounts totaling approximately $134 million (2014: $102 million) and seven claims have no specified amount. Six (2014: six) claims totaling $33 million (2014: less than $1 million) are covered by the Alberta Risk Management Fund.

In addition, at March 31, 2015, 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, 2015, the fair value of trust and other funds under administration were as follows:

	($ millions)	
	2015	**2014**
Local Authorities Pension Plan Fund	$32,978	$27,960
Public Service Pension Plan Fund	10,492	8,989
Management Employees Pension Plan Fund	4,167	3,632
Special Forces Pension Plan Fund	2,437	2,125
Other pension plan funds and Department trust funds	558	529
Long term Disability Income Plan, Bargaining Unit	256	230
Long term Disability Income Plan, Management, Opted Out and Excluded	75	68
Group Life Insurance Plan, Bargaining Unit	9	10
Group Life Insurance Plan, Management, Opted Out and Excluded	29	27
Government of Alberta Dental Plan Trust	12	11
Government Employees' Group Extended Medical Benefits and Prescription Drugs Plan Trust	32	26
	$51,045	$43,607

NOTE 9 DEFINED BENEFIT PLANS

The Department jointly sponsors and participates in three multi-employer pension plans: 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 $11 million for the year ended March 31, 2015 (2014: $8 million). The Department is not responsible for future funding of the plans' deficits other than through contribution increases.

At December 31, 2014, the Management Employees Pension Plan reported a surplus of $76 million (2014: $50 million), Public Service Pension Plan reported a deficiency of $803 million (2014: $1,254 million) and Supplementary Retirement Plan for Public Service Managers reported a deficiency of $17 million (2014: $12 million).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2015, the Bargaining Unit Plan reported a surplus of $87 million (2014: surplus $75 million) and the Management, Opted Out and Excluded Plan reported a surplus of $32 million (2014: surplus $24 million). The expense for these two plans is limited to the employer's annual contributions for the year.

Long Term Disability Income Continuance Plans

The Department administers the Long Term Disability Income Continuance Plans. These plans are defined benefit plans to which participating employers contribute on a defined contribution basis.

For the Bargaining Unit plan, effective September 28, 2014, the employers contribute at a rate of 1.625% of insurable salary. Long term disability benefits are funded equally by the employer and employees of this plan. At March 31, 2015, the Bargaining Unit Plan reported an actuarial surplus of $87 million(2014: surplus $75 million).

For the Management, Opted Out and Excluded plan, effective September 28, 2014, the employers contribute at a rate of 1.20% of insurable salary. At March 31, 2015 the Management, Opted Out and Excluded plan reported an actuarial surplus of $32 million

NOTE 9 DEFINED BENEFIT PLANS CONTINUED

(2014: surplus $24 million). Long term disability benefits are funded by the employers of this Plan.

At March 31, 2015, the Government of Alberta's share of the estimated accrued benefit liability for these two plans is $nil (2014: $nil). This amount is actuarially determined as the cost of the employee benefits earned net of employer's contributions, interest expense on the accrued benefit obligation, expected return on the plan assets and amortization of deferred amounts using management's best estimates and actuarial assumptions. The department, together with other participating departments, records their share of employer contributions as expenses in their respective financial statements.

Group Life Insurance Plans

The Department also administers the Group Life Insurance Plans on behalf of the Government of Alberta. These plans are defined benefit plans to which participating employers contribute on a defined contribution basis.

The Basic Group Life Insurance and Accidental Death and Dismemberment Insurance are funded two-thirds by the employers and one-third by employees for the Bargaining Unit plan and the Management, Opted Out and Excluded plan. All additional coverage is optional and funded by the employees for both plans.

At March 31, 2015, the Bargaining Unit plan reported net assets of $9 million (2014: $10 million) and the Management, Opted Out and Excluded plan reported net assets of $29 million (2014: $27 million). These amounts currently subsidize claim costs and stabilize premium rates for the plans. Management produced estimates based on available March 2014 data, which was reviewed by the actuary for reasonableness. The department, together with other participating departments, records their share of employer contributions as expenses in their respective financial statements.

Dental and Extended Medical Benefits and Prescription Drug Plan Trusts

Boards of Trustees administer the Group Dental and Extended Medical Benefits and Prescription Drug Plan Trusts on behalf of the employees of Government of Alberta. These plans are defined benefit plans to which the employer contributes on a defined contribution basis.

Premium rates are recommended by the trustees to the Government of Alberta. All additional coverage for the participating employees is optional and funded by the employees.

At December 31, 2014, the Government of Alberta Dental Plan Trust reported net assets of $12 million (2013: $11 million) and the Government Employees' Group Extended Medical Benefits and Prescription Drug Plan Trust reported net assets of $32 million (2013: $26 million). The trusts receive contributions from participating employers. The employer withholds contributions from employees and remits both employee and employer contributions to the Trusts. The department, together with the participating departments, records their share of employer contributions as expenses in their respective financial statements.

Public Service Health Spending Account Plan
(amounts in dollars)

The Department also administers the Public Service Health Spending Account Plan on behalf of the Government of Alberta. The Plan came into effect April 1, 2012. The Plan

provides a non-taxable employee benefit in the form of an annual credit. Any unused credits will be carried forward for one fiscal year after the year in which the credits were allocated.

Contributions are funded by the employer at specified contributions rates per employee. The rates in effect April 1, 2014 are $950 per management, opted out and excluded employee and $750 per bargaining unit employee.

At March 31, 2015, the Public Service Health Spending Account Plan reported net assets of $300,167 (2014: $nil). The Plan is designed such that contributions are sufficient to cover claims and expenses each plan year.

NOTE 10 COMPARATIVE FIGURES

Certain 2014 figures have been reclassified to conform to the 2015 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the senior financial officer of Corporate Human Resources , the deputy minister of Leadership and Talent Development and Public Service Commissioner; senior financial officer and deputy minister of Treasury Board and Finance.

Schedules to the Financial Statements

(All dollar amounts in millions, unless otherwise stated)

REVENUES — SCHEDULE 1

	($ millions)		
	2015		2014
	Constructed Budget	Actual	Actual
			(Restated, Note 4)
Internal government transfers			
Transfer from Alberta Heritage Savings Trust Fund	$ 1,094	$ 1,468	$ 1,916
Transfer from Alberta Gaming and Liquor Commission	745	767	747
Transfer from Alberta Lottery Fund	1,486	1,531	1,489
	3,325	3,766	4,152
Income taxes			
Personal income tax	11,153	11,042	10,537
Corporate income tax	5,495	5,562	5,358
Interest and penalties on corporate income tax	-	234	128
	16,648	16,838	16,023
Other taxes			
Tobacco tax	930	896	922
Fuel tax	965	944	925
Insurance tax	373	385	352
Alberta tourism levy	90	91	87
Special broker tax	7	6	7
Interest and penalties on other tax	-	2	2
	2,365	2,324	2,295
Transfers from Government of Canada			
Canada Social Transfer	1,462	1,452	1,410
Unconditional Grant	5	5	5
	1,467	1,457	1,415
Investment income	443	498	377
Premiums, fees and licences			
ATB Financial payment in lieu of taxes	93	97	84
ATB Financial deposit guarantee fees	39	43	38
Other	7	8	11
	139	148	133
Other revenue	5	43	8
	$ 24,392	$ 25,074	$ 24,403

EXPENSES – DIRECTLY INCURRED DETAILED BY OBJECT

SCHEDULE 2

($ millions)

	2015 Constructed Budget	2015 Actual	2014 Actual (Restated, Note 4)
Salaries, wages and employee benefits	$ 86	$ 80	$ 80
Supplies and services	26	21	33
Supplies and services from Support Service Arrangements with Related Parties [1]	2	2	2
Grants	251	250	298
Financial transactions and other	1	1	(4)
Amortization of tangible capital assets	5	2	3
Pension liability funding	79	70	76
Corporate income tax allowance provision	16	71	172
Teachers' Pre-1992 pension liability funding	455	456	446
Debt servicing costs	669	638	451
Pension (recovery) / provision	56	(404)	643
	$ 1,646	$ 1,187	$ 2,200

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

BUDGET **SCHEDULE 3**

	($ millions)		
	2014-15 Estimates (a)	Adjustment to conform to accounting policy (b)(c)	2014-15 Constructed Budget (d)
Revenues			
Internal government transfers	$ 3,325	$ -	$ 3,325
Income taxes	16,648	-	16,648
Other taxes	2,365	-	2,365
Transfers from Government of Canada	1,467	-	1,467
Investment income	443	-	443
Premiums, fees and licences	139	-	139
Other revenue	5	-	5
	24,392	-	24,392
Expenses - Directly Incurred			
Ministry Support Services [(e)]	28	-	28
Budget Development and Reporting	6	-	6
Fiscal Planning and Economic Analysis	6	-	6
Investment, Treasury and Risk Management	14	-	14
Office of the Controller	3	-	3
Corporate Internal Audit Services	4	-	4
Tax and Revenue Management	33	-	33
Financial Sector Regulation and Policy	87	-	87
Corporate Human Resources [(e)]	22	-	22
Air Services	7	-	7
Gaming	34	-	34
Corporate income tax allowance provision	16	-	16
Alberta Family Employment Tax Credit / Scientific Research and Experimental Development Tax Credit	202	-	202
Teachers' pre-1992 pension - liability funding	455	-	455
Debt servicing costs - school construction	4	-	4
Debt servicing costs - general government	350	319	669
Pension Provision	-	56	56
	1,271	375	1,646
Net operating results	$ 23,121	$ (375)	$ 22,746
Equipment/inventory purchases	$ 3	$ -	$ 3
Financial Transactions	$ 15	$ -	$ 15

(a) Estimates were approved on March 6, 2014.

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

(c) Subject to the *Fiscal Responsibility Act* , expense estimates excludes annual changes in unfunded pension obligations, which are a non-cash expense reported by the Department at year end. The amount estimated for pension provisions for 2015 was $56 million.

(d) There were no adjustments or supplementary estimates to the Department 2014-15 estimates.

(e) Corporate Human Resources and Regulatory Review Secretariat (included in Ministry Support Services) were transferred to the Department in 2014-15.

LAPSE / ENCUMBRANCE

SCHEDULE 4

($ thousands)

	Voted Estimates (1)	Supplementary Estimate (2)	Adjustments (3)	Adjusted Voted Estimate	Voted Actuals (4)	Unexpended (Over Expended)
Operational Expenses						
1. Ministry Support Services						
1.1 Minister's Office	$ 684	$ -	$ -	$ 684	$ 723	$ (39)
1.2 Associate Minister's Office	-	-	-	-	-	-
1.3 Deputy Minister's Office	743	-	-	743	726	17
1.4 Strategic and Business Services	22,988	-	-	22,988	19,439	3,549
1.5 Communications	990	-	-	990	1,018	(28)
	25,405	-	-	25,405	21,906	3,499
2. Budget Development and Reporting	5,733	-	-	5,733	4,464	1,269
3. Fiscal Planning and Economic Analysis	6,149	-	-	6,149	5,855	294
3A. Corporate Human Resources						
3A.1 Office of the Public Service Commissioner	698	-	-	698	843	(145)
3A.2 Corporate Human Resources Programs	19,134	-	-	19,134	18,003	1,131
	19,832	-	-	19,832	18,846	986
4. Investment, Treasury and Risk Management						
4.1 Treasury Management	11,775	-	-	11,775	10,102	1,673
4.2 Risk Management and Insurance	1,659	-	-	1,659	1,658	1
	13,434	-	-	13,434	11,760	1,674
5. Office of the Controller	2,811	-	-	2,811	2,616	195
6. Corporate Internal Audit Services	4,198	-	-	4,198	3,966	232
7. Tax and Revenue Management	23,719	-	-	23,719	21,754	1,965
8. Financial Sector Regulation and Pensions						
8.1 Financial Sector Regulation and Policy	6,411	-	-	6,411	5,376	1,035
8.2 Automobile Insurance Rate Board	1,610	-	-	1,610	1,333	277
	8,021	-	-	8,021	6,709	1,312
9. Air Services	4,669	-	-	4,669	4,867	(198)
10. Gaming						
10.1 Gaming Research	1,600	-	-	1,600	1,513	87
10.2 Horse Racing and Breeding Renewal Program	26,000	-	-	26,000	21,273	4,727
10.3 Bingo Associations	6,000	-	-	6,000	6,090	(90)
	33,600	-	-	33,600	28,876	4,724
Debt Servicing						
11 School Construction Debentures						
11.1 School Construction Debenture Interest Payment	4,301	-	-	4,301	4,301	-
Total	151,872	-	-	151,872	135,920	15,952
Lapse/(Encumbrance)						15,952

LAPSE / ENCUMBRANCE

($ thousands)

		Voted Estimates (1)	Supplementary Estimate (2)	Adjustments (3)	Adjusted Voted Estimate	Actuals (4)	Unexpended (Over Expended)
Capital Plan Spending							
1.4	Strategic and Business Services	$ 280	$ -	$ -	$ 280	$ 1,270	$ (990)
3A	Corporate Human Resources	-	-	-	-	10	(10)
7	Tax and Revenue Management	2,082	-	-	2,082	739	1,343
8.1	Financial Sector and Pensions	250	-	-	250	-	250
9	Air Services	241	-	945	1,186	-	1,186
	Total	2,853	-	945	3,798	2,019	1,779
	Lapse/(Encumbrance)						1,779
Financial Transactions Vote by Program							
9	Acquisition of Inventory - Air Services	150	-	-	150	72	78
11.2	Grants for school construction debenture principal repayment	15,098	-	-	15,098	15,098	-
	Total	$ 15,248	$ -	$ -	$ 15,248	$ 15,170	$ 78
	Lapse/(Encumbrance)						$ 78

(1) As per "Capital Vote by Program" and "Financial Transactions Vote by Program" on page 229 of the 2014-15 Government Estimates.

(2) Per the Supplementary Supply Estimates.

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

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

SALARY AND BENEFITS DISCLOSURE

SCHEDULE 5

	($ thousands)				
	2015				2014
	Base Salary (a)	Other Cash Benefits (b)	Other Non-Cash Benefits (c)	Total	Total
Treasury Board and Finance					
Deputy Minister of Finance (d)	$ 279	$ 18	$ 63	$ 360	403
Controller (g)	212	10	51	273	279
Chief Internal Auditor	195	2	48	245	243
Assistant Deputy Minister, Budget Development and Reporting	196	2	48	246	249
Assistant Deputy Minister, Financial Sector Regulation and Policy	182	4	47	233	220
Assistant Deputy Minister, Fiscal Planning & Economic Analysis (e)	186	39	46	271	248
Assistant Deputy Minister, Strategic & Business Services (f)	178	2	25	205	203
Assistant Deputy Minister, Tax and Revenue Administration	196	2	48	246	242
Assistant Deputy Minister, Treasury and Risk Management (e)	254	17	60	331	305
Corporate Human Resources					
Deputy Minister, Public Service Commissioner (d)(e)(g)	281	121	63	465	379
Deputy Minister, Leadership & Talent Development (h)	149	-	31	180	108
Assistant Deputy Minister, Labour & Employment Practices (f)(i)	183	112	45	340	231
Assistant Deputy Minister, Leadership & Talent Development (e)(j)	182	-	56	238	224
Assistant Deputy Minister, Strategic Services and Human Resource Transformation (f)(k)	174	-	44	218	191

(a) Base salary includes regular salary and earnings such as acting pay.

(b) Other cash benefits include vacation payouts and lump sum payments. There were no bonuses paid in 2015.

(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 occupied by three individuals at different times during the year.

(g) The Other Cash Benefits includes modifier in lieu of car.

(h) Position removed from Department on September 15, 2014.

(i) Formerly Assistant Commissioner, Labour & Employment Practices

(j) Formerly Assistant Commissioner, Workforce Development and Engagement.

(k) Formerly Assistant Commissioner, Attraction, Technology and Human Resource Community Development.

CASH AND CASH EQUIVALENTS — SCHEDULE 6

	($ millions) 2015	2014
Cash	$ 1,720	$ (470)
Cash equivalents	1,918	2,284
	$ 3,638	$ 1,814

At March 31, 2015, deposits in banks had a time-weighted return of 1.2% (2014: 1.2%) per annum and securities have an average effective yield of 0.9% (2014: 1.2%) per annum.

ACCOUNTS AND ACCRUED INTEREST RECEIVABLE — SCHEDULE 7

	($ millions) 2015	2014
Corporate income tax[(a)]	$ 784	$ 629
Personal income tax	541	841
Interest and penalties receivable on taxes [(a)]	337	256
Proceeds from debt issuance	-	595
Alberta Gaming and Liquor Commission	280	277
Alberta Lottery Fund	80	32
Receivable from the Alberta Heritage Savings Trust Fund	371	147
Accrued interest receivable	110	93
ATB Financial [(b)]	452	350
Insurance corporations tax	101	93
Fuel tax	80	76
Tobacco tax	2	9
Alberta tourism levy	8	8
Other	42	38
	3,188	3,444
Less corporate income tax allowance	(431)	(377)
Less allowance for other doubtful accounts	(1)	(1)
	$ 2,756	$ 3,066

(a) Corporate income tax receivable including interests and penalties aging is as follows:

	2015	2014
Less than one year	$ 458	$ 327
1-2 years	150	152
2-3 years	118	76
3-4 years	74	55
4-5 years	55	20
Over 5 years	266	255
Total	$ 1,121	$ 885

As at March 31, 2015, $784 million was corporate income tax receivable and $337 million was interest and penalty receivable on taxes. Comparatively at March 31, 2014, $629 million was corporate income tax receivable and $256 million was interest and penalty receivable on taxes.

At March 31, 2015, 898 corporate income tax files totaling $547 million were under objection/dispute. Comparatively at March 31, 2014, 851 corporate income tax files totaling $401 million were under objection/dispute. The outcome of the disputes are uncertain; therefore, the outcome of collection may change.

(b) The ATB Financial accounts receivable is comprised of $179 million (2014: $121 million) due in 2015-16 and $273 million (2014: $229 million) due at various terms ranging up to 2019-2020.

PORTFOLIO INVESTMENTS

SCHEDULE 8

($ millions)

	2015		2014	
	Book Value	Fair Value	Book Value	Fair Value
Fixed-income securities				
Corporate	$ 2,093	$ 2,094	$ 1,996	$ 1,988
Provincial, direct and guaranteed	726	734	764	760
Government of Canada, direct and guaranteed	1,770	1,789	1,668	1,642
Municipal	130	131	134	132
	$ 4,719	$ 4,748	$ 4,562	$ 4,522

The Department's fixed-income securities are held to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, and disasters. The Department may use derivatives to manage financial risk. At March 31, 2015, the net book and net fair value of derivative contracts is $nil (2014: $ nil).

LOANS AND ADVANCES TO GOVERNMENT ENTITIES

SCHEDULE 9

($ millions)

Amounts borrowed and loaned to government entities [a]			2015	2014
(see Schedule 12)	Effective rate	Modified duration		
Alberta Capital Finance Authority	1.44%	4.93	$ 10,956	$ 9,565
ATB Financial	0.83%	2.14	3,044	2,694
Agriculture Financial Services Corporation	1.54%	6.03	2,008	1,931
Alberta Petroleum Marketing Commission	0.67%	0.38	226	-
Alberta Social Housing Corporation	0.84%	0.95	48	78
			16,282	14,268
Other loans				
Alberta Investment Management Corporation			63	68
Other			3	3
			$ 16,348	$ 14,339

a) The Department borrows money and loans it to various government entities with the exact same repayment terms and interest rates. The effective rate includes the effect of interest rate and currency rate swaps. The modified duration is the weighted average term to maturity of cash flow, including interest and principal.

TANGIBLE CAPITAL ASSETS

SCHEDULE 10

	($ millions)		
	2015		
	Computer Hardware & Software	**Equipment**	**Total**
Estimated useful life	5 years	10 years	
Historical Cost			
Beginning of year	$ 38	$ 29	$ 67
Additions	3	-	3
Disposals - including write-downs	(1)	(19)	(20)
	40	10	50
Accumulated Amortization			
Beginning of year	24	13	37
Amortization expense	2	-	2
Effect of disposals	-	(7)	(7)
	26	6	32
Net book value at March 31, 2015	$ 14	$ 4	$ 18
Net book value at March 31, 2014	$ 14	$ 16	$ 30

ACCOUNTS AND ACCRUED INTEREST PAYABLE

SCHEDULE 11

	($ millions)	
	2015	**2014 (Restated, Note 4)**
Corporate income tax receipts in abeyance	$ 594	$ 605
Corporate income tax refunds payable	553	472
Accrued interest on unmatured debt	167	133
Other	20	25
	$ 1,334	$ 1,235

The Department has an obligation to recognize the Government of Alberta's share in the liability for the Long Term Disability Income Continuance Plans. The share is $nil (2014: $nil).

UNMATURED DEBT

SCHEDULE 12

	2015				2014	
	Effective Rate (a)	Modified Duration (b)	Book Value (a)	Fair Value (a)	Book Value (a)	Fair Value (a)
	%	years	($ millions)			
Canadian dollar debt and foreign currency debt [c]						
Floating rate and short-term fixed rate debt	0.78	0.68	$ 6,445	$ 6,676	$ 6,624	$ 6,699
Fixed rate long-term debt	1.89	9.26	20,071	22,069	15,085	15,448
	1.63	7.26	$ 26,516	$ 28,745	$ 21,709	$ 22,147

Total unmatured debt is comprised of:				
Amounts borrowed on behalf of Government entities: [d]				
Alberta Capital Finance Authority	$ 10,956	$ 11,743	$ 9,565	$ 9,698
ATB Financial	3,044	3,101	2,694	2,710
Agriculture Financial Services Corporation	2,008	2,218	1,931	2,012
Alberta Petroleum Marketing Commission	226	227		
Alberta Social Housing Corporation	48	50	78	83
	16,282	17,339	14,268	14,503
Amounts borrowed for other purposes:				
Teachers' Pension Plan liability	941	1,188	1,187	1,303
Capital borrowing	9,293	10,218	6,254	6,341
	$ 26,516	$ 28,745	$ 21,709	$ 22,147

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

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

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

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

Debt principal repayment requirements at par in each of the next five years, including short-term debt, maturing in 2015-16, and thereafter are as follows:

	($ millions)
2015-16	$ 2,871
2016-17	2,002
2017-18	2,936
2018-19	2,686
2019-20	2,018
Thereafter	14,178
	26,691
Unamortized discount	(175)
	$ 26,516

None of the debt has call provisions (2014: none).

UNMATURED DEBT — SCHEDULE 12, CONTINUED

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, 2015, the net fair value of these contracts totaled $(19) million (2014: $(5) million).

PENSION OBLIGATIONS — SCHEDULE 13

The President of Treasury Board and Minister of Finance is trustee for the following pension plans under the *Public Sector Pension Plans Act*: Local Authorities Pension Plan (LAPP), Management Employees Pension Plan (MEPP), Public Service Pension Plan (PSPP), Special Forces Pension Plan (SFPP), and the Public Service Management (Closed Membership) Pension Plan (PSMC). As well the President of Treasury Board and Minister of Finance is trustee for the Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans (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, 2014 year end or March 31, 2015 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 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 Registered and Unregistered Pension Plans 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.

PENSION OBLIGATIONS

SCHEDULE 13, CONTINUED

The following is a summary of the plans for the year ended March 31, 2015:

Pension Plan [a]	Approximate Number of Active Employees	Average Age of Active Employees	Number of Retirees Receiving Benefits	Employee Contributions	Employer Contributions	Benefit Payments	Deferred Members
				($ millions)			
LAPP	153,972	45	56,048	$ 1,165	$ 1,249	$ 1,222	29,384
PSPP	42,229	44	24,141	341	338	466	15,916
MEPP	5,318	48	4,475	79	132	187	1,155
MSRP	1,057	52	824	4	4	5	168
Teachers' Pre92	7,862	54	24,402	-	-	454	1,296
UAPP Pre92 [b]	1,047	60	3,491	12	12	131	N/A
PJMCPP [b]	130	60	150	1	2	8	2
PSMC [b]	-	-	1,868	-	-	54	95
SFPP [b]	4,278	39	2,442	37	41	110	182

(a) The plans provide a defined benefit retirement income based on a formula for each plan that considers final average years of salary, length of service and a percentage ranging from 1.4% to 2% per year of service.

(b) These four plans also received during the year contributions, primarily related to pre-1992 commitments, from the Province of Alberta as follows: UAPP Pre92 $13 million, PJMCPP $1 million, PSMC $53 million, and SFPP $5 million.

The liability for the pension obligations are as follows:

	2015 Pension Obligation	2015 Pension Provision (Recovery)	2014 Pension Obligation
	($ millions)		
Liability for pension obligations for the Province as a participating employer (Table A)			
Local Authorities Pension Plan [a]	$ 489	$ (22)	$ 511
Management Employees Pension Plan [b]	26	(37)	63
Public Service Pension Plan [c]	249	(31)	280
Supplementary Retirement Plan for Public Service Managers [d]	17	5	12
Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans [e]	15	(1)	16
	796	(86)	882
Liability for the Province's commitment towards pre-1992 pension obligations			
Teachers' Pension Plan [f]	8,432	(295)	8,727
Public Service Management (Closed Membership) Pension Plan [g]	595	(22)	617
Universities Academic Pension Plan [h]	314	3	311
Special Forces Pension Plan [h]	91	(4)	95
	9,432	(318)	9,750
Obligations to the Members of the Legislative Assembly [i]	46	-	46
	$ 10,274	$ (404)	$ 10,678

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]	$ 44,865	$ 30,790	$ 3,884	$ 9,787	$ 404
Pension obligation [2]	48,080	33,245	3,808	10,590	437
Pension plan deficit/(surplus)	$ 3,215	$ 2,455	$ (76)	$ 803	$ 33
Employee and non-Provincial employer	(2,046)				
Unamortized losses [3]	(291)				
Timing differences and adjustments [4]	(82)				
Pension obligation at March 31, 2015	$ 796				

(1) These are the net assets reported on the 2014 financial statements of the pension plan.
(2) This is the pension obligation reported on the 2014 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, 2015 to March 31, 2015 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 7.40% of pensionable earnings shared equally between employers and employees until December 31, 2026. Current services costs are funded by employers and employees.

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

c) The Public Service Pension Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by an actuarial funding valuation are expected to be funded

by special payments currently totaling 9.34% of pensionable earnings shared equally between employees and employers until December 31, 2026. Current services costs are funded by employers and employees.

d) The Supplementary Retirement Plan is a contributory defined benefit pension plan for certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the maximum pensionable salary limit under the *Income Tax Act*. The Plan is supplementary to the MEPP. The contribution rates in effect at December 31, 2014 were at 12.80% (2013: 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 Registered and Unregistered Pension Plans collectively are contributory defined benefit pension plans for Judges and Masters in Chambers of the Province of Alberta. Current service costs in the Registered Plan 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, 2015 are 7.00% of capped salary for plan members and 13.12% of capped salary for the Province. The Unregistered Plan contribution rates in effect at March 31, 2015 are unchanged at 7.00% of pensionable salary in excess of capped salary for members and 7.00% of the excess for the Province. Benefits are payable by the Province of Alberta if assets are insufficient to pay for all benefits under the Plans.

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

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

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

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

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

i) The Department has a liability for payment of pension benefits under a defined benefit pension plan for Members of the Legislative Assembly. Active participation in this plan

was terminated as of June 1993, and no benefits can be earned for service after this date. The costs of all benefits under the plan are paid by the Department.

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

Plan	Actuary	Latest Valuation Date
Local Authorities Pension Plan	Mercer (Canada) Limited	Dec. 31, 2013
Management Employees Pension Plan	Aon Hewitt	Dec. 31, 2012
Supplementary Retirement Plan	Aon Hewitt	Dec. 31, 2012
Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans	Aon Hewitt	Dec. 31, 2011
Public Service Pension Plan	Aon Hewitt	Dec. 31, 2013
Teachers' Pre-1992 Pension Plan	Aon Hewitt	Aug. 31, 2014
Public Service Management (Closed Membership) Pension Plan	Aon Hewitt	Dec. 31, 2011
Universities Academic Pension Plan	Aon Hewitt	Dec. 31, 2012
Special Forces Pension Plan	Mercer (Canada) Limited	Dec. 31, 2013
Members of the Legislative Assembly Pension Plan	Aon Hewitt	Mar. 31, 2012

The liabilities for pension obligations are based upon actuarial extrapolations, of the most recent actuarial valuation performed at December 31, 2014 or March 31, 2015, 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.

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, 2014	3.50	2.25	5.80
Management Employees Pension Plan	Dec. 31, 2014	3.50	2.25	6.40
Provincial Judges and Masters in Chambers Registered Pension Plan	Mar. 31, 2014	3.50	2.25	6.00
Provincial Judges and Masters in Chambers Unregistered Pension Plan	Mar. 31, 2014	3.50	2.25	5.50
Public Service Management (Closed Membership) Pension Plan	Dec. 31, 2014	N/A	2.25	3.90
Public Service Pension Plan	Dec. 31, 2014	3.50	2.25	6.20
Special Forces Pension Plan	Dec. 31, 2014	3.50	2.25	6.30
Supplementary Retirement Plan for Public Service Managers	Dec. 31, 2014	3.50	2.25	6.20
Universities Academic Pension Plan	Mar. 31, 2015	3.50	2.25	6.10
Teachers' Pre-1992 Pension Plan	Mar. 31, 2015	3.50	2.25	3.90
Members of the Legislative Assembly Pension Plan	Mar. 31, 2014	N/A	2.25	3.90

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.

PENSION OBLIGATIONS

SCHEDULE 13, CONTINUED

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

OTHER ACCRUED LIABILITIES

SCHEDULE 14

	2015	2014 (Restated, Note 4)
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 31	$ 46
Vacation entitlements	8	6
	$ 39	$ 52

RELATED PARTY TRANSACTIONS

SCHEDULE 15

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

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

The investment in Alberta Capital Finance Authority is recorded at cost because the Corporation has the authority to pay its accumulated surplus to municipal and other shareholders, which have borrowed money from the Corporation. At December 31, 2014, there is an accumulated operating surplus of $294 million (2014: $237 million). During the 2015 fiscal year, the Department paid $19 million (2014: $26 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.

RELATED PARTY TRANSACTIONS

SCHEDULE 15, CONTINUED

	($ millions)			
	Entities in the Department		**Other Entities**	
	2015	**2014**	**2015**	**2014**
Revenues				
Transfers	$ 3,766	$ 4,152	$ -	$ -
Interest - government entities	273	197	77	76
Charges for services	141	122	-	-
	$ 4,180	$ 4,471	$ 77	$ 76
Expenses				
Cost of services	$ 5	$ 4	$ 6	$ 60
Assets				
Accounts receivable	$ 1,188	$ 806	$ -	$ -
Accrued interest receivable - government entities	66	50	14	14
Loans and advances to government entities	14,066	12,330	2,056	2,009
	$ 15,320	$ 13,186	$ 2,070	$ 2,023
Liabilities				
Accounts and accrued interest payable	$ -	$ -	$ -	$ -
School construction debentures	-	-	31	46
	$ -	$ -	$ 31	$ 46

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**	
	2015	**2014**	**2015**	**2014**
Accommodations	$ -	$ -	$ 10	$ 9
Air travel	3	5	-	-
Corporate services	-	-	4	4
Government of Alberta Learning Centre	1	1	-	-
Internal audit services	1	1	-	-
Legal services	-	-	4	4
	$ 5	$ 7	$ 18	$ 17

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

ALLOCATED COSTS BY PROGRAM

SCHEDULE 16

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

Total allocated costs of $1,205 million are comprised of total expenses per statement of operations amounting to $1,187 million and expenses incurred by others amounting to $18 million.

($ millions)

Program	Expenses [1]	Expenses Incurred by Others [2]	Pension (recovery) / provision [3]	Total 2015	Total 2014 (Restated, Note 4)
Ministry Support Services	$ 24	$ 2	$ -	$ 26	$ 25
Budget Development and Reporting	4	-	-	4	5
Fiscal Planning and Economic Analysis	6	-	-	6	6
Investment, Treasury and Risk Management	12	1	-	13	64
Office of the Controller	3	-	-	3	4
Corporate Internal Audit Services	4	-	-	4	4
Tax and Revenue Management	34	3	-	37	37
Financial Sector Regulation and Pensions	77	6	-	83	85
Corporate Human Resources	19	3	-	22	17
Air Services	12	1	-	13	8
Gaming	29	2	-	31	30
Alberta Family Employment Tax Credit / Scientific Research and Experimental Development Tax	198	-	-	198	210
Teachers' pre-1992 pension liability funding	456	-	-	456	446
Debt servicing & Pension (Recovery) / Provision	642	-	(404)	238	1,100
Corporate income tax allowance provision	71	-	-	71	172
	$ 1,591	$ 18	$ (404)	$ 1,205	$ 2,213

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

(2) Includes accommodations of $10 million, corporate services of $4 million, and legal services of $4 million.

(3) Includes pension recovery of $404 million.

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FINANCIAL INFORMATION

Regulated Funds

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ALBERTA CANCER PREVENTION LEGACY FUND

Financial Statements

March 31, 2015

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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, 2015, 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, 2015, 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 5, 2015

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2015

	($ thousands)	
	2015	**2014**
Financial assets		
Investments (Note 3)	$ 479,714	$ 485,946
Net financial assets (Note 5)		
Accumulated surplus from operations	486,040	498,336
Accumulated remeasurement losses	(6,326)	(12,390)
	479,714	485,946
	$ 479,714	$ 485,946

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2015

	($ thousands)		
	2015		2014
	Budget	Actual	Actual
Investment income (Note 6)	$ 14,000	$ 13,069	$ 19,167
Investment expenses (Note 7)	-	(365)	(470)
Net income from operations	14,000	12,704	18,697
Transfers on behalf of the Ministry of Health (Note 5b)	(25,000)	(25,000)	(25,000)
Net operating deficiency	(11,000)	(12,296)	(6,303)
Accumulated operating surplus at beginning of year		498,336	504,639
Accumulated operating surplus at end of year		$ 486,040	$ 498,336

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2015

	($ thousands)	
	2015	2014
Accumulated remeasurement losses, beginning of year	$ (12,390)	$ (4,838)
Unrealized gain (loss) on investments	5,457	(8,207)
Less: Amounts reclassified to the Statement of Operations - realized loss on investments	607	655
Accumulated remeasurement losses, end of year	$ (6,326)	$ (12,390)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2015

	($ thousands)	
	2015	**2014**
Operating transactions		
Net income from operations	$ 12,704	$ 18,697
Non-cash items included in net income	607	655
Cash provided by operating transactions	13,311	19,352
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	25,035	25,000
Purchase of investments	(13,338)	(19,379)
Cash provided by investing transactions	11,697	5,621
Transfers		
Transfers on behalf of the Ministry of Health	(25,000)	(25,000)
Cash applied to transfers	(25,000)	(25,000)
Increase (decrease) in cash	8	(27)
Cash at beginning of year	245	272
Cash at end of year	$ 253	$ 245
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 253	$ 245

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

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2015
(all dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, 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 pool units. The Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo. Investments in pool 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 confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

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

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

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

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

b) INVESTMENT INCOME

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

ii) Realized gains and losses on disposal of pool 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 pool units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis.

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts incurred by the Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

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

d) REMEASUREMENT GAINS AND LOSSES

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

e) MEASUREMENT UNCERTAINTY

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

NOTE 3 INVESTMENTS (in thousands)

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

	Fair Value Hierarchy [a]				
Asset class	Level 1	Level 2	Level 3	**2015**	**2014**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 253	$ -	$ 253	$ 245
Bonds and mortgages	-	479,461	-	479,461	485,701
Total Fair Value of Investments	$ -	$479,714	$ -	$ 479,714	$ 485,946

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

- ***Level 1*** - fair value is based on quoted prices in an active market.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $479,714 (2014: $485,946). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data.

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

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

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

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands)

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

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

a) Credit risk

i) Debt securities

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

The table below summarizes debt securities by counterparty credit rating at March 31, 2015:

Credit rating	2015	2014
Investment Grade (AAA to BBB-)	100.0%	100.0%
Unrated	-	-
	100.0%	100.0%

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

ii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2015, the Fund's share of securities loaned under this program is $60 million (2014: $56 million) and collateral held totals $64 million (2014: $58 million). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 2.8% of total investments (2014: 2.7%).

c) Liquidity risk

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

NOTE 5 NET FINANCIAL ASSETS (in thousands)

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

	Cumulative since 2006	
	2015	**2014**
Accumulated net income from operations	$ 180,902	$ 168,198
Transfers from the General Revenue Fund [(a)]	500,000	500,000
Accumulated transfers to Ministry [(b)]	(194,862)	(169,862)
Accumulated surplus from operations	486,040	498,336
Accumulated net remeasurement gains	(6,326)	(12,390)
Carrying value of net financial assets	$ 479,714	$ 485,946

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

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

NOTE 6 NET INVESTMENT INCOME (in thousands)

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

	2015	2014
Interest-bearing securities	$ 13,069	$ 19,167

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

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2015	2014
Amounts charged by:		
AIMCo [(a)]	$ 335	$ 440
Alberta Treasury Board and Finance [(b)]	30	30
Total investment expenses	$ 365	$ 470
(Decrease) increase in expenses	-22.3%	24.0%
Decrease in average investments under management	-2.0%	-0.6%
Investment expense as a percent of:		
Dollar earned	2.8%	2.5%
Dollar invested	0.1%	0.1%

(a) Please refer to AIMCo's financial statements for a detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs.

(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]	2015	2014	5 years	7 years
Estimated return [b]	4.0%	2.3%	3.5%	3.8%
Estimated policy benchmark return [b]	3.7%	1.6%	2.9%	3.3%
Value added by investment manager	0.3%	0.7%	0.6%	0.5%

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

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

NOTE 9 FINANCIAL STATEMENTS

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

ALBERTA HERITAGE FOUNDATION

FOR MEDICAL RESEARCH ENDOWMENT FUND

Financial Statements

March 31, 2015

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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 Endowment Fund, which comprise the statement of financial position as at March 31, 2015, and the statements of operations and accumulated surplus, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Foundation for Medical Research Endowment Fund as at March 31, 2015, 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 5, 2015

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2015

	($ thousands)	
	2015	**2014**
Financial assets		
Investments (Note 3)	$ 1,668,517	$ 1,569,306
Liabilities		
Accounts payable	5	-
Net financial assets (Note 5)		
Accumulated surplus from operations	1,413,640	1,364,186
Accumulated remeasurement gains	254,872	205,120
	1,668,512	1,569,306
	$ 1,668,517	$ 1,569,306

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2015

	($ thousands)		
	2015		2014
	Budget	Actual	Actual
Investment income (Note 6)	$ 127,477	$ 153,491	$ 181,237
Investment expenses (Note 7)	(12,487)	(12,651)	(13,567)
Net income from operations	114,990	140,840	167,670
Transfers for health research and innovation (Note 5b)	(86,386)	(91,386)	(86,389)
Net operating surplus	$ 28,604	49,454	81,281
Accumulated operating surplus at beginning of year		1,364,186	1,282,905
Accumulated operating surplus at end of year		$ 1,413,640	$ 1,364,186

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2015

	($ thousands)	
	2015	2014
Accumulated remeasurement gains, beginning of year	$ 205,120	$ 153,279
Unrealized gain on investments	69,764	74,901
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(20,012)	(23,060)
Accumulated remeasurement gains, end of year	$ 254,872	$ 205,120

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2015

	($ thousands)	
	2015	**2014**
Operating transactions		
Net income from operations	$ 140,840	$ 167,670
Non-cash items included in net income	(20,012)	(23,060)
	120,828	144,610
Increase (decrease) in accounts payable	5	(154)
Cash provided by operating transactions	120,833	144,456
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	255,395	262,828
Purchase of investments	(277,078)	(321,928)
Cash applied to investing transactions	(21,683)	(59,100)
Transfers		
Transfers for health research and innovation	(91,386)	(86,389)
Cash applied to transfers	(91,386)	(86,389)
Increase (decrease) in cash	7,764	(1,033)
Cash at beginning of year	7,322	8,355
Cash at end of year	$ 15,086	$ 7,322
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 15,086	$ 7,322

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

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2015
(All dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, 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 pool units. The Fund reports its share of the financial risks in the notes to the financial statements.

The fair value of pool units held directly by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo. Investments in pool 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 confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

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

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

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

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

b) INVESTMENT INCOME

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

ii) Realized gains and losses on disposal of pool 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 pool units are determined on an average cost basis.

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

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts incurred by the Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

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

d) REMEASUREMENT GAINS AND LOSSES

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

e) MEASUREMENT UNCERTAINTY

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, infrastructure, private debt and loans, private real estate, hedge funds, timberland investments, and other investments where no readily available market exists.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the value that would have been used had a ready market existed for these investments.

NOTE 3 INVESTMENTS (in thousands)

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

	Fair Value Hierarchy [(a)]				
Asset class	Level 1	Level 2	Level 3	**2015**	**2014**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 15,086	$ -	$ 15,086	$ 7,322
Bonds, mortgages and private debt	-	188,060	112,749	300,809	297,836
	-	203,146	112,749	315,895	305,158
Equities					
Canadian	100,336	34,818	-	135,154	128,061
Global developed	332,732	49,222	177,344	559,298	551,648
Emerging markets	63,174	2,830	-	66,004	62,731
Private	-	-	107,166	107,166	89,501
	496,242	86,870	284,510	867,622	831,941
Inflation sensitive					
Real estate	-	-	294,983	294,983	257,826
Infrastructure	-	-	134,847	134,847	128,436
Timberland	-	-	30,847	30,847	28,661
	-	-	460,677	460,677	414,923
Strategic opportunities and tactical allocation*	-	11,211	13,112	24,323	17,284
Total Fair Value of Investments	$ 496,242	$ 301,227	$ 871,048	$ 1,668,517	$ 1,569,306

* This asset class is not listed in the SIP&G as it relates to investments made on an opportunistic basis (see Note 4).

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 $496,242 (2014: $448,266).

- ***Level 2*** - fair value is estimated using valuation methods that use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $301,227 (2014: $345,097). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $871,048 (2014: $775,943).

Reconciliation of Level 3 Investments

	2015	2014
Balance, beginning of period	$ 775,943	$ 673,749
Unrealized gains	55,351	54,310
Purchases of Level 3 pooled fund units	125,350	133,074
Sale of Level 3 pooled fund units	(85,596)	(85,190)
Balance, end of period	$ 871,048	$ 775,943

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

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

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

NOTE 3 INVESTMENTS (in thousands) CONTINUED

- ***Strategic opportunities and tactical allocations***: The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets.
- ***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 target policy asset mix:

Asset Class	Target Asset Policy	Actual Asset Mix 2015		Actual Asset Mix 2014	
Interest-bearing securities	15 - 45%	$ 315,895	18.9%	$ 305,157	19.5%
Equities	35 - 70%	867,622	52.0%	831,941	53.0%
Inflation sensitive	15 - 40%	460,677	27.6%	414,924	26.4%
Strategic opportunities and tactical allocation	(a)	24,323	1.5%	17,284	1.1%
		$ 1,668,517	100.0%	$ 1,569,306	100.0%

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Fund's investments in strategic opportunities that are outside of the asset classes listed above.

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, 2015:

Credit rating	2015	2014
Investment Grade (AAA to BBB-)	73.5%	75.3%
Speculative Grade (BB+ or lower)	0.5%	0.3%
Unrated	26.0%	24.4%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

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

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. At March 31, 2015, the Fund's share of securities loaned under this program is $31,856 (2014: $29,666 million) and collateral held totals $33,419 (2014: $31,160 million). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in 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 $703 million, are denominated in currencies other that the Canadian dollar, with the largest foreign currency exposure being to the US dollar (23%) and the euro (5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 4.2% of total investments (2014: 4.4%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2015:

	($ millions)			
	2015		**2014**	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 377	$ (38)	$ 366	$ (37)
Euro	76	(8)	76	(8)
British pound sterling	47	(5)	53	(5)
Japanese yen	44	(4)	41	(4)
Hong Kong dollar	24	(2)	20	(2)
Swiss franc	20	(2)	21	(2)
Australian dollar	19	(2)	17	(2)
Other foreign currency	96	(9)	92	(9)
Total foreign currency investments	$ 703	$ (70)	$ 686	$ (69)

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 (2014: 0.8%)

d) Price risk

Price risk relates to the possibility that pool 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 (2014: 5.7%). 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 Health and payables related to purchase of pool 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	**2015**	**2014**
Contracts in favourable position (current credit exposure)	24	$ 5,925	$ 8,789
Contracts in unfavourable position	18	(14,392)	(7,291)
Net fair value of derivative contracts	42	$ (8,467)	$ 1,498

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $5,925 (2014: $8,789) 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	**2015**	**2014**
Structured equity replication	$ 842	$ 7,855
Foreign currency derivatives	(8,071)	(6,581)
Interest rate derivatives	(1,760)	491
Credit risk derivatives	522	(267)
Net fair value of derivative contracts	$ (8,467)	$ 1,498

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

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

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

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

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

v) Deposits: At March 31, 2015 deposits in futures contracts margin accounts totalled $4,937 (2014: $8,035) and deposits as collateral for derivative contracts totalled $6,653 (2014: $1,607).

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	
	2015	**2014**
Accumulated net income from operations	$ 2,221,415	$ 2,080,575
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)]	(1,607,775)	(1,516,389)
Accumulated surplus from operations	1,413,640	1,364,186
Accumulated remeasurement gains	254,872	205,120
Carrying value of net financial assets	$ 1,668,512	$ 1,569,306

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

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

NOTE 6 NET INVESTMENT INCOME (in thousands)

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

	2015	2014
Interest-bearing securities	$ 8,600	$ 12,875
Equities		
Canadian	11,578	13,279
Global	103,020	130,166
Private	8,211	6,526
	122,809	149,971
Inflation sensitive		
Real estate	17,775	17,093
Infrastructure	4,922	(1,661)
Timberland	(406)	1,971
Private debt and loan	-	727
	22,291	18,130
Strategic opportunities and tactical allocation	(209)	261
	$ 153,491	$ 181,237

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

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2015	2014
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 9,583	$ 9,710
Performance based fees [(a)]	3,019	3,809
	12,602	$ 13,519
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	49	48
Total investment expenses	$ 12,651	$ 13,567
(Decrease) increase in expenses	-6.8%	8.7%
Increase in average investments under management	7.7%	7.4%
Investment expenses as a percent of:		
Dollar earned	8.2%	7.5%
Dollar invested	0.8%	0.9%

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

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]	2015	2014	5 years	10 years
Estimated return [b]	12.6%	15.9%	11.7%	7.7%
Estimated policy benchmark return [b]	14.8%	16.1%	11.2%	7.8%
Value (lost) added by investment manager [c]	-2.2%	-0.2%	0.5%	-0.1%

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

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

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

NOTE 9 FINANCIAL STATEMENTS

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

ALBERTA HERITAGE SAVINGS TRUST FUND

Financial Statements

March 31, 2015

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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, 2015, 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, 2015, 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 5, 2015

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2015
(in millions)

	2015	2014
Financial assets		
Investments (Note 3)	$ 18,319	$ 17,656
Accrued income	-	11
	$ 18,319	$ 17,667
Liabilities		
Due to the General Revenue Fund	$ 371	$ 147
Net financial assets (Note 5)		
Accumulated operating surplus	14,961	15,006
Accumulated remeasurement gains	2,987	2,514
	17,948	17,520
	$ 18,319	$ 17,667

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2015
(in millions)

	2015 Budget	2015 Actual	2014 Actual
Investment income (Note 7)	$ 1,603	$ 1,825	$ 2,272
Investment expenses (Note 8)	(150)	(147)	(163)
Net income from operations	1,453	1,678	2,109
Transfers to the General Revenue Fund (Note 5b)	(1,094)	(1,468)	(1,916)
Net surplus retained in the Fund for inflation-proofing (Note 5b)	359	210	193
Transfers to the Alberta Heritage Scholarship Fund (Note 5d)	(200)	(200)	-
Transfers for Agriculture and Food Innovation (Note 5d)	(9)	(3)	-
Transfers to the Access to the Future Fund (Note 6)	(53)	(52)	-
Net operating surplus (deficiency)	$ 97	(45)	193
Accumulated operating surplus, beginning of period		15,006	14,813
Accumulated operating surplus, end of period		$ 14,961	$ 15,006

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2015
(in millions)

	2015	2014
Accumulated remeasurement gains, beginning of period	$ 2,514	$ 1,966
Unrealized gain on investments	789	903
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(316)	(355)
Accumulated remeasurement gains, end of period	$ 2,987	$ 2,514

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2015
(in millions)

	2015	2014
Operating transactions		
Net income from operations	$ 1,678	$ 2,109
Non-cash items included in net income	(316)	(355)
	1,362	1,754
Decrease in accounts receivable	11	2
Decrease in accounts payable	-	(5)
Cash provided by operating transactions	1,373	1,751
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	3,397	3,759
Purchase of investments	(3,265)	(3,357)
Cash provided by investing transactions	132	402
Transfers		
Transfers to the General Revenue Fund	(1,468)	(1,916)
Transfers to the Alberta Heritage Scholarship Fund	(200)	-
Transfers for Agriculture and Food Innovation	(3)	-
Transfers to the Access to the Future Fund	(52)	-
Increase (decrease) in amounts due to the General Revenue Fund	224	(238)
Cash used in transfers	(1,499)	(2,154)
Increase (decrease) in cash	6	(1)
Cash at beginning of period	43	44
Cash at end of period	$ 49	$ 43
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 49	$ 43

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

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2015
(in millions)

NOTE 1 AUTHORITY AND MISSION

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, 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 pool units. The Fund reports its share of the financial risks in Note 4.

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

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

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

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

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

b) INVESTMENT INCOME

i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the statement of operations and accumulated surplus (see Note 7). 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 pool 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 pool units are determined on an average cost basis.

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

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts incurred by the Fund to earn investment income (see Note 8). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

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

d) REMEASUREMENT GAINS AND LOSSES

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

e) MEASUREMENT UNCERTAINTY

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, infrastructure, private debt and loans, private real estate, hedge funds, timberland investments, and other investments where no readily available market exists. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING... CONTINUED

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.

f) TRANSFERS TO THE GENERAL REVENUE FUND (GRF)

Transfers to the GRF are recorded on an accrual basis. In accordance with Section 8 (2) of the Act, all of the net income of the Fund is transferred to the GRF except for any amount retained in the Fund to maintain its value against inflation (see Note 5 (b)).

NOTE 3 INVESTMENTS (in millions)

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

	Fair Value Hierarchy [a]				
Asset class	Level 1	Level 2	Level 3	**2015**	**2014**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 49	$ -	$ 49	$ 43
Bonds, mortgages and private debt	-	1,835	1,294	3,129	3,269
	-	1,884	1,294	3,178	3,312
Equities					
Canadian	1,109	390	-	1,499	1,435
Global developed	3,432	503	1,975	5,910	5,974
Emerging markets	660	29	-	689	717
Private	-	-	1,311	1,311	1,260
	5,201	922	3,286	9,409	9,386
Inflation sensitive					
Real estate	-	-	3,682	3,682	3,257
Infrastructure	-	-	1,347	1,347	1,109
Timberland	-	-	417	417	387
	-	-	5,446	5,446	4,753
Strategic opportunities and tactical allocations *	-	132	154	286	205
Total Fair Value of Investments	$ 5,201	$ 2,938	$ 10,180	$ 18,319	$ 17,656

* This asset class is not listed in the SIP&G as it relates to investments made on an opportunistic basis (see Note 4).

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 $5,201 (March 31, 2014: $4,897).
- ***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 $2,938 (March 31, 2014: $3,703). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $10,180 (March 31, 2014: $9,056).

Reconciliation of Level 3 Investments

	2015	2014
Balance, beginning of year	$ 9,056	$ 8,098
Unrealized gains	622	637
Purchases of Level 3 pooled fund units	1,556	1,363
Sale of Level 3 pooled fund units	(1,054)	(1,042)
Balance, end of year	$ 10,180	$ 9,056

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

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

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

NOTE 3 INVESTMENTS (in millions) CONTINUED

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

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions)

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

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

used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

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

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2015		Actual Asset Mix 2014	
Interest-bearing securities	15 - 45%	$ 3,178	17.3%	$ 3,312	18.8%
Equities	35 - 70%	9,409	51.4%	9,386	53.1%
Inflation sensitive	15 - 40%	5,446	29.7%	4,753	26.9%
Strategic opportunities and tactical allocations	(a)	286	1.6%	205	1.2%
		$ 18,319	100.0%	$ 17,656	100.0%

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Fund's investments in strategic opportunities that are outside of the asset classes listed above.

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, 2015:

Credit rating	2015	2014
Investment Grade (AAA to BBB-)	70.9%	70.3%
Speculative Grade (BB+ or lower)	0.4%	0.3%
Unrated	28.7%	29.4%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk

on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2015, the Fund's share of securities loaned under this program is $332 million (March 31, 2014: $320 million) and collateral held totals $348 million (March 31, 2014: $336 million). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 41% of the Fund's investments, or $7,577 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (22%) and the euro (4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 4.1% of total investments (March 31, 2014: 4.4%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2015:

	2015		2014	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 4,066	$ (407)	$ 4,171	$ (417)
Euro	813	(81)	886	(89)
British pound sterling	512	(51)	600	(60)
Japanese yen	469	(47)	461	(46)
Hong Kong dollar	259	(26)	234	(23)
Swiss franc	214	(21)	234	(23)
Australian dollar	207	(21)	193	(19)
Other foreign currency	1,037	(104)	1,011	(102)
Total foreign currency investments	$ 7,577	$ (758)	$ 7,790	$ (779)

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 (March 31, 2014: 0.8%).

d) Price risk

Price risk relates to the possibility that pool 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 (March 31, 2014: 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 transfers payable to the General Revenue Fund and payables related to purchase of pool 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	**2015**	**2014**
Contracts in favourable position (current credit exposure)	24	$ 56	$ 98
Contracts in unfavourable position	18	(161)	(72)
Net fair value of derivative contracts	42	$ (105)	$ 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 $56 (March 31, 2014: $98) 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 (in millions) CONTINUED

Types of derivatives used in pools	Fund's Indirect Share 2015	Fund's Indirect Share 2014
Structured equity replication derivatives	$ 8	$ 91
Foreign currency derivatives	(101)	(66)
Interest rate derivatives	(17)	4
Credit risk derivatives	5	(3)
Net fair value of derivative contracts	$ (105)	$ 26

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

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

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

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

v) Deposits: At March 31, 2015 deposits in futures contracts margin accounts totalled $51 (March 31, 2014: $91) and deposits as collateral for derivative contracts totalled $78 (March 31, 2014: $17).

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 2015	Cumulative since 1976 2014
Accumulated net income	$ 37,207	$ 35,529
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	(37,412)	(35,734)
Amount Retained for Inflation-proofing	2,940	2,730
	(34,472)	(33,004)
Capital Expenditures (1976-1995) [(c)]	(3,486)	(3,486)
Transfers to Alberta Heritage Scholarship Fund [(d)]	(200)	-
Transfers for Agriculture and Food Innovation [(d)]	(3)	-
Transfers to the Access to the Future Fund	(52)	-
	(38,213)	(36,490)
Accumulated surplus from operations	14,961	15,006
Accumulated remeasurement gains	2,987	2,514
Carrying value of net financial assets	$ 17,948	$ 17,520

(a) Section 9.1 of 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 $1,678 million, of which $210 million was retained in the Fund for inflation proofing and $1,468 million is payable to the GRF. 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.

(d) Transfers of $200 million to the Alberta Heritage Scholarship Fund and $3 million for the Agriculture and Food Innovation Account were made during the year in accordance with the *Savings Management Act (*Sections 7 and 4(1) respectively). This Act was repealed December 17, 2014. The transfers from the Fund remain with the Alberta Heritage Scholarship Fund to be used for trades scholarships, and with Agriculture and Rural Development, to support basic and applied agricultural research, education and commercialization.

NOTE 6 INVESTING IN ADVANCED EDUCATION (in millions)

The following notional account has been established within the Fund. The notional balance provided below is used as a base to which a rate is applied to determine future cash transfers to support advanced education and educational initiatives for the long-term benefit of Albertans:

	Advanced Education Endowment Account	
	2015	**2014**
Opening balance	1,166	1,151
Rate of return adjustment	146	-
Inflation-proofing	-	15
Transfers	(52)	-
Closing balance	$ 1,260	$ 1,166

i) The Account was established for the purpose of funding the Access to the Future Fund in the Ministry of Innovation and Advanced Education. The Access to the Future Fund supports innovation and excellence that enhances and expands opportunities for Albertans to participate in accessible, affordable and high-quality advanced education opportunities.

ii) A maximum of $3 billion can be allocated to the account from within the Fund of which $750 million has been allocated in 2005-06 and $250 million in 2006-07. The balance at March 31, 2014 includes accumulated inflation proofing totalling $166 million. The requirement to inflation proof the account in the *Access to the Future Act* was repealed on April 1, 2014. Starting April 1, 2014, the balance in the account is adjusted for (a) the rate of return reported by the Fund for the year and (b) transfers to the Access to the Future Fund. Prior to April 1, 2014, transfers to the Access to the Future Fund (2014: $52 million) were made directly from the GRF and therefore had no impact on the balance in the Advanced Education Endowment Account.

iii) Maximum transfers from the Fund to the Access to the Future Fund are calculated as 4.5% of the average of the closing balances of the Account for the preceding 3 fiscal years.

NOTE 7 INVESTMENT INCOME (in millions)

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

	2015	2014
Interest-bearing securities	$ 130	$ 171
Equities		
Canadian	130	170
Global	1,182	1,584
Private	117	88
	1,429	1,842
Inflation sensitive		
Real estate	221	232
Infrastructure	53	(19)
Timberland	(5)	27
Private debt and loan	-	16
	269	256
Strategic opportunities and tactical allocations	(3)	3
	$ 1,825	$ 2,272

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

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 8 INVESTMENT EXPENSES (in millions)

	2015	2014
Amount charged by AIMCo for:		
Investment costs [(a)]	111	115
Performance based fees [(a)]	36	48
Total investment expenses	$ 147	$ 163
Increase (decrease) in expenses	-9.8%	10.1%
Increase in average investments under management	3.3%	3.6%
Investment expense as a percent of:		
Dollar earned	8.1%	7.2%
Dollar invested	0.8%	0.9%

(a) Please refer to AIMCo's financial statements for a detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

Includes $127 thousand (March 31, 2014: $138 thousand) charged to the Fund by Alberta Treasury Board and Finance for investment accounting and reporting services, and $116 thousand (March 31, 2014: $51 thousand) paid to the International Forum of Sovereign Wealth Funds for membership.

NOTE 9 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]	2015	2014	5 years	10 years
Estimated return [b]	12.5%	16.0%	11.7%	8.0%
Estimated policy benchmark return[b]	14.7%	16.0%	11.2%	7.9%
Value added by investment manager[c]	-2.2%	0.0%	0.5%	0.1%

(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 10 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, 2015

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Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Scholarship Fund, which comprise the statement of financial position as at March 31, 2015, and the statements of operations and accumulated surplus, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Scholarship Fund as at March 31, 2015, 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 5, 2015

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2015

	($ thousands)	
	2015	**2014**
Financial assets		
Investments (Note 3)	$ 1,206,074	$ 907,059
	$ 1,206,074	$ 907,059
Liabilities		
Accounts payable	$ 212	$ -
Net financial assets (Note 5)		
Accumulated surplus from operations	1,062,823	798,061
Accumulated remeasurement gains	143,039	108,998
	1,205,862	907,059
	$ 1,206,074	$ 907,059

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2015

	($ thousands)		
	2015		2014
	Budget	Actual	Actual
Investment income (Note 6)	$ 76,393	$ 110,158	$ 104,797
Investment expenses (Note 7)	(7,893)	(7,911)	(7,009)
Net income from operations	68,500	102,247	97,788
Transfers from Alberta Heritage Savings Trust Fund	200,000	200,000	-
Transfers from Alberta Government departments	800	-	122
Other contributions	90	96	192
Transfers for Scholarships to the Ministries of:			
Innovation and Advanced Education	(37,649)	(37,521)	(37,361)
Culture and Community Spirit	(80)	(60)	(55)
	(37,729)	(37,581)	(37,416)
Net operating surplus	$ 231,661	264,762	60,686
Accumulated operating surplus, beginning of year		798,061	737,375
Accumulated operating surplus, end of year		$ 1,062,823	$ 798,061

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2015

	($ thousands)	
	2015	2014
Accumulated remeasurement gains, beginning of year	$ 108,998	$ 82,356
Unrealized gain on investments	48,978	38,828
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(14,937)	(12,186)
Accumulated remeasurement gains, end of year	$ 143,039	$ 108,998

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2015

	($ thousands)	
	2015	**2014**
Operating transactions		
Net income from operations	$ 102,247	$ 97,788
Non-cash items included in net income	(14,937)	(12,186)
	87,310	85,602
Increase (decrease) in accounts payable	212	(192)
Cash provided by operating transactions	87,522	85,410
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	186,979	125,934
Purchase of investments	(431,860)	(173,400)
Cash applied to investing transactions	(244,881)	(47,466)
Transfers		
Transfers from Alberta Heritage Savings Trust Fund	200,000	-
Transfers from Alberta Government departments	-	122
Other contributions	96	192
Transfers for Scholarships	(37,581)	(37,416)
Cash provided (applied) to transfers	162,515	(37,102)
Increase in cash	5,156	842
Cash at beginning of year	5,214	4,372
Cash at end of year	$ 10,370	$ 5,214
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 10,370	$ 5,214

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

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2015
(All dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, 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 pool units. The Fund reports its share of the financial risks in Note 4.

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

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

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

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

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

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

b) INVESTMENT INCOME

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

ii) Realized gains and losses on disposal of pool 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 pool units are determined on an average cost basis.

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

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts incurred by the Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

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

d) REMEASUREMENT GAINS AND LOSSES

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

e) MEASUREMENT UNCERTAINTY

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

NOTE 3 INVESTMENTS (in thousands)

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

	Fair Value Hierarchy [a]				
Asset class	Level 1	Level 2	Level 3	**2015**	**2014**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 10,370	$ -	$ 10,370	$ 5,214
Bonds, mortgages and private debt	-	195,360	59,096	254,456	183,526
	-	205,730	59,096	264,826	188,740
Equities					
Canadian	72,726	25,235	-	97,961	73,778
Global developed	279,070	42,095	127,679	448,844	324,781
Emerging markets	51,268	2,296	-	53,564	36,018
Private	-	-	70,641	70,641	59,319
	403,064	69,626	198,320	671,010	493,896
Inflation sensitive					
Real estate	-	-	176,519	176,519	140,357
Infrastructure	-	-	73,717	73,717	70,155
Timberland	-	-	4,323	4,323	4,016
	-	-	254,559	254,559	214,528
Strategic opportunities and tactical allocation*	-	8,055	7,624	15,679	9,895
Total Fair Value of Investments	$ 403,064	$ 283,411	$ 519,599	$1,206,074	$ 907,059

* This asset class is not listed in the SIP&G as it relates to investments made on an opportunistic basis (see Note 4).

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 $403,064 (2014: $269,454).
- ***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 $283,411 (2014: $226,137). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $519,599 (2014: $411,468).

Reconciliation of Level 3 Fair Value Measurements

	2015	2014
Balance, beginning of year	$ 411,468	$ 350,983
Unrealized gains	34,138	27,227
Purchases of Level 3 pooled fund units	124,627	73,524
Sale of Level 3 pooled fund units	(50,634)	(40,266)
Balance, end of year	$ 519,599	$ 411,468

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

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

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Private debt and loans is valued similar to private mortgages. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Equities:*** 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

NOTE 3 INVESTMENTS (in thousands) CONTINUED

by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.

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

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands)

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

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

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

Asset Class	Target Asset Policy	Actual Asset Mix 2015		Actual Asset Mix 2014	
Interest-bearing securities	15 - 45%	$ 264,826	22.0%	$ 188,740	20.8%
Equities	35 - 70%	671,010	55.6%	493,896	54.4%
Inflation sensitive	15 - 40%	254,559	21.1%	214,528	23.7%
Strategic opportunities and tactical allocation	(a)	15,679	1.3%	9,895	1.1%
		$ 1,206,074	100.0%	$ 907,059	100.0%

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Fund's investments in strategic opportunities that are outside of the asset classes listed above.

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, 2015:

Credit rating	2015	2014
Investment Grade (AAA to BBB-)	83.6%	81.5%
Speculative Grade (BB+ or lower)	0.5%	0.3%
Unrated	15.9%	18.2%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

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

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2015, the Fund's share of securities loaned under this program is $26 million (2014: $18 million) and collateral held totals $28 million (2014: $19 million). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 45% of the Fund's investments, or $540 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (24%) and the euro (5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 4.5% of total investments (2014: 4.5%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2015:

	($ millions)			
	2015		**2014**	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 287	$ (29)	$ 220	$ (22)
Euro	58	(6)	46	(5)
British pound sterling	37	(4)	31	(3)
Japanese yen	34	(3)	24	(2)
Hong Kong dollar	19	(2)	12	(1)
Swiss franc	15	(1)	13	(1)
Australian dollar	14	(1)	10	(1)
Other foreign currency	76	(8)	54	(6)
Total foreign currency investments	$ 540	$ (54)	$ 410	$ (41)

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 1.4% of total investments (2014: 1.0%).

d) Price risk

Price risk relates to the possibility that pool 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 (2014: 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 pool 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	**2015**	**2014**
Contracts in favourable position (current credit exposure)	23	$ 3,770	$ 5,244
Contracts in unfavourable position	19	(9,870)	(3,615)
Net fair value of derivative contracts	42	$ (6,100)	$ 1,629

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 $3,770 (2014: $5,244) 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	**2015**	**2014**
Structured equity replication derivatives	$ 469	$ 4,367
Foreign currency derivatives	(5,249)	(2,949)
Interest rate derivatives	(1,849)	380
Credit risk derivatives	529	(169)
Net fair value of derivative contracts	$ (6,100)	$ 1,629

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

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

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

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

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

v) Deposits: At March 31, 2015 deposits in futures contracts margin accounts totalled $4,152 (2014: $4,839) and deposits as collateral for derivative contracts totalled $4,853 (2014: $949).

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	
	2015	**2014**
Accumulated net income from operations	$ 881,929	$ 779,682
Transfers from the Alberta Heritage Savings Trust Fund:		
Endowment [(a)]	100,000	100,000
Savings Management Act [(b)]	200,000	-
Transfers from the General Revenue Fund [(c)]	497,000	497,000
Other contributions	20,890	20,794
Accumulated scholarship payments [(a)]	(636,996)	(599,415)
Accumulated surplus from operations	1,062,823	798,061
Accumulated net remeasurement gains	143,039	108,998
Carrying value of net financial assets	$ 1,205,862	$ 907,059

(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 scholarships, 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 7 of the *Savings Management Act*, the Fund received $200 million from the Alberta Heritage Savings Trust Fund to be used for trades scholarships. The *Savings Management Act* was repealed on December 17, 2014.

(c) 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:

	2015	2014
Interest-bearing securities	$ 8,851	$ 8,164
Equities		
Canadian	7,048	7,499
Global	77,948	78,454
Private	4,290	892
	89,286	86,845
Inflation sensitive		
Real estate	9,603	9,055
Infrastructure	2,521	53
Timberland	(57)	276
Private debt and loan	-	262
	12,067	9,646
Strategic opportunities and tactical allocation	(46)	142
	$ 110,158	$ 104,797

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

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2015	2014
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 5,917	$ 5,286
Performance based fees [(a)]	1,945	1,674
	7,862	6,960
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Fund reporting	49	49
Total investment expenses	$ 7,911	$ 7,009
Increase in expenses	12.9%	7.1%
Increase in average investments under management	22.4%	8.5%
Investment expense as a percent of:		
Dollar earned	7.2%	6.7%
Dollar invested	0.8%	0.8%

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

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]	2015	2014	5 years	10 years
Estimated return [b]	13.1%	15.5%	11.7%	8.1%
Estimated policy benchmark return [b]	15.1%	16.1%	11.5%	8.1%
Value (lost) added by investment manager[c]	-2.0%	-0.6%	0.2%	0.0%

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

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

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

NOTE 9 FINANCIAL STATEMENTS

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

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Financial Statements

March 31, 2015

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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, 2015, 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, 2015, 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 5, 2015

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2015

	($ thousands)	
	2015	**2014**
Financial assets		
Investments (Note 3)	$ 991,527	$ 912,173
Liabilities		
Accounts payable	$ 3	$ -
Net financial assets (Note 5)		
Accumulated surplus from operations	844,328	795,981
Accumulated remeasurement gains	147,196	116,192
	991,524	912,173
	$ 991,527	$ 912,173

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2015

	($ thousands)		
	2015		2014
	Budget	Actual	Actual
Investment income (Note 6)	$ 73,046	$ 90,736	$ 106,519
Investment expense (Note 7)	(7,056)	(7,389)	(7,778)
Net income from operations	65,990	83,347	98,741
Transfers to the Ministry of Innovation and Advanced Education (Note 5b)	(35,000)	(35,000)	(42,500)
Net operating surplus	$ 30,990	48,347	56,241
Accumulated operating surplus at beginning of year		795,981	739,740
Accumulated operating surplus at end of year		$ 844,328	$ 795,981

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2015

	($ thousands)	
	2015	2014
Accumulated remeasurement gains, beginning of year	$ 116,192	$ 86,570
Unrealized gain on investments	42,486	42,713
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(11,482)	(13,091)
Accumulated remeasurement gains, end of year	$ 147,196	$ 116,192

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2015

	($ thousands)	
	2015	**2014**
Operating transactions		
Net income from operations	$ 83,347	$ 98,741
Non-cash items included in net income	(11,482)	(13,091)
	71,865	85,650
Increase (decrease) in accounts payable	3	(72)
Cash provided by operating transactions	71,868	85,578
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	137,297	140,414
Purchase of investments	(170,623)	(183,839)
Cash applied to investing transactions	(33,326)	(43,425)
Transfers		
Transfers to the Ministry of Innovation and Advanced Education	(35,000)	(42,500)
Cash applied to transfers	(35,000)	(42,500)
Increase (decrease) in cash	3,542	(347)
Cash at beginning of year	4,667	5,014
Cash at end of year	$ 8,209	$ 4,667
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 8,209	$ 4,667

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

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2015
(in thousands)

NOTE 1 AUTHORITY AND PURPOSE

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

The purpose of the Fund is to support a balanced long-term program of research and innovation directed to the discovery of new knowledge and the application of that knowledge to the commercialization of technology. The Fund has been managed with the objectives of providing an annual level of income for transfer to the Ministry of Innovation and Advanced Education. The portfolio is comprised of interest-bearing securities, equities, inflation sensitive and alternative investments.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, 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 pool units. The Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly 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 pool units are recorded in the Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based

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

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

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

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

b) INVESTMENT INCOME

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

ii) Realized gains and losses on disposal of pool 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 pool units are determined on an average cost basis.

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

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts incurred by the Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

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

d) REMEASUREMENT GAINS AND LOSSES

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

e) MEASUREMENT UNCERTAINTY

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

NOTE 3 INVESTMENTS (in thousands)

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

	Fair Value Hierarchy [a]				
Asset class	Level 1	Level 2	Level 3	**2015**	**2014**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 8,209	$ -	$ 8,209	$ 4,667
Bonds, mortgages and private debt		117,612	65,655	183,267	175,677
	-	125,821	65,655	191,476	180,344
Equities					
Canadian	59,526	20,928	-	80,454	74,282
Global developed	207,386	31,161	104,372	342,919	327,118
Emerging markets	39,857	1,785	-	41,642	36,285
Private	-	-	61,890	61,890	50,540
	306,769	53,874	166,262	526,905	488,225
Inflation sensitive					
Real estate	-	-	166,486	166,486	145,798
Infrastructure	-	-	74,150	74,150	70,670
Timberland	-	-	18,540	18,540	17,226
	-	-	259,176	259,176	233,694
Strategic opportunities and tactical allocations *	-	6,432	7,538	13,970	9,910
Total Fair Value of Investments	$ 306,769	$ 186,127	$ 498,631	$ 991,527	$ 912,173

* This asset class is not listed in the SIP&G as it relates to investments made on an opportunistic basis (see Note 4).

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 $306,769 (2014: $267,437).
- ***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 $186,127 (2014: $206,717). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $498,631 (2014: $438,019).

Reconciliation of Level 3 Investments

	2015	2014
Balance, beginning of year	$ 438,019	$ 377,908
Unrealized gains	32,244	30,867
Purchases of Level 3 pooled fund units	77,304	77,110
Sale of Level 3 pooled fund units	(48,936)	(47,866)
Balance, end of year	**$ 498,631**	**$ 438,019**

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

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

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***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

NOTE 3 INVESTMENTS (in thousands) CONTINUED

including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.

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

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands)

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

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

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

Asset Class	Target Asset Policy	Actual Asset Mix 2015		Actual Asset Mix 2014	
Interest-bearing securities	15 - 45%	$ 191,476	19.3%	$ 180,344	19.8%
Equities	35 - 70%	526,905	53.2%	488,225	53.5%
Inflation sensitive	15 - 40%	259,176	26.1%	233,694	25.6%
Strategic opportunities and tactical allocations	(a)	13,970	1.4%	9,910	1.1%
		$ 991,527	100.0%	$ 912,173	100.0%

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Fund's investments in strategic opportunities that are outside of the asset classes listed above.

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, 2015:

Credit rating	2015	2014
Investment Grade (AAA to BBB-)	74.7%	76.4%
Speculative Grade (BB+ or lower)	0.5%	0.3%
Unrated	24.8%	23.3%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

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

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2015, the Fund's share of securities loaned under this program is $19,688 (March 31, 2014: $17,689) and collateral held totals $20,654 (March 31, 2014: $18,580). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 43% of the Fund's investments, or $420 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (23%) and the euro (5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 4.3% of total investments (2014: 4.4%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2015:

	($ millions)			
	2015		**2014**	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 224	$ (22)	$ 217	$ (22)
Euro	45	(5)	45	(5)
British pound sterling	28	(3)	31	(3)
Japanese yen	26	(3)	24	(2)
Hong Kong dollar	15	(1)	12	(1)
Swiss franc	12	(1)	12	(1)
Australian dollar	11	(1)	11	(1)
Other foreign currency	59	(6)	53	(5)
Total foreign currency investments	$ 420	$ (42)	$ 405	$ (40)

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 (2014: 0.9%).

d) Price risk

Price risk relates to the possibility that pool 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 (2014: 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 future liabilities include transfers to the Ministry of Innovation and Advanced Education and payables for related to purchase of pool 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	2015	2014
Contracts in favourable position (current credit exposure)	24	$ 3,088	$ 5,144
Contracts in unfavourable position	18	(8,256)	(4,213)
Net fair value of derivative contracts	42	$ (5,168)	$ 931

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 $3,088 (2014: $5,144) 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 (in thousands) CONTINUED

	Fund's Indirect Share	
Types of derivatives	2015	2014
Structured equity replication derivatives	$ 485	$ 4,483
Foreign currency derivatives	(4,868)	(3,694)
Interest rate derivatives	(1,110)	299
Credit risk derivatives	325	(157)
Net fair value of derivative contracts	$ (5,168)	$ 931

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

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

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

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

v) Deposits: At March 31, 2015 deposits in futures contracts margin accounts totalled $3,154 (2014: $4,775) and deposits as collateral for derivative contracts totalled $3,858 (2014: $911).

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	
	2015	2014
Accumulated net income from operations	$ 485,884	$ 402,537
Transfers from the General Revenue Fund [(a)]	721,430	721,430
Accumulated transfers for research and innovation [(b)]	(362,986)	(327,986)
Accumulated surplus from operations	844,328	795,981
Accumulated net remeasurement gains	147,196	116,192
Carrying value of net financial assets	$ 991,524	$ 912,173

(a) The total accumulated contributions from the GRF include an initial amount of $500 million deposited during the 2000-2001 fiscal year and $21.43 million during the 2003-2004 fiscal year. Additionally, pursuant to Section 8 of the *Access to the Future Act*, $100 million was transferred from the GRF during the 2005-2006 fiscal year and $100 million was transferred from the GRF during the 2006-2007 fiscal year. Under the *Access to the Future Act*, the Fund shall be increased by $500 million in amounts considered appropriate by the Minister of Finance.

(b) In accordance with section 12 of the *Alberta Research and Innovation Act* (the Act), the Minister of Finance must, at the request of the Minister of Innovation and Advanced Education (IAE), pay from the Endowment Fund to IAE, money that, in the opinion of the Alberta Research and Innovation Authority is required by IAE for the furtherance of its objectives. Section 12 of the Act limits annual payments from the Fund to IAE. Payments to IAE may not exceed, in a fiscal year, 4.5% of the average of the market values determined on March 31 of the preceding three fiscal years, and any unused portion of the amount permitted to be paid in that fiscal year may be paid in any subsequent fiscal year.

	2015
Spending limit for year ended March 31, 2015	$ 39,125
Transfers to IAE during 2014-15	(35,000)
Accumulated unused spending limit at March 31, 2015	4,125
4.5% of average market value on March 31, 2013-15	40,950
Spending limit for year ended March 31, 2016	$ 45,075

NOTE 6 INVESTMENT INCOME (in thousands)

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

	2015	2014
Interest-bearing securities	$ 5,426	$ 7,254
Equities		
Canadian	6,501	7,638
Global	61,669	77,042
Private	4,823	3,704
	72,993	88,384
Inflation sensitive		
Real estate	9,955	9,679
Infrastructure	2,731	(920)
Timberland	(244)	1,185
Private debt and loan	-	787
	12,442	10,731
Strategic opportunities and tactical allocations	(125)	150
	$ 90,736	$ 106,519

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

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2015	2014
Amounts charged by AIMCo for:		
Investment Costs[(a)]	$ 5,570	$ 5,543
Performance based fees[(a)]	1,770	2,186
	7,340	7,729
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Fund reporting	49	49
Total investment expenses	7,389	7,778
(Decrease) increase in expenses	-5.0%	9.4%
Increase in average investments under management	9.5%	8.2%
Investment expenses as a percent of:		
Dollar earned	8.1%	7.3%
Dollar invested	0.8%	0.9%

NOTE 7 INVESTMENT EXPENSES (in thousands) CONTINUED

(a) Please refer to AIMCo's financial statements for a detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

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**	
	2015	**2014**	**5 years**	**10 years**
Estimated return [b]	12.9%	16.0%	11.7%	7.6%
Estimated policy benchmark return [b]	14.9%	16.1%	11.2%	7.7%
Value added (lost) by investment manager[c]	-2.0%	-0.1%	0.5%	-0.1%

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

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

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

NOTE 9 FINANCIAL STATEMENTS

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

ALBERTA LOTTERY FUND

Financial Statements

Year Ended March 31, 2015

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, 2015, 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, 2015, and the results of its operations for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

May 27, 2015

Edmonton, Alberta

Balance Sheet

At March 31

(thousands of dollars)	2015	2014
ASSETS		
Cash and cash equivalents (Note 3)	$ 30,268	$ 3,093
Due from Alberta Gaming and Liquor Commission (Note 5)	108,085	84,547
	$ 138,353	$ 87,640
LIABILITIES AND FUND EQUITY		
Accounts payable (Note 6)	$ 85,578	$ 34,865
Fund equity	52,775	52,775
	$ 138,353	$ 87,640

The accompanying notes are part of these financial statements.

Approved by:

BOARD

[original signed by]

Thorna Lawrence, CA
Chair of the Audit Committee
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 2015 (Note 8)	Actual 2015	Actual 2014
REVENUE			
Proceeds from lottery operations (Note 7)	$ 1,482,550	$ 1,528,341	$ 1,484,457
Interest	3,000	4,064	4,442
	1,485,550	1,532,405	1,488,899
EXPENDITURE			
Lottery Fund expenditures (Note 1)	1,485,550	1,532,405	1,488,899
Excess of revenue over expenditure for the year	-	-	-
Fund equity, beginning of year	52,775	52,775	52,775
Fund equity, end of year	$ 52,775	$ 52,775	$ 52,775

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2014

NOTE 1 AUTHORITY AND PURPOSE

The Lottery Fund is administered by the Alberta Gaming and Liquor Commission under the *Gaming and Liquor Act*, Chapter G-1, Revised Statutes of Alberta 2000. The Lottery Fund receives the proceeds from lottery operations (see Note 7) and makes transfers therefrom in the public interest in order to support thousands of volunteer, public and community-based initiatives.

The *Appropriation Act, 2014* authorized transfers from the Lottery Fund as presented in the 2014-2015 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, 2015.

The transfer of funds to certain programs is based on electronic gaming proceeds generated at related gaming facilities, in accordance with government policy direction. For these programs, the amount transferred may differ from the budgeted amount.

The accountability and utilization of Lottery Fund amounts transferred to entities within the Government of Alberta may be determined and confirmed by referencing the respective entity's financial statements.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

Cash Flows

A statement of cash flows is not provided as disclosure in these financial statements is considered to be adequate.

Valuation of Financial Assets and Liabilities

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

The fair values of accounts receivable and accounts payable are estimated to approximate their carrying values, because of the short term nature of these instruments.

Financial Instruments

As the Lottery Fund 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 re-measurement gains and losses and therefore a statement of re-measurement gains and losses has not been presented.

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, 2015, securities held by the Fund had a time-weighted return of 1.18**%** per annum (March 31, 2014: 1.17% per annum). Due to the short-term nature of CCITF investments, the carrying value approximates fair value.

NOTE 4 RELATED PARTY TRANSACTIONS

Related parties are those consolidated, or accounted for, on the modified equity basis in the Province of Alberta's financial statements.

All the transactions, except for interest revenue, of the Lottery Fund are considered related party transactions.

NOTE 5 DUE FROM THE ALBERTA GAMING AND LIQUOR COMMISSION

This amount represents the portion of net operating results from provincial lotteries, which has not been transferred by the Alberta Gaming and Liquor Commission (AGLC) to the Alberta Lottery Fund at year end.

(thousands of dollars)	2015	2014
Due from AGLC, beginning of year	$ 84,547	$ 93,585
Proceeds from provincial lotteries	1,528,341	1,484,457
Transfers from AGLC	(1,504,803)	(1,493,495)
Due from AGLC, end of year	$ 108,085	$ 84,547

NOTE 6 ACCOUNTS PAYABLE

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

NOTE 7 PROCEEDS FROM PROVINCIAL LOTTERIES

Proceeds from provincial lotteries received by the Alberta Gaming and Liquor Commission are recorded as revenue of the Lottery Fund after the deduction of related operating expenses.

(thousands of dollars)	2015	2014
Income from casino gaming terminals	$ 867,137	$ 857,510
Income from video lottery terminals	555,604	514,610
Income from ticket lottery	326,406	338,310
Income from electronic bingo	7,425	7,752
Less operating expenses, including gain on disposal of property, plant and equipment	(228,231)	(233,725)
Proceeds from provincial lotteries	$ 1,528,341	$ 1,484,457

NOTE 8 BUDGET

The 2015 budgeted expenditures were authorized in total by the *Appropriation Act, 2014* on April 24, 2014.

ALBERTA RISK MANAGEMENT FUND

Financial Statements

Year Ended March 31, 2015

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, 2015, 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, 2015, and the results of its operations, remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 5, 2015

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2015

	($ thousands)	
	2015	**2014**
Assets		
Cash (Note 3)	$ 10,638	$ 6,171
Investments (Note 3)	43,152	46,494
Receivable from Province of Alberta	16	13
Accrued recoveries (Note 5)	78	356
Computer software	-	50
	53,884	53,084
Liabilities		
Accounts payable (Note 6)	724	1,461
Liability for accrued claims (Note 7)	63,822	40,044
	64,546	41,505
Net assets		
Accumulated (deficit) surplus from operations	(10,489)	12,321
Accumulated remeasurement losses	(173)	(742)
	(10,662)	11,579
	$ 53,884	$ 53,084

The accompanying notes are part of these financial statements.

Statement of Operations

Year Ended March 31, 2015

	($ thousands)		
	2015		2014
	Budget	Actual	Actual
Revenues			
Insurance services			
Province of Alberta departments, funds and agencies	$ 16,250	$ 17,215	$ 16,603
Other entities	1,025	503	645
Subrogation and salvage	300	229	195
Recoveries	-	-	3,093
Investment income	1,474	1,275	1,983
	19,049	19,222	22,519
Expenses			
Insurance claims (Note 8)	14,750	35,918	20,782
Insurance premiums to insurers	3,980	3,604	3,707
Administration	1,659	1,658	1,584
Investment expenses	-	29	40
Other services	840	773	860
Amortization of computer software	50	50	50
	21,279	42,032	27,023
Net revenue (expense)	$ (2,230)	(22,810)	(4,504)
Accumulated surplus at beginning of year		12,321	16,825
Accumulated (deficit) surplus at end of year		$ (10,489)	$ 12,321

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2015

	($ thousands)	
	2015	2014
Accumulated remeasurement gains (losses), beginning of year	$ (742)	$ 4
Realized loss on investments	79	-
Unrealized gains (losses) on investments	490	(746)
Accumulated remeasurement losses, end of year	$ (173)	$ (742)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2015

	($ thousands)	
	2015	**2014**
Operating transactions		
Net revenue	$ (22,810)	$ (4,504)
Amortization of tangible capital assets	50	51
Realized losses on disposal of investments	79	-
Decrease in accrued recoveries	277	132
Decrease (increase) in receivables	(3)	183
(Decrease) increase in payables	(737)	207
Increase in liabilities for accrued claims	23,778	3,017
Cash provided by (applied to) operating transactions	634	(914)
Investing transactions		
Purchase of investments	(1,167)	(1,782)
Proceeds from disposals, repayments and	5,000	-
redemptions of investments	-	-
Cash provided by (applied to) investing transactions	3,833	(1,782)
Increase (decrease) in cash	4,467	(2,696)
Cash and cash equivalents, beginning of year	6,171	8,867
Cash and cash equivalents, end of year	$ 10,638	$ 6,171
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 10,638	$ 6,171

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2015

(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 $63.8 million (2014: $40.0 million) in these financial statements, is subject to measurement uncertainty. This is because the ultimate disposition of claims incurred prior to the financial statement date is subject to the outcome of events that have not yet occurred, and any estimate of future costs has inherent limitations due to management's limited ability to predict precisely the aggregate course of future events. Based on an actuarial sensitivity analysis, an estimate of claim liabilities at the high end of a reasonable range is $81.8 million as at March 31, 2015 or $18 million higher than the recognized amount. It is possible that actual claims could be even higher than this other probable amount (see Note 7b).

While best estimates have been used in reporting the Fund's liability for accrued claims, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements. Differences between actual results and expectations are adjusted in the period when the actual loss values are known.

c) The fair values of cash, accounts receivable from Province of Alberta, accrued recoveries, accounts payable and liability for accrued claims are estimated to approximate their book values.

d) Computer software is recorded at cost. The threshold for capitalizing software is $100 where there is a useful life in excess of one year. Amortization is calculated on a straight line of 4 years.

e) All revenues are reported using the accrual method of accounting.

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

g) Investment expenses include all amounts charged by the Fund's investment manager, AIMCo. Investment expenses are recognized on an accrual basis. Transaction costs are expensed as they are incurred.

h) Accumulated remeasurement gains are unrealized and represent the difference between the fair value and the cost of investments. Changes in accumulated remeasurement gains are recognized in the statement of remeasurement gains. When investments are disposed of (derecognized), any accumulated unrealized loss associated with the investment becomes realized and is included in the net income on the statement of operations.

NOTE 3 CASH AND INVESTMENTS

	($ thousands)	
	2015	**2014**
Cash		
Deposits in the Consolidated Cash Investment Trust Fund [(a)]	$ 10,638	$ 6,171
Investments		
Deposits in the Consolidated Cash Investment Trust Fund [(a)]	$ 5	$ 4
General Revenue Short-Term Bond Fund	43,147	46,490
Total investments [(b) (c)]	$ 43,152	$ 46,494

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, 2015, securities held by the CCITF have a time-weighted return of 1.2% (2014: 1.2%).

b) Statement of Investment Policies and Goals (SIP&G): The SIP&G establishes the framework set by the President of Treasury Board and Minister of Finance for the investments of the Fund, including the responsibilities of the Fund's investment manager, Alberta Investment Management Corporation (AIMCo). According to the SIP&G, amounts invested in the Fund that are not expected to be shortly reallocated

NOTE 3 CASH AND INVESTMENTS CONTINUED

from the Fund are to be invested in the actively managed short-term bonds. The fair value of pool 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, 2015:

Credit rating	2015	2014
Investment Grade (AAA to BBB-)	100.0%	100.0%
Speculative Grade (BB+ or lower)	0.0%	0.0%
Unrated	0.0%	0.0%
	100.0%	100.0%

b) SECURITY LENDING RISK

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2015, the Fund's share of securities loaned under this program is $5.5 million (March 31, 2014: $5.3 million) and collateral held totals $5.8 million (March 31, 2014: $5.6 million). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of the investments loaned.

c) INTEREST RATE RISK

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the GRST pool. Interest rate risk relates to the possibility that the fair value of bonds will change in fair value due to future fluctuations in market interest rates. In general, investment returns from bonds are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and if, all other variables were held constant, the potential loss in fair value to the Fund would be approximately 2.7% of total investments (2014: 2.7%).

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)	
	2015	**2014**
Payable to Department of Treasury Board and Finance	$ 68	$ 80
Other	656	1,381
	$ 724	$ 1,461

NOTE 7 LIABILITY FOR ACCRUED CLAIMS

The total liability for accrued claims of $63,822 (2014: $40,044) 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.

There were two changes made to the estimate to calculate the liability for accrued claims. First, effective April 1, 2014, the Fund assumed responsibility for payment of claims that occurred before the inception of the Fund in 1986. These claims have been included in the estimate as of March 31, 2015. Second, both allocated and unallocated loss adjustment expenses have been included in the estimate at March 31, 2015, while in prior years only allocated loss adjustment expenses were included.

An actuarial review of the Fund's total liability for accrued claims at March 31, 2015 was carried out by J. S. Cheng & Partners taking into account the historical claims through March 31, 2015.

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:

	2015	2014
Trend rate		
General liability	2.0%	5.0%
Automobile liability	2.0%	2.0%
Property	2.0%	0.0%
Auto physical damage	3.0%	3.0%
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)*	$ 1.18	$ 1.15
Automobile liability: *Loss per vehicle*	$ 107	$ 105
Property: *Loss per $million property values*	$ 560	$ 400
Auto physical damage: *Loss per vehicle*	$ 230	$ 200
Crime: *Loss per class A and B employee*	$ 8	$ 30

The following is a summary of the impact of various sensitivity tests on the Fund's net liability at March 31, 2015:

Sensitivity Tests	Increase in Net Liabilities ($ million)
Increase the confidence level of the liability for accrued claims estimate to 90% from 50%.	$ 9.6
Increase the loss development factor assumption by changing the tail factor (time period to final claim settlement) to between 1.01 and 1.10 depending on coverage type, and increasing the trend factor assumption to between 8% and 11%, depending on coverage type.	$ 18.0
Statistical analysis of general liability loss development factors instead of judgmentally selecting loss development factors.	$ 9.4

NOTE 8 INSURANCE CLAIMS

	($ thousands) 2015	2014
Total claims payments during the year	$ 12,140	$ 17,765
Change in claims reserves	23,778	3,017
	$ 35,918	$ 20,782

NOTE 9 CONTRACTUAL OBLIGATIONS

The aggregate amounts payable for the unexpired terms of contractual obligations in respect of contracts entered into before March 31, 2015 are as follows:

	($ thousands)
2015-16	363
2016-17	208
2017-18	95
2018-19	69
	$ 735

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 $17,215 (2014: $16,603) and an accounts payable to the Department of Treasury Board and Finance of $68 (2014: $80).

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, 2015

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, 2015, 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, 2015, 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 5, 2015

Edmonton, Alberta

Statement of Financial Position

As at March 31

	($ thousands) 2015	2014
Assets		
Investments (Note 3)	$ 154,499	$ 133,699
	154,499	133,699
Liabilities		
Amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Note 8)	154,499	133,699
Net Assets	$ -	$ -

Statement of Changes in Net Assets

Year Ended March 31

	($ thousands) 2015	2014
Increase in assets		
Employer contributions	$ 6,716	$ 7,568
Investment income (Note 5)	18,051	16,879
	24,767	24,447
Decrease in assets		
Investment expenses (Note 7)	667	475
Transfers to Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	3,300	2,600
	3,967	3,075
Increase in amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	(20,800)	(21,372)
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, 2015

(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 Reserve Fund 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 Reserve Fund to meet future benefit payments and are prepared to assist the Unregistered Plan members and others in reviewing the activities of the Reserve Fund for the year.

b) VALUATION OF ASSETS AND LIABILITIES

Investments are recorded at fair value. As disclosed in Note 3, the Reserve Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, 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 Reserve Fund does not report the financial instruments of the pools on its statement of financial position.

The Reserve 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 pool units. The Reserve Fund reports its share of the financial risks in Note 4.

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

Investments in pool units are recorded in the Reserve 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

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets and in Note 5 and includes the following items recorded in the Reserve Fund's accounts:

i. Income distributions from the pools.

ii. Changes in fair value of pool units including realized gains and losses on disposal of pool units and unrealized gains and losses on pool units determined on an average cost basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Reserve Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) LIABILITIES

Accrued liabilities of the Reserve Fund are funded by investment income and contributions from the Province of Alberta.

As at March 31, 2015, current service contributions rates are 31.10% of the pensionable earnings of Provincial Judges and Masters in Chambers that were in excess of the *maximum pensionable salary limit.* The rate was determined by the Unregistered Plan's actuary and approved by the President of Treasury Board and Minister of Finance.

The current service costs funded by the Province to the Reserve Fund are contributed at a rate of 31.10% of excess pensionable salary. In addition, annual payments by the Province to the Reserve Fund of $1,784 (in 2014 annual payment was retroactively adjusted to $1,784) were made towards the unfunded liability of the Unregistered Plan.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

These amounts represent assets held by the Reserve Fund, which are available to meet future benefit payments of the Unregistered Plan over the long term.

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Reserve Fund's private investments, hedge funds and private real estate investments. Uncertainty arises because the estimated fair values of the Reserve 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 Reserve 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 Reserve Fund's investments are managed at the asset class level for purposes of evaluating the Reserve Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Reserve 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 Reserve Fund's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

($ thousands)

Asset class	Fair Value Hierarchy [a] Level 1	Level 2	Level 3	2015	2014
Interest-bearing securities					
Deposits and short-term securities	$ -	$ 1,902	$ -	$ 1,902	$ 16,799
Bonds and mortgages	-	62,043	5,335	67,378	42,027
	-	63,945	5,335	69,280	58,826
Public equity					
Canadian	16,230	5,539	-	21,769	21,950
Global developed	30,519	4,200	13,089	47,808	46,950
	46,749	9,739	13,089	69,577	68,900
Alternatives					
Real estate	-	-	12,841	12,841	3,863
Infrastructure	-	-	2,080	2,080	1,820
	-	-	14,921	14,921	5,683
Strategic opportunities*	-	-	721	721	290
Total investments	$ 46,749	$ 73,684	$ 34,066	$ 154,499	$ 133,699

* This asset class is not listed in the SIP&G as it relates to investments made on an opportunistic basis (see Note 4).

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 $46,749 (2014: $44,682).
- ***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 $73,684 (2014: $72,202). 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 $34,066 (2014: $16,815).

Reconciliation of Level 3 Fair Value Measurement

($ thousands)

	2015	2014
Balance, beginning of year	$ 16,815	$ 10,539
Investment income	3,071	1,443
Purchases of Level 3 pooled fund units	17,771	6,458
Sale of Level 3 pooled fund units	(3,591)	(1,625)
Balance, end of year	$ 34,066	$ 16,815

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. Private debt and loans is valued similar to private mortgages.
- ***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. The fair value of infrastructure investments is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for infrastructure investments 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.
- ***Strategic opportunities:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures.
- ***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 Reserve 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 Reserve Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Reserve 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 Reserve 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 Reserve 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 Reserve 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 2015 ($ thousands)	2015 %	2014 ($ thousands)	2014 %
Interest-bearing securities	30 - 50%	$ 69,280	44.8	$ 58,826	44.0
Public equities	30 - 50%	69,577	45.0	68,900	51.5
Alternatives	15 - 30%	14,921	9.7	5,683	4.3
Strategic opportunities	(a)	721	0.5	290	0.2
		$ 154,499	100.0	$ 133,699	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 5% of the fair value of the Reserve Fund's investments in strategic opportunities that are outside of the asset classes listed above.

a) Credit Risk

i) Debt securities

The Reserve 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 Reserve Fund's investment in debt securities by counterparty credit rating at March 31, 2015:

Credit rating	2015	2014
Investment Grade (AAA to BBB-)	93.6%	95.1%
Speculative Grade (BB+ or lower)	0.7%	0.4%
Unrated	5.7%	4.5%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

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

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2015, The Reserve Fund's share of securities loaned under this program is $3.5 million (2014: $3.8 million) and collateral held totals $3.7 million (2014: $4.0 million). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Reserve 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 29% of the Reserve Fund's investments, or $45 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (15%) 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 Reserve Fund would be approximately 2.9% (2014: 3.4%).

The following table summarizes the Reserve Fund's exposure to foreign currency investments held in the pools at March 31, 2015:

($ millions)

	2015		2014	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 24	$ (2.4)	$ 26	$ (2.6)
Euro	5	(0.5)	6	(0.6)
Japanese yen	3	(0.3)	3	(0.3)
British pound	3	(0.3)	4	(0.4)
Hong Kong dollar	2	(0.2)	-	-
Other foreign currencies	8	(0.8)	6	(0.6)
Total foreign currency investments	$ 45	$ (4.5)	$ 45	$ (4.5)

c) Interest Rate Risk

The Reserve 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 Reserve Fund would be approximately 3.1% (2014: 1.9%) of total investments.

d) Price Risk

Price risk relates to the possibility that pool 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 Reserve 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 Reserve Fund would be approximately 4.8% (2014: 5.1%). 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 Reserve Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Reserve 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 Reserve 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 pool units.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Reserve 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	**2015**	**2014**
Contracts in favourable position (current credit exposure)	22	$ 336	$ 747
Contracts in unfavourable position	17	(1,036)	(390)
Net fair value of derivative contracts	39	$ (700)	$ 357

(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 $336 (2014: $747) 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	**2015**	**2014**
Structured equity replication derivatives	$ (28)	$ 289
Foreign currency derivatives	(223)	(37)
Interest rate derivatives	(607)	130
Credit risk derivatives	158	(25)
Net fair value of derivative contracts	$ (700)	$ 357

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

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

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

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

(v) Deposits: At March 31, 2015 deposits in futures contracts margin accounts totalled $452 (2014: $659) and deposits as collateral for derivative contracts totalled $21 (2014: $1).

NOTE 5 INVESTMENT INCOME

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

	($ thousands)			
	Income	Changes in Fair Value	2015 Total	2014 Total
Interest-bearing securities	$ 3,300	$ 3,013	$ 6,313	$ 1,333
Public equities				
Canadian	1,845	(247)	1,598	3,553
Foreign	7,104	2,129	9,233	11,487
	8,949	1,882	10,831	15,040
Alternatives				
Real estate	193	262	455	435
Real return bonds	-	-	-	(28)
Infrastructure	61	246	307	77
	254	508	762	484
Strategic opportunities	40	105	145	22
	$ 12,543	$ 5,508	$ 18,051	$ 16,879

The change in fair value of pool units includes realized gains and losses on disposal of pool units totaling $2,578 and unrealized gains and losses on pool units totalling $2,930.

Income earned in pooled investment funds is distributed to the Reserve Fund daily based on the Reserve Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which 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):

	2015	2014	2013	2012	2011
	in per cent				
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	12.9	12.7	8.1	4.2	8.8
Value added return (loss) by investment manager	(0.2)	1.3	1.5	0.6	-
Total return on investments [(a)]	**12.7**	**14.0**	**9.6**	**4.8**	**8.8**

(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 9.9% (PBR: 9.3%) and nine years is 6.1% (PBR: 6.1%).

NOTE 7 INVESTMENT EXPENSES

	($ thousands)	
	2015	**2014**
Amounts charged by AIMCo for:		
Investment costs [a]	$ 482	$ 336
Performance based fees [a]	185	139
Total investment expenses	$ 667	$ 475
Increase in expenses	40.4%	73.4%
Increase in average investments under management	17.7%	21.3%
Investment expense as a percent of:		
Dollar earned	3.7%	2.8%
Dollar invested	0.5%	0.4%
Investment expenses per member	$ 2,546	$ 1,841

[a] Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired 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 March 31, 2014 by Aon Hewitt and was then extrapolated to March 31, 2015.

As at March 31, 2015 the Unregistered Plan reported an actuarial deficit of $17 million (2014: deficit of $13 million), taking into account the amounts owing from the Reserve Fund.

NOTE 9 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2015 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, 2015

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, 2015, and the statement of changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Supplementary Retirement Plan Reserve Fund as at March 31, 2015, 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 5, 2015

Edmonton, Alberta

Statement of Financial Position

As at March 31

	($ thousands) 2015	2014
Assets		
Investments (Note 3)	$ 96,813	$ 82,959
Receivable from participating employers	9	37
	96,822	82,996
Liabilities		
Payable to participating employer	(107)	-
Amounts owing to the Supplementary Retirement Plan for Public Service Managers	(96,715)	(82,996)
Net Assets	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets

Year Ended March 31

	($ thousands) 2015	2014
Increase in assets		
Employer contributions	$ 873	$ 6,814
Investment income (Note 5)	11,917	12,641
Transfer from Supplementary Retirement Plan for Public Service Managers	1,550	-
	14,340	19,455
Decrease in assets		
Investment expenses (Note 7)	621	441
	621	441
Increase in amounts owing to the Supplementary Retirement Plan for Public Service Managers	(13,719)	(19,014)
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, 2015

(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 Reserve Fund 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 Reserve Fund to meet future benefit payments and are prepared to assist the SRP members and others in reviewing the activities of the Reserve Fund for the year.

b) VALUATION OF ASSETS AND LIABILITIES

Investments are recorded at fair value. As disclosed in Note 3, the Reserve Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, 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 Reserve Fund does not report the financial instruments of the pools on its statement of financial position.

The Reserve 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 pool units. The Reserve Fund reports its share of the financial risks in Note 4.

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

Investments in pool units are recorded in the Reserve 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

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 5 and includes the following items recorded in the Reserve Fund's accounts:

i. Income distributions from the pools.

ii. Changes in fair value of pool units including realized gains and losses on disposal of pool units and unrealized gains and losses on pool units determined on an average cost basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Reserve Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

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, 2015 was 2.4% (2014: 22.6%) of the pensionable salaries of eligible public service managers that were in excess of the *maximum pensionable salary limit* under the *Income Tax Act*.

The contribution rates were reviewed by the Minister of Finance in 2014 and are reviewed at least once every three years based on recommendations of the Reserve Fund's actuary. As a result of this review, the contributions rate at April 1, 2015 is 9.9%.

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 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 the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Reserve Fund's private investments, hedge funds, timberland and private real estate investments. Uncertainty arises because the estimated fair values of the Reserve 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 Reserve 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 Reserve Fund's investments are managed at the asset class level for purposes of evaluating the Reserve Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Reserve 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 Reserve 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]			2015	2014
Asset class	Level 1	Level 2	Level 3 *	**Fair Value**	**Fair Value**
Interest bearing securities					
Deposits in CCITF	$ -	$ 539	$ -	$ 539	$ 803
Bonds, mortgages and private debt	-	14,686	4,281	18,967	16,633
	-	15,225	4,281	19,506	17,436
Equities					
Canadian	12,265	4,230	-	16,495	14,272
Global	25,264	3,351	12,565	41,180	37,846
Private	-	-	2,994	2,994	2,729
	37,529	7,581	15,559	60,669	54,847
Alternatives					
Real estate	-	-	9,475	9,475	5,578
Infrastructure	-	-	3,836	3,836	2,579
Timberland	-	-	955	955	887
	-	-	14,266	14,266	9,044
Strategic opportunities and tactical allocation*	-	741	1,631	2,372	1,632
Total investments	$ 37,529	$ 23,547	$ 35,737	$ 96,813	$ 82,959

* This asset class is not listed in the SIP&G as it relates to investments made on an opportunistic basis (see Note 4).

At March 31, 2015, investments were allocated to various asset classes, with interest bearing securities comprising 20.1% (2014: 21.0%) of total investments, equities comprise 62.7% (2014: 66.1%), alternatives comprise 14.7% (2014: 10.9%) and strategic opportunities and tactical allocation comprise 2.5% (2014: 2.0%).

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 $37,529 (2014: $34,994).
- ***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 $23,547 (2014: $25,938). 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 $35,737 (2014: $22,027).

NOTE 3 INVESTMENTS CONTINUED

Reconciliation of Level 3 Fair Value Measurement

	($ thousands)	
	2015	**2014**
Balance, beginning of year	$ 22,027	$ 14,657
Investment income	3,632	1,737
Purchases of Level 3 pooled fund units	13,685	7,557
Sale of Level 3 pooled fund units	(3,607)	(1,924)
Balance, end of year	**$ 35,737**	**$ 22,027**

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

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

- ***Interest bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Private debt and loans is valued similar to private mortgages. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Equities:*** 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. Infrastructure investments are valued similar to private equity investments. The fair value of timberland investments is appraised annually by independent third party evaluators.
- ***Strategic opportunities and tactical allocations:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets.
- ***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 Reserve 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 Reserve Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Reserve 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 Reserve 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 Reserve 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 Reserve 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	27.5 - 47.5%
Equities	35 - 60%
Alternatives	12.5 - 27.5%
Strategic opportunities and tactical allocation	(a)

(a) In accordance with the SIP&G, AIMCo may invest up to 5% of the fair value of the Reserve Fund's investments in strategic opportunities that are outside of the asset classes listed above.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

a) Credit Risk

i) Debt securities

The Reserve 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 Reserve Fund's investment in debt securities by counterparty credit rating at March 31, 2015:

Credit rating	2015	2014
Investment Grade (AAA to BBB-)	85.0%	86.8%
Speculative Grade (BB+ or lower)	0.5%	0.3%
Unrated	14.5%	12.9%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

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

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2015, the Reserve Fund's share of securities loaned under this program is $2.4 million (2014: $2.4 million) and collateral held totals $2.5 million (2014: $2.5 million). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Reserve 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 44% of the Reserve Fund's investments, or $43 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (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 Reserve Fund would be approximately 4.4% (2014: 4.7%).

The following table summarizes the Reserve Fund's exposure to foreign currency investments held in the pools at March 31, 2015:

	($ millions)			
	2015		**2014**	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 23	$ (2.3)	$ 21	$ (2.1)
Euro	5	(0.5)	5	(0.5)
British pound	3	(0.3)	3	(0.3)
Japanese yen	3	(0.3)	2	(0.2)
Hong Kong dollar	1	(0.1)	1	(0.1)
Swiss franc	1	(0.1)	1	(0.1)
Australian dollar	1	(0.1)	1	(0.1)
Other foreign currencies	6	(0.6)	5	(0.5)
Total foreign currency investments	$ 43	$ (4.3)	$ 39	$ (3.9)

c) Interest Rate Risk

The Reserve 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 Reserve Fund would be approximately 1.5% (2014: 1.2%) of total investments.

d) Price Risk

Price risk relates to the possibility that pool 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 Reserve 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 Reserve Fund would be approximately 7.1% (2014: 6.6%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

e) Liquidity Risk

Liquidity risk is the risk that the Reserve Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Reserve 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 Reserve 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 pool units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Reserve 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	**2015**	**2014**
Contracts in favourable position (current credit exposure)	24	$ 347	$ 636
Contracts in unfavourable position	17	(643)	(276)
Net fair value of derivative contracts	41	$ (296)	$ 360

(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 $347 (2014: $636) 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	**2015**	**2014**
Structured equity replication derivatives	$ 50	$ 414
Foreign currency derivatives	(247)	(62)
Interest rate derivatives	(138)	25
Credit risk derivatives	39	(17)
Net fair value of derivative contracts	$ (296)	$ 360

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

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

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

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

(v) Deposits: At March 31, 2015 deposits in futures contracts margin accounts totalled $346 (2014: $599) and deposits as collateral for derivative contracts totalled $443 (2014: $77).

NOTE 5 INVESTMENT INCOME

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

($ thousands)

	Income	Changes in Fair Value	2015 Total	2014 Total
Interest bearing securities	$ 918	$ 593	$ 1,511	$ 482
Equities				
Canadian	1,370	(232)	1,138	2,282
Global	5,968	1,807	7,775	8,686
Private	211	158	369	202
	7,549	1,733	9,282	11,170
Alternatives				
Real estate	267	179	446	584
Infrastructure	108	294	402	123
Timberland	(18)	67	49	185
	357	540	897	892
Strategic opportunities and tactical allocation	(23)	250	227	97
	$ 8,801	$ 3,116	$ 11,917	$ 12,641

The change in fair value of pool units includes realized gains and losses on disposal of pool units totaling $1,522 and unrealized gains and losses on pool units totalling $1,594.

Income earned in pooled investment funds is distributed to the Reserve Fund daily based on the Reserve Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which 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):

	2015	2014	2013	2012	2011
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	14.1	13.6	8.6	6.5	9.8
Value added return (loss) by investment manager	(1.2)	0.5	1.6	-	(0.1)
Total return on investments [(a)]	**12.9**	**14.1**	**10.2**	**6.5**	**9.7**

(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 10.6% (PBR: 10.5%) and ten years is 7.2% (PBR: 7.4%).

NOTE 7 INVESTMENT EXPENSES

	($ thousands)	
	2015	**2014**
Amounts charged by AIMCo for:		
Investment costs [(a)]	$ 449	$ 326
Performance based fees [(a)]	172	115
Total investment expenses	$ 621	$ 441
Increase in expenses	40.8%	77.1%
Increase in average investments under management	22.3%	27.7%
Investment expense as a percent of:		
Dollar earned	5.2%	3.5%
Dollar invested	0.7%	0.6%
Investment expenses per member	$ 303	$ 232

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired 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, 2012 by Aon Hewitt. and was then extrapolated to December 31, 2014.

As at December 31, 2014 the SRP reported an actuarial deficit of $17.2 million (2013: deficit of $12.4 million), taking into account the amounts receivable from Reserve Fund.

NOTE 9 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2015 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance.

Provincial Agencies and Other Government Organizations

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ALBERTA CAPITAL FINANCE AUTHORITY

Financial Statements

Year Ended December 31, 2014

These Alberta Capital Finance Authority (ACFA) Financial Statements are a copy from the ACFA 2014 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, 2014, 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, 2014, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

March 18, 2015

Edmonton, Alberta

ALBERTA CAPITAL FINANCE AUTHORITY
STATEMENT OF FINANCIAL POSITION
As at December 31, 2014
(in thousands of dollars)

	2014	2013
Assets:		
Cash (Note 3)	$ 46,650	$ 137,033
Restricted cash (Note 3)	497	497
Accounts receivable	23	2
Accrued interest receivable on loans to local authorities	106,859	106,556
Loans to local authorities (Note 4)	14,760,239	13,499,753
Derivatives in favourable position (Note 6)	789,160	613,656
Prepaid expenses	-	15
Tangible capital assets (Net of accumulated amortization $4; 2013 - $1)	26	19
	$ 15,703,454	$ 14,357,531
Liabilities:		
Accounts payable	$ 614	$ 599
Accrued interest payable on debt	31,045	29,331
Debt (Note 5, Schedule 1)	14,722,028	13,482,879
Derivatives in unfavourable position (Note 6)	1,288,139	711,804
	16,041,826	14,224,613
Share Capital and Accumulated (Deficit) Surplus:		
Share Capital, issued and fully paid (Note 7)	63	64
Accumulated (deficit) surplus:		
Accumulated operating surplus (Note 8)	294,096	236,849
Accumulated remeasurement losses	(632,531)	(103,995)
	(338,435)	132,854
Share Capital and Accumulated (Deficit) Surplus	(338,372)	132,918
	$ 15,703,454	$ 14,357,531

Contractual obligations and commitments are found in Note 12.
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:

Frank Hawkins, Chair of the Board

Original signed by:

Troy Holinski, President

ALBERTA CAPITAL FINANCE AUTHORITY
STATEMENT OF OPERATIONS AND ACCUMULATED OPERATING SURPLUS
For the year ended December 31, 2014
(in thousands of dollars)

	Budget (Note 13)	2014	2013
Interest Income:			
Loans	$ 582,244	$ 571,188	$ 533,927
Loan swaps (pay fixed, receive floating)	(304,499)	(284,342)	(262,479)
Investments	-	3,373	1,709
	277,745	290,219	273,157
Interest Expense:			
Debt	354,703	357,120	310,919
Debt swaps (receive fixed, pay floating)	(158,205)	(144,639)	(106,234)
Amortization of net discounts on debt	16,821	15,976	12,146
Amortization of commission fees	2,614	4,008	3,756
	215,933	232,465	220,587
Net interest income	61,812	57,754	52,570
Other Income:			
Loan prepayment fees	-	694	287
Net interest income and other income	61,812	58,448	52,857
Non-Interest Expense:			
Administration and office expenses (Note 9, 10)	1,045	1,198	986
Amortization of tangible capital assets	-	3	1
	1,045	1,201	987
Operating surplus	60,767	57,247	51,870
Accumulated operating surplus, beginning of year	239,042	236,849	184,979
Accumulated operating surplus, end of year	$ 299,809	$ 294,096	$ 236,849

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

ALBERTA CAPITAL FINANCE AUTHORITY
STATEMENT OF REMEASUREMENT GAINS AND LOSSES
For the year ended December 31, 2014
(in thousands of dollars)

	2014	2013
Derivatives:		
Accumulated remeasurement losses on derivatives, beginning of year	$ (59,991)	$ (812,987)
Unrealized (losses) gains attributable to change in fair value of derivatives	(403,086)	752,996
Accumulated remeasurement losses on derivatives, end of year	(463,077)	(59,991)
Foreign Exchange:		
Accumulated remeasurement (losses) gains on foreign exchange, beginning of year	(44,004)	18,726
Unrealized losses attributable to foreign exchange translation	(125,450)	(62,730)
Accumulated remeasurement losses on foreign exchange, end of year	(169,454)	(44,004)
Accumulated remeasurement losses, end of year	$ (632,531)	$ (103,995)

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

ALBERTA CAPITAL FINANCE AUTHORITY
STATEMENT OF CASH FLOWS
For the year ended December 31, 2014
(in thousands of dollars)

	2014	2013
Operating Activities:		
Interest received:		
Loans	$ 570,885	$ 531,744
Investments	3,374	1,708
Debt swaps (receive fixed, pay floating)	140,406	103,760
Loan prepayment fees	694	287
Interest paid:		
Debt	(355,406)	(311,006)
Discounts paid at debt maturity	(12,033)	(15,975)
Premiums received at debt issue	13,392	-
Commission fees	(3,445)	(6,886)
Loan swaps (pay fixed, receive floating)	(282,364)	(259,930)
Administration and office expenses	(1,193)	(1,031)
Cash flows from operating activities	74,311	42,671
Capital Activities:		
Acquisition of tangible capital assets	(10)	(20)
Cash flows used in capital activities	(10)	(20)
Investing Activities:		
Loan principal repayments	896,295	616,856
Loans issued	(2,156,781)	(1,728,374)
Cash flows used in investing activities	(1,260,486)	(1,111,518)
Financing Activities:		
Debt issued	6,975,269	9,817,168
Debt redemption	(5,879,467)	(8,624,025)
Cash flows from financing activities	1,095,802	1,193,143
Net (decrease) increase in cash	(90,383)	124,276
Cash, beginning of year	137,033	12,757
Cash, end of year	$ 46,650	$ 137,033

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

ALBERTA CAPITAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014
(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 for capital purposes.

Note 2 – Significant Accounting Policies and Reporting Practices

The financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS) as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. Significant accounting policies are as follows:

(a) Measurement Uncertainty

The preparation of financial statements in accordance with PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Measurement uncertainty exists in the collectability of the loans to local authorities and the estimate of fair value of derivative contracts.

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

(b) Valuation of Financial Instruments

Financial instruments are any contracts that give rise to financial assets of one entity and financial liabilities or equity instruments of another entity. Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial liabilities are any liabilities that are contractual obligations: to deliver cash or another financial asset to another entity; or to exchange financial instruments with another entity under conditions that are potentially unfavourable.

ACFA's financial assets and financial liabilities are generally measured as follows and as further described in this note:

Financial Statement Component	Measurement
Cash and restricted cash	Cost
Accounts receivable (payable)	Cost
Accrued interest receivable on loans to local authorities	Cost
Loans to local authorities	Amortized cost
Derivatives in favourable (unfavourable) position	Fair value
Accrued interest payable on debt	Cost
Debt	Amortized cost
Embedded derivatives	Fair value

ALBERTA CAPITAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014
(in thousands of dollars, except share amounts)

(c) Cash

Cash includes cash on hand, cash on demand deposit in the Province of Alberta's Consolidated Cash Investment Trust Fund ("CCITF") including any allocated interest not yet transferred to CCITF participants, and a US dollar bank account. ACFA's cash balances in CCITF are used for operations or are restricted for unredeemed coupons. CCITF holds investments in primarily short-term and mid-term interest bearing securities which have a maximum term to maturity of less than three years.

(d) Loans to Local Authorities

The carrying value of loans is recorded at amortized cost. Accrued interest receivable on loans is reported separately from the carrying value on the statement of financial position. Loan discounts are amortized to income over the term of the loan using the effective interest method, and are included in the carrying value of the loan.

Impairment losses are recognized in the statement of operations. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest on a loan, a specific provision for credit loss is made and the carrying value of the loan is reduced to its estimated net recoverable value.

Interest revenue on loans is recognized on an accrual basis and is measured using the effective interest method. Interest revenue ceases to be accrued on loans when the collectability of either principal or interest is not reasonably assured.

(e) Debt

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

Interest expense on debt is recognized on an accrual basis and is measured using the effective interest method.

(f) Derivative Financial Instruments

Derivative contracts for interest rate swaps and cross-currency interest rate swaps are recorded at fair value on the statement of financial position and changes in fair value are recorded as unrealized gains and losses in the statement of remeasurement gains and losses. When a financial instrument is derecognized, remeasurement gains or losses are reclassified to the statement of operations. Any transaction costs are expensed.

Fair value is the only relevant basis of measurement for derivative contracts because the historical cost is at most nominal. The fair value depicts the market's assessment of the present value of the net future cash flows directly or indirectly embodied in a derivative contract discounted to reflect both current interest rates and the market's assessment of the risk the cash flows will not occur. Fair values are determined using third party valuation software that generates a discount curve based on observable market rates and swap spreads.

Fair values have been segregated between those contracts which are in favourable positions (positive fair value) and those contracts which are in unfavourable positions (negative fair value) and are recorded as derivative assets and derivative liabilities respectively on the statement of financial position.

Net interest paid or received on the pay fixed, receive floating interest rate swaps related to loans is presented separately as part of interest income, and the net interest paid or received on the receive fixed, pay floating interest rate swaps related to debt is presented separately as part of interest expense. Loan swap interest revenue and debt swap interest expense includes accrued interest.

ALBERTA CAPITAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014
(in thousands of dollars, except share amounts)

Only contractual obligations entered into or modified on or after January 1, 2013 are evaluated for the existence of embedded derivatives. An embedded derivative is separated from the host contract and accounted for as a derivative when all of the following conditions are met:

i) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
ii) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
iii) The hybrid, combined instrument is not measured at fair value.

(g) Non-Financial Assets

Prepaid expenses and tangible capital assets are non-financial assets, and are accounted for by ACFA as they can be used to provide services in future periods. These assets do not normally provide resources to discharge the liabilities of ACFA unless they are sold. Tangible capital assets are recorded at historical cost and amortized on a straight line basis over the estimated useful lives of the assets. Tangible capital assets are written down when conditions indicate they no longer contribute to ACFA's ability to provide services, or when the value of future economic benefits associated with them are less than their net book values. Write downs are expensed in the statement of operations.

(h) Transaction Costs

Transaction costs include fees and commissions paid to agents, advisors and brokers. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. Transaction costs paid, discounts paid at debt redemption, premiums received at debt issuance and interest paid are presented in the statement of cash flows as operating activities.

(i) Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year end rate of exchange. Operating revenues and expenses related to foreign currency transactions are translated into Canadian dollars using the rate of exchange for the day. Unrealized foreign exchange gains and losses on long term monetary items are accumulated in the statement of remeasurement gains and losses until settlement, at which point, the cumulative amount is reversed and recognized in the statement of operations.

(j) Net Debt Model of Presentation

PSAS require the statement of financial position to report net debt. Net debt is measured as the difference between liabilities and financial assets, and provides an indicator of future revenues required to pay for past transactions and events, and is a test of sustainability. ACFA does not report a net debt indicator as its ability to provide loans to local authorities is not dependent on raising revenue, but rather the borrowing limit set by legislation.

Note 3 – Cash

	2014	2013
Cash in CCITF	$ 46,650	$ 137,033
Restricted cash in CCITF	$ 497	$ 497

ALBERTA CAPITAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014
(in thousands of dollars, except share amounts)

For the year ended December 31, 2014, deposits in CCITF had a time-weighted return of 1.18% per annum (2013 – 1.16% per annum). Restricted cash in CCITF is set aside for outstanding debt obligations on unredeemed coupons and bonds.

Note 4 – Loans to Local Authorities

	2014	2013
Amortized cost	$ 14,760,239	$ 13,499,753

Credit risk is the risk of loss due to borrowers failing to meet their obligations to ACFA. Historically, ACFA has not needed to record any provisions or allowances regarding credit losses nor has it suffered any such losses. ACFA has established policies which provide for the approval and monitoring of all lending activity. These policies include establishing clear lines of authority for decision making and for accountability. Loan applications exceeding debt limits or debt servicing limits require the Board's approval. Additionally, the President may take any loan application he deems necessary to the Board for review and approval.

ACFA maintains a loan portfolio consisting of several different borrower categories, each with their own source of security to ensure repayment. The major categories of borrowers are as follows:

(a) Cities, towns, villages, specialized municipalities, counties, municipal districts, irrigation districts, regional services commissions and Metis settlements account for 69% (2013 – 71%) of all loan assets held by ACFA. This borrower category, excluding Metis settlements, is regulated by the *Municipal Government Act*, which stipulates specific debt limits and debt servicing limits. The aforementioned group of borrowers is required to agree to raise and levy taxes and or fees in an amount sufficient to pay their indebtedness to ACFA as per the signed master loan agreement.

(b) Regional airport authorities account for 22% (2013 – 20%) 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% (2013 – 9%) of loan assets, each with terms and conditions specific to their respective loan agreements.

As at and for the year ended December 31, 2014, all loans were performing in accordance with related terms and conditions and none were in arrears, nor were any loans considered impaired. ACFA's maximum exposure to credit risk is represented by the carrying amount of its loans at the reporting date. Additional detail on the contractual pricing and effective interest rates of outstanding loans is provided in Note 11 (d).

Note 5 – Debt

	2014	2013
Contractual principal	$ 14,772,276	$ 13,550,326
Unamortized net discounts	(31,771)	(48,407)
Unamortized commission fees	(18,477)	(19,040)
	$ 14,722,028	$ 13,482,879

The debt of ACFA is fully guaranteed by the Province of Alberta. Since April, 2011, all ACFA debt is borrowed by the Province of Alberta. The Province of Alberta then on-lends the money to ACFA for loan disbursement and cash management (Schedule 1).

ALBERTA CAPITAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014
(in thousands of dollars, except share amounts)

For the next five years, contractual debt redemption requirements by debt type, with the assumption all debt is redeemed at the maturity date, are as follows:

	Short-term	Floating	Fixed	Total
2015	$ 1,400,000	$ 912,070 (a)	$ 800,000	$ 3,112,070
2016	-	900,000	600,000	1,500,000
2017	-	-	2,646,060 (b)	2,646,060
2018	-	1,000,000	600,000	1,600,000
2019	-	-	275,000	275,000
	1,400,000	2,812,070	4,921,060	9,133,130
Thereafter	-	165,000	5,474,146	5,639,146
	$ 1,400,000	$ 2,977,070	$ 10,395,206	$ 14,772,276

(a) Includes $300,000 USD ($348,030 CAD) floating rate debt maturing June 15, 2015 and $400,000 USD ($464,040 CAD) floating rate debt maturing September 25, 2015 translated at the foreign exchange rate at the reporting date.
(b) Includes $600,000 USD ($696,060 CAD) fixed term debt maturing June 21, 2017 translated at the foreign exchange rate at the reporting date.

Additional detail on the contractual pricing and effective interest rates of outstanding debt is provided in Note 11 (d).

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, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or other variable; it requires no initial net investment or the initial investment is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and it is settled in the future.

To minimize ACFA's interest rate risk on loans and debt issued after January 1, 2004, interest rate swaps may be used to swap fixed rate interest on loans and debt to floating rate so that floating rates paid and received incorporate changes in the market rates at approximately the same time. Interest received on loans to local authorities at fixed rates is swapped so that interest is received at floating rates instead. Loan swaps involve the receipt of floating rate cash flows from the counterparty in exchange for the payment of fixed rate cash flows to the counterparty. Interest paid on debt at fixed rates is swapped so that interest is paid at floating rates instead. Debt swaps involve the payment of floating rate cash flows to the counterparty in exchange for the receipt of fixed rate cash flows from the counterparty.

The notional amounts of interest rate swaps represent the amount to which the fixed and floating rates are applied in order to calculate the exchange of cash flows. The outstanding notional amounts are not recorded in the statement of financial position. They represent the volume of outstanding transactions and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. It is not ACFA's normal practice to terminate swaps before maturity and realize gains or losses, unless there is a valid business reason to do so. Swaps are intended to be held to maturity to reduce interest rate risk, but may be unwound with penalty if a large loan prepayment occurs or if step-up debt is called. Penalties imposed by the counterparty are in turn recovered from the local authority according to the stop-loss policy so there is no financial loss to ACFA.

ALBERTA CAPITAL FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014
(in thousands of dollars, except share amounts)

Interest rate swaps include the following outstanding cross currency swaps :
(a) Receive fixed on an original notional value of $600,000 USD (2013 – $600,000 USD) and pay floating on an original notional value of $617,400 CAD (2013 – $617,400 CAD); and
(b) Receive floating on an original notional value of $700,000 USD (2013 – $700,000 USD) and pay floating on an original notional value of $723,010 CAD (2013 – $723,010 CAD).
To minimize its foreign currency risk on US dollar denominated debt, cross currency interest rate swaps are used as described in Note 11 (g).

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

Maturities	Within 1 Year	1 to 3 Years	Over 3 Years	Total
Interest rate swaps, December 31, 2014	$ 1,222,972	$ 4,413,253	$ 17,710,529	$ 23,346,754
Interest rate swaps, December 31, 2013	$ 264,693	$ 2,106,887	$ 18,119,563	$ 20,491,143

At December 31, 2014, derivatives in favourable and unfavourable positions, as reported on the statement of financial position, include contractual amounts of accrued interest receivable and payable, respectively, as follows:

	2014	2013
Accrued interest receivable on debt swaps	$ 13,581	$ 9,348
Accrued interest payable on loan swaps	$ 49,483	$ 47,505

ACFA classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. When measurement of an item requires the use of inputs from more than one level, the measurement level attributable is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy used has the following levels:

Level	Fair Value Hierarchy
Level 1	Fair value is based on unadjusted, quoted prices in active markets, such as a public exchange, for identical assets or liabilities;
Level 2	Fair value is based on model-based valuation methods that make use of inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
Level 3	Fair value is based on valuation methods where inputs for the asset or liability are not based on observable market data (unobservable inputs) and the inputs have a significant impact on the valuation.

Derivative financial instruments recorded at fair value on the statement of financial position are classified as level 2. During the year, no transfers occurred between any of the levels on the fair value hierarchy.

The fair value of interest rate swaps has been calculated using valuation techniques that employ reputable and reliable application software to value derivatives. Observable short and long term rates in the money market and Canadian bond market, as well as swap spreads obtained from financial institutions, are used to develop an interest rate curve to discount derivative cash flows. For cross currency swaps, foreign exchange rates at the valuation date are used. As at the reporting date, the estimated sensitivity of the net fair value of derivatives to a 25 basis point

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increase and a 25 basis point decrease in interest rates is an increase in fair value of $141,962 (2013 - $123,505) and a decrease in fair value of $147,505 (2013 - $128,557), respectively.

Current credit exposure is limited to the amount of loss ACFA would suffer if every counterparty to which ACFA were exposed were to default at once, and is represented by the current replacement cost of all outstanding contracts in a favourable position. ACFA is part of the exposure limit established for the Province of Alberta and actively monitors its exposure and minimizes credit risk by only dealing with counterparties believed to have a good credit standing. Current and potential exposure is regularly reviewed against established limits on a counterparty basis.

Under the Province of Alberta's master agreement with counterparties, ACFA can, in the event of a counterparty default, net its favourable and unfavourable positions with the counterparty. In addition, under the agreement, several Credit Support Annexes have been signed with counterparties which may require ACFA or the counterparty to provide collateral based on established thresholds, which further enhances ACFA's credit position. During the year ended December 31, 2014, ACFA was not required to post cash collateral (2013 – $nil). As of December 31, 2014, no posted cash collateral was outstanding (2013 – $nil).

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 $656,317 at December 31, 2014 (2013 - $495,471) are subject to master netting arrangements against unfavourable positions of $1,237,698 (2013 - 676,208), which reduces ACFA's credit exposure by $656,317 (2013 - $495,471).

Note 7 – Share Capital

Share capital is valued at $10 per share. Voting rights for classes B to E, as established in legislation, relate only to the election of a director representing the shareholder's class. Further particulars of share capital are as follows:

			2014		2013	
Class	**Restricted to**	**Number of Shares Authorized**	**Issued and Fully Paid**	**Total Dollar Amount**	**Issued and Fully Paid**	**Total Dollar Amount**
A	Province of Alberta	4,500	4,500	$ 45,000	4,500	$ 45,000
B	Municipal, airport and health authorities	1,000	883	8,830	881	8,810
C	Cities	750	588	5,880	588	5,880
D	Town and villages	750	281	2,810	281	2,810
E	Educational authorities	500	75	750	83	830
Total		7,500	6,327	$ 63,270	6,333	$ 63,330

During the year, two Class B shares were issued (2013 – two Class B shares were issued and 17 were cancelled), and eight Class E shares were cancelled (2013– two Class D shares were 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 AAA credit rating.

The business of ACFA is to provide its shareholders with flexible financing for capital projects and to manage its assets and liabilities and business affairs in such a manner so as to enhance its ability to effectively carry out its activities in an economical and effective manner.

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ACFA's objective when managing capital is to safeguard its ability to continue as a going concern, to continue to benefit its shareholders by providing loans at the lowest possible cost and operate on a breakeven basis while maintaining positive net assets. Net assets for capital management purposes are defined as accumulated operating surplus. ACFA has operated effectively in accordance with its capital objective as net assets for capital management purposes as at December 31, 2014 were $294,096 (2013 – $236,849). Capital management objectives, policies and procedures are unchanged since the preceding year.

Note 9 – Director, Audit Committee and Asset Liability Committee Fees and Related Party Transactions

Director, Audit Committee and Asset Liability Committee fees paid by ACFA are as follows:

	2014		2013	
	Number of Positions	Total	Number of Positions	Total
Board and Audit Committee Chairs	2	$ 11	2	$ 14
Board, Audit Committee and Asset Liability Committee Members	10	35	9	31
	12	$ 46	11	$ 45

There are two additional board members who are employees of the Province of Alberta and do not receive compensation from ACFA.

ACFA has no employees. Its operations are managed by staff of Alberta Treasury Board and Finance, which is considered a related party. Other related parties are those entities consolidated or accounted for on the modified equity basis in the Province of Alberta's financial statements, including local authorities that ACFA has issued loans to, such as educational and health authorities consolidated by Alberta Education, Alberta Innovation and Advanced Education or Alberta Health, as well as the Province of Alberta on-lending debt to ACFA. Loans to local authorities and debt on the statement of financial position, as well as the associated income and expense on the statement of operations, include amounts with related parties incurred in the normal course of business and are recorded at amounts of consideration agreed upon between the related parties.

Included in administration and office expenses is the amount of $776 (2013 – $683) 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 $76 (2013 – $83) due to related parties at December 31, 2014.

Note 10 – Expense by Object

	Budget	2014	2013
Salaries and benefits	$ 603	$ 646	$ 562
Services	270	266	234
Contract services with related parties	137	239	150
Goods	26	30	27
Financial transactions and other	9	17	13
Amortization of tangible capital assets	-	3	1
	$ 1,045	$ 1,201	$ 987

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Note 11 – Financial Risk Management

(a) Framework

ACFA's management is accountable and responsible for monitoring performance and reporting to the Board of Directors and recommending changes to existing policies, including the Derivative Policy. The Audit Committee assists in monitoring the corporate governance, accountability processes and control systems in ACFA and reports to the Board. The Asset-Liability Committee ("ALCO") also reviews the Derivative Policy, and other policies regarding interest rate risk management, funding, loan prepayments and loan pricing, and recommends changes to the Board. The Board of Directors is responsible for governance and strategic direction through its annual review and approval of all policies.

Management is primarily responsible for overseeing operational risk, which is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is managed through use of appropriate policies, procedures and controls designed to create an effective internal control environment within the organization. ACFA's accountability framework also includes: preparation of a 4 year business plan and annual budget that is approved by the Board, quarterly financial forecasting and reporting to monitor financial results, codes of conduct and ethics for the Board and staff, and a whistleblower policy.

The Audit Committee fulfills its responsibilities by offering observation and objective advice on issues concerning ACFA's risk, controls, quality of information, quality of management oversight and management assertions. It monitors the adequacy and effectiveness of internal controls, including internal controls over financial reporting. It maintains an active relationship with the Auditor General of Alberta.

The ALCO is a management committee that oversees and manages ACFA's financial risks such as: market risk, including interest rate risk and currency risk; the risk of higher floating rate borrowing margins; the risk arising from mismatches in the floating rate reset dates of assets and liabilities; financing and refinancing risk; loan prepayment risk; and loan pricing risk. The ALCO manages financial risks to ensure ACFA's operating surplus does not decrease due to a significant, unexpected loss. It achieves this by setting risk benchmarks and monitoring performance against the benchmarks. It also assesses financial risks and formulates/evaluates acceptable risk mitigation strategies, within Board policy limits, to manage them.

Together, the aforementioned develop ACFA's strategic direction, oversee financial risk management and review and approve policies and procedures to maintain an acceptable level of financial risk.

(b) Assets and Liability Management

ACFA's assets are legislatively limited to an aggregate principal sum of all outstanding loans and securities not to exceed $18 billion. As debt and earnings are used to fund these loans, ACFA raises debt at the lowest possible cost that can be obtained by the Province of Alberta in the capital markets given the amounts and terms requested by local authorities and the deals available. ACFA also manages its assets and liabilities by monitoring the duration and term to maturity of its existing loan and debt portfolios, obtaining estimated capital requirements for the local authorities to anticipate loan demand, utilizes the Province of Alberta's preferential credit rating and operates under an approved financing plan that provides for a mixture of short-term, floating and fixed debt.

ACFA's viability is further managed by swapping its fixed term interest income on loans and fixed term interest expense debt to floating so that movements in market interest rates are counter balanced by offsetting revenue and expense streams. In accordance with ACFA's Derivative Policy, ACFA manages its interest rate risk by matching its debt maturity profile to the forecast cash flows and their effect on ACFA's surplus. For most loans made after January 1, 2004, ACFA uses the following to minimize the exposure related to fluctuations in interest rates: loan interest rate swaps to swap fixed rate loan interest to floating; floating rate notes which reprice at approximately the same time as the loans; and debt interest rate swaps to swap fixed rate debt interest

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to floating. Cross currency interest rate swaps are used to mitigate foreign exchange rate fluctuations as described in Note 11 (g).

ACFA's Canadian dollar bank accounts are exposed to interest rate risk. Canadian cash balances are held in CCITF.

(c) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk from borrowers or local authorities is described in Note 4 and ACFA does not believe it has any significant credit exposure on loans. Credit exposure with derivative counterparties is described in Note 6.

(d) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk refers to the potential impact of changes in interest rates on ACFA's earnings when maturities of its interest rate sensitive assets are not matched with the maturities of its interest rate sensitive liabilities. ACFA's interest sensitive assets and liabilities are those that: generate interest income such as loans and cash, incur interest expense such as debt, are interest rate swaps or are near-term cash inflows (outflows) such as accrued interest receivable (payable) associated with an underlying interest sensitive asset or liability. Non-interest sensitive assets and liabilities excluded in the tables below are: accounts receivable, prepaid expenses, tangible capital assets and accounts payable.

The contractual principal amounts of ACFA's interest sensitive assets and liabilities by maturity/ next repricing date are summarized below.

Maturity/ Repricing	Within 1 Year	1 to 3 Years	Over 3 Years	Total
Financial Assets:				
Cash and restricted cash	$ 47,147	$ -	$ -	$ 47,147
Accrued interest receivable on loans	106,859	-	-	106,859
Accrued interest receivable on debt swaps (a)	13,581	-	-	13,581
Loans to local authorities	1,107,383	2,757,421	10,895,435	14,760,239
December 31, 2014	$ 1,274,970	$ 2,757,421	$ 10,895,435	$ 14,927,826
Loan effective rate, 2014 (b)	4.05%	4.09%	4.10%	4.10%
December 31, 2013	$ 1,128,292	$ 1,888,092	$ 10,736,803	$ 13,753,187

(a) Included in derivatives in favourable position on the statement of financial position.
(b) The effective rate is the rate that exactly discounts estimated future cash payments through the expected term of the loan to the net carrying amount.

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Maturity/ Repricing	Within 1 Year	1 to 3 Years	Over 3 Years	Total
Financial Liabilities:				
Accrued interest payable on debt	$ 31,045	$ -	$ -	$ 31,045
Accrued interest payable on loan swaps (a)	49,483	-	-	49,483
Debt by type:				
Short-term (c)	1,396,722	-	-	1,396,722
Floating (b)	2,977,070	-	-	2,977,070
Fixed (b)	800,000	3,246,060	6,349,146	10,395,206
December 31, 2014	$ 5,254,320	$ 3,246,060	$ 6,349,146	$ 14,849,526
Debt effective rate, 2014 (d)	2.79%	3.32%	4.20%	4.03%
December 31, 2013	$ 4,805,276	$ 1,400,000	$ 7,419,306	$ 13,624,582
Gap 2014	$ (3,979,350)	$ (488,639)	$ 4,546,289	$ 78,300
Gap 2013	$ (3,676,984)	$ 488,092	$ 3,317,497	$ 128,605

(a) Included in derivatives in unfavourable position on the statement of financial position.
(b) Foreign currency denominated debt is translated at the foreign exchange rate at the reporting date.
(c) Comprised of contractual principal of $1,400,000 net of discounts on short-term notes of $3,278 (2013 – $2,580).
(d) The effective rate is the rate that exactly discounts estimated future cash payments through the expected term of the debt to the net carrying amount.

Loan interest rate swaps and debt interest rate swaps with outstanding notional amounts of $13,554,565 and $9,792,189 respectively (2013 – $12,095,454 and $8,395,689 respectively) have not been included in the above table as notional amounts do not represent either financial assets or financial liabilities. Notional amounts are not recorded in the statement of financial position.

The interest rate sensitivity analysis below has been determined based on the exposure to interest rate fluctuations for significant interest rate sensitive assets and liabilities as at the reporting date. ACFA's significant interest rate sensitive assets and liabilities are those amounts in its loan and debt portfolios subsequent to January 1, 2004 that have been swapped, and can be represented by the outstanding notional amounts of the associated loan and debt swaps. The interest sensitivity arises due to the floating leg of the interest rate swap. Also included in the interest rate sensitivity analysis are floating rate debt and cash.

The potential impact of an immediate and sustained increase (decrease) of 25 basis points in interest rates throughout the year with all other variables held constant would impact net interest income by $3,003 increase ($3,003 decrease).

(e) Liquidity Risk

Liquidity risk is the risk that ACFA will encounter difficulty in meeting obligations associated with its financial liabilities. ACFA's exposure to liquidity risk arises due to its cash flow requirements to fulfill debt payments and redemptions and loan demand of local authorities.

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ACFA manages its liquidity risk by monitoring its cash flows on a daily basis. Surplus funds are invested in CCITF. To the extent there are differences in maturities between the collection of principal and interest from loans, and repayment of principal and interest on debt, the Province of Alberta on-lends debt to ACFA to ensure ACFA maintains an adequate cash balance.

Interest and principal repayments, as well as other payments for derivative financial instruments, are relevant for the presentation of the maturities of cash flows. The future cash flows below are not discounted. Foreign currencies are translated at the foreign exchange rate at the reporting date.

The maturities of ACFA's contractual cash flows for financial liabilities at December 31, 2014, with the assumption that all debt is redeemed at the maturity date, based on the earlier of repricing or principal repayments, are as follows:

Estimated Future Cash Out Flows	Within 1 Year	1 to 3 Years	Over 3 Years	Total
Accounts payable	$ 614	$ -	$ -	$ 614
Debt by type, contractual repayments of principal:				
Short-term (a)	1,396,722	-	-	1,396,722
Floating (b)	2,977,070	-	-	2,977,070
Fixed	800,000	3,246,060	6,349,146	10,395,206
Debt by type, contractual payments of interest:				
Short-term (a)	3,278	-	-	3,278
Floating (b)	7,606	-	-	7,606
Fixed	328,849	562,693	2,176,236	3,067,778
Loan swaps (pay fixed, receive floating) (b)	286,561	528,964	2,371,243	3,186,768
Commitments for leases and supplies and services	174	180	72	426
Commitments for loans	50,800	-	-	50,800
Total	$ 5,851,674	$ 4,337,897	$ 10,896,697	$ 21,086,268

(a) Comprised of contractual principal of $1,400,000 net of discounts on short-term notes of $3,278 (2013 – $2,580).
(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.

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In conjunction with the liquidity analysis provided above for the financial liabilities, management has determined the following liquidity analysis of financial assets is necessary to evaluate the nature and extent of the liquidity risk. Foreign currencies are translated at the foreign exchange rate at the reporting date.

Estimated Future Cash In Flows	Within 1 Year	1 to 3 Years	Over 3 Years	Total
Accounts receivable	$ 23	$ -	$ -	$ 23
Loans, contractual repayments of principal (a)	1,107,383	2,757,421	10,895,435	14,760,239
Loans, contractual receipts of interest (a)	575,307	1,500,640	3,993,263	6,069,210
Debt swaps (receive fixed, pay floating) (a) (b)	150,536	262,266	1,151,514	1,564,316
Total	$ 1,833,249	$ 4,520,327	$ 16,040,212	$ 22,393,788

(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.

(f) Refinancing Risk

Refinancing risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to refinancing. Refinancing risk arises as local authorities may terminate loans with penalty and refinance at current interest rates. ACFA manages this risk by monitoring the contractual maturities and durations of its loan and debt portfolios; by charging penalties to local authorities in accordance with the stop-loss penalty policy; and raising debt in capital markets, either domestic and foreign, at the best possible interest rate utilizing the Province of Alberta's credit rating.

(g) Foreign Currency Risk

Foreign currency risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

As at December 31, 2014, ACFA has aggregate US dollar denominated debt outstanding of $1,300,000 USD (2013 – $1,300,000 USD). The US dollar denominated debt instruments require ACFA to make all periodic payments of interest expense, as well as the repayment of the aggregate principal balance due at maturity, in US dollars. As such, any changes in the Canadian/US dollar foreign exchange rate from the date the US dollar denominated debt instruments were issued to the date the US dollar denominated debt instruments mature, expose ACFA to foreign currency risk.

To manage the exposure to foreign currency risk on the US dollar denominated debt instruments, ACFA has obtained cross currency interest rate swaps with the same payment terms, payment dates, maturity dates and notional values as the US dollar denominated debt instruments. In exchange for payments of interest and principal denominated in Canadian dollars, the cross currency interest rate swaps entitle ACFA to receive, in US dollars, all the amounts necessary to satisfy the periodic payments of interest expense and the aggregate principal balance due at maturity on the US dollar denominated debt instruments.

Because of this, any changes in the amount of cash required to satisfy the periodic settlement of interest expense throughout the term of the US dollar debt instruments as well as the principal repayment required at maturity,

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will be offset by the cash provided from the respective cross currency interest rate swaps, regardless of the changes in the Canadian/US dollar foreign exchange rate.

As at December 31, 2014, ACFA has no other financial instruments that are exposed to foreign currency risk.

Note 12 – Contractual Obligations and Commitments

(a) Lease

ACFA has obligations under an operating lease expiring in July 2018 for the rental of premises, and various other obligations for supplies and services under contracts entered into before December 31, 2014. The estimated aggregate amounts payable for the unexpired terms of these contractual obligations are as follows:

	Supplies and Services	Lease
2015	89	85
2016	4	86
2017	4	86
2018	-	72
Total	$ 97	$ 329

(b) Loans

In the normal course of business, ACFA enters into loan commitments to provide customers with sources of credit. Commitments to extend credit represent undertakings to make credit available in the form of loans for specific amounts, interest rates and terms to maturity, subject to ACFA's normal credit policies and appropriate collateral. Loan commitments include authorized loans not yet drawn down or awaiting further draw down.

The loan commitments indicate the maximum credit exposure to ACFA should the loans be fully drawn, represent future cash requirements and as at December 31, 2014 were:

	2014
2015	50,800
Total	$ 50,800

Note 13 – Budget

The 2014 budget was approved by the Board of Directors on December 12, 2013. Budget amounts for 2014 were prepared on an amortized cost basis and remeasurement gains and losses on foreign exchange and derivatives were not budgeted.

Note 14 – Approval of Financial Statements

The financial statements were recommended for approval by the Audit Committee on March 10, 2015 and subsequently approved by the Board of Directors on March 18, 2015.

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SCHEDULE 1 – DEBT
As at December 31, 2014
(in thousands of dollars)

Maturity Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Public – Short-term:				
Jan-06-2015	0.9414%	Short-term	(d)	$ 100,000
Jan-13-2015	0.9277%	Short-term	(d)	100,000
Jan-20-2015	0.9398%	Short-term	(d)	100,000
Jan-27-2015	0.9408%	Short-term	(d)	100,000
Feb-03-2015	0.9146%	Short-term	(d)	100,000
Feb-03-2015	0.9769%	Short-term	(d)	70,000
Feb-10-2015	0.9461%	Short-term	(d)	100,000
Feb-17-2015	0.9541%	Short-term	(d)	100,000
Feb-24-2015	0.9597%	Short-term	(d)	100,000
Mar-03-2015	0.9666%	Short-term	(d)	100,000
Mar-10-2015	0.9680%	Short-term	(d)	100,000
Mar-17-2015	0.9879%	Short-term	(d)	110,000
Mar-24-2015	1.0095%	Short-term	(d)	110,000
Mar-31-2015	1.0287%	Short-term	(d)	110,000
				1,400,000
Private – Canada Pension Plan Investment Fund/ CPP Investment Board:				
Oct-01-2020	6.2800%	Fixed		222,367
Jun-01-2022	6.0600%	Fixed		100,000
Apr-05-2023	5.8900%	Fixed		50,000
Dec-01-2023	5.5000%	Fixed		150,000
Dec-03-2024	5.1800%	Fixed		78,000
Nov-03-2026	4.4900%	Fixed		200,000
Nov-03-2031	4.5000%	Fixed		125,396
Nov-02-2032	4.8300%	Fixed		190,383
				1,116,146
Public – Fixed and Floating:				
Jun-01-2015	4.9000%	Fixed		100,000
Jun-01-2015	4.9000%	Fixed		100,000
Jun-03-2015	1.2000%	Floating	(a) (d)	100,000
Jun-15-2015	0.1406%	Floating	(b) (c) (d)	348,030
Jun-15-2015	3.0500%	Fixed		600,000
Sep-25-2015	0.1656%	Floating	(b) (c) (d)	464,040
May-27-2016	1.4100%	Floating	(a) (d)	900,000
Jun-15-2016	4.3500%	Fixed		300,000
Jun-15-2016	4.3500%	Fixed		300,000
Jun-15-2017	4.6500%	Fixed		400,000
Jun-15-2017	4.6500%	Fixed		300,000

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SCHEDULE 1 – DEBT
As at December 31, 2014
(in thousands of dollars)

Maturity Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Jun-15-2017	1.7500%	Fixed	(d)	500,000
Jun-21-2017	1.0000%	Fixed	(c) (d)	696,060
Dec-15-2017	1.7000%	Fixed	(d)	750,000
Jun-01-2018	5.1500%	Fixed		50,000
Jun-01-2018	5.1500%	Fixed		50,000
Jun-15-2018	1.3400%	Floating	(a) (d)	500,000
Jun-15-2018	1.3400%	Floating	(a) (d)	500,000
Jun-15-2018	1.6000%	Fixed	(d)	500,000
Dec-01-2019	4.0000%	Fixed	(d)	275,000
Jun-17-2020	1.4300%	Floating	(a) (d)	165,000
Dec-15-2022	2.5500%	Fixed	(d)	720,000
Dec-15-2022	2.5500%	Fixed	(d)	600,000
Dec-01-2023	5.1000%	Fixed		20,000
Dec-15-2025	4.4500%	Fixed		100,000
Dec-15-2025	4.4500%	Fixed		100,000
Dec-15-2025	4.4500%	Fixed		100,000
Sep-20-2029	2.9000%	Fixed	(d)	30,000
Sep-20-2029	2.9000%	Fixed	(d)	170,000
Sep-20-2029	2.9000%	Fixed	(d)	50,000
Sep-20-2029	2.9000%	Fixed	(d)	50,000
Sep-20-2029	2.9000%	Fixed	(d)	150,000
Jun-01-2031	3.5000%	Fixed	(d)	1,268,000
Dec-01-2033	3.9000%	Fixed	(d)	200,000
Dec-01-2033	3.9000%	Fixed	(d)	110,000
Dec-01-2033	3.9000%	Fixed	(d)	215,000
Dec-01-2033	3.9000%	Fixed	(d)	225,000
Dec-01-2033	3.9000%	Fixed	(d)	110,000
Dec-01-2033	3.9000%	Fixed	(d)	140,000
				12,256,130
Total contractual principal outstanding – 2014				14,772,276
Unamortized net (discounts)				(31,771)
Unamortized commission fees				(18,477)
Total amortized debt – 2014				$ 14,722,028
Total contractual principal outstanding – 2013				13,550,326
Unamortized net premiums				(48,407)
Unamortized commission fees				(19,040)
Total amortized debt – 2013				$ 13,482,879

ALBERTA CAPITAL FINANCE AUTHORITY
SCHEDULE 1 – DEBT
As at December 31, 2014
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Notes

(a) 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.

(b) Floating rate notes that pay interest quarterly at the USD London Interbank Offered Rate ("LIBOR") plus predetermined spreads with principal paid on termination. The interest rates provided are based on the USD LIBOR as of the reporting date plus the contractual predetermined spread.

(c) Note issued in US dollars and translated to Canadian dollars using the foreign exchange rate at the reporting date.

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

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ALBERTA INSURANCE COUNCIL

Financial Statements

December 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Members of Alberta Insurance Council

We have audited the accompanying financial statements of Alberta Insurance Council, which comprise the statement of financial position as at December 31, 2014, the statements of operations, changes in net assets and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

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

KPMG LLP

Chartered Accountants

April 16, 2015

Edmonton, Canada

ALBERTA INSURANCE COUNCIL

Statement of Financial Position

December 31, 2014, with comparative information for 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents (note 2)	$ 5,573,234	$ 5,844,722
Accounts receivable	23,482	21,916
Prepaid expenses	85,525	56,807
	5,682,241	5,923,445
Capital assets (note 3)	1,043,765	1,121,314
	$ 6,726,006	$ 7,044,759
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 446,975	$ 425,059
Deferred license, assessment, and continuing education fee revenue (note 4)	2,355,184	2,251,316
	2,802,159	2,676,375
Asset retirement obligation (note 5)	64,239	63,630
Deferred rent and tenant inducements (note 6)	469,096	496,020
	3,335,494	3,236,025
Net assets:		
Invested in capital assets	640,758	664,281
Unrestricted	2,749,754	3,144,453
	3,390,512	3,808,734
	$ 6,726,006	$ 7,044,759

See accompanying notes to financial statements.

On behalf of the Board:

[Original signed by] Director
Robert Bhatia

[Original signed by] Director
Ronald Gilbertson

ALBERTA INSURANCE COUNCIL

Statement of Operations

Year ended December 31, 2014, with comparative information for 2013

	2014 Budget	2014	2013
Revenue:			
License, assessment, examination and continuing education fees	$ 4,956,000	$ 5,379,746	$ 5,030,713
Interest and other	60,000	58,010	68,802
	5,016,000	5,437,756	5,099,515
Expenses:			
Manpower (note 7)	3,300,000	3,303,429	2,900,198
Occupancy and premises	754,000	768,776	687,483
Amortization of capital assets	340,000	333,384	374,669
Councils, boards and committees (note 8)	370,000	394,973	405,913
Software and computer	515,000	343,867	453,552
Office and administration	255,000	218,995	211,967
Professional fees	190,000	181,210	206,938
Communications	161,000	160,059	165,868
Travel	130,000	151,285	117,551
Gain on disposal of capital assets	-	-	(34)
	6,015,000	5,855,978	5,524,105
Deficiency of revenue over expenses	$ (999,000)	$ (418,222)	$ (424,590)

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Statement of Changes in Net Assets

Year ended December 31, 2014, with comparative information for 2013

	Invested in capital assets	Unrestricted	2014	2013
Net assets, beginning of year	$ 664,281	$ 3,144,453	$ 3,808,734	$ 4,233,324
Deficiency of revenue over expenses	-	(418,222)	(418,222)	(424,590)
Amortization of capital assets	(333,384)	333,384	-	-
Amortization of deferred tenant inducements	54,635	(54,635)	-	-
Accretion of asset retirement obligation	(609)	609	-	-
Purchase of capital assets	256,053	(256,053)	-	-
Proceeds on sale of capital assets	(218)	218	-	-
Net assets, end of year	$ 640,758	$ 2,749,754	$ 3,390,512	$ 3,808,734

Invested in capital assets consists of the following:

	2014	2013
Capital assets	$ 1,043,765	$ 1,121,314
Asset retirement obligation	(64,239)	(63,630)
Deferred tenant inducements	(338,768)	(393,403)
Invested in capital assets	$ 640,758	$ 664,281

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Statement of Cash Flows

Year ended December 31, 2014, with comparative information for 2013

		2014		2013
Cash provided by (used in):				
Operating activities:				
Deficiency of revenue over expenses	$	(418,222)	$	(424,590)
Items not involving cash:				
Accretion of asset retirement obligation		609		610
Amortization of deferred tenant inducements		(54,635)		(70,208)
Recognition of deferred rent		27,711		(2,130)
Amortization of capital assets		333,384		374,669
Gain on disposal of capital assets		-		(34)
(Increase) decrease in accounts receivable		(1,566)		20,768
(Increase) decrease in prepaid expenses		(28,718)		49,233
Increase in accounts payable and accrued liabilities		21,916		59,836
Increase in deferred license and assessment fee revenue		103,868		430,521
		(15,653)		438,675
Capital activities:				
Purchase of capital assets		(256,053)		(283,109)
Proceeds on sale of capital assets		218		905
		(255,835)		(282,204)
(Decrease) increase in cash and cash equivalents		(271,488)		156,471
Cash and cash equivalents, beginning of year		5,844,722		5,688,251
Cash and cash equivalents, end of year	$	5,573,234	$	5,844,722

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements

Year ended December 31, 2014

Authority and purpose:

The Alberta Insurance Council (the "Council") operates under the authority of the Insurance Act, Chapter 1-3, Revised Statutes of Alberta 2000, as amended. As a not-for-profit organization under the Income Tax Act, the Council is not subject to either federal or provincial income taxes.

The Council provides administration services to the Life Insurance, General Insurance and Insurance Adjusters Councils. These Councils are responsible for enforcing the provisions of the Insurance Act and Regulations for their segments of the insurance industry.

1. Significant accounting policies:

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the 4200 standards which apply to government not-for-profit organizations. The Council's significant accounting policies are as follows:

(a) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and short-term deposits, which are highly liquid with original maturities of less than three months from the date of acquisition. These financial assets are convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(b) Revenue recognition:

License and assessment fees are recognized as revenue on a straight-line basis over the term of the license and assessment. Examination fees are recognized at the time the related exam is held. Continuing Education (CE) course approval fees are recognized upon submission to the Continuing Education Accreditation Committee. CE provider fees are recognized on a calendar year basis. License and assessment fees received but not yet recognized as revenue are recorded as deferred licence and assessment fee revenue.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

(c) Capital assets and amortization:

Capital assets consisting of furniture and office equipment, leasehold improvements, computer equipment and software are recorded at cost, less accumulated amortization. Amortization is provided using the straight-line method over their estimated useful lives as follows:

Asset	Rate
Furniture and office equipment	3 - 10 years
Computer equipment	3 - 7 years
Computer software	3 years
Leasehold improvements	Term of lease
Telephone equipment	3 - 5 years

(d) Examination development costs:

Costs of development of examination questions are expensed as incurred.

(e) Tenant inducements, deferred rent and asset retirement obligation:

Tenant inducements associated with leased premises are amortized on a straight-line basis over the term of the related lease and recognized as a reduction of rent recorded in occupancy and premises expenses.

Rent expense is recognized on a straight-line basis over the lease term. Deferred rent comprises the aggregate difference in the rental expense incurred on a straight-line basis over the lease term and the actual rent charged.

The asset retirement obligation associated with leased premises is recorded at its discounted value, and is amortized over the term of the related lease. The associated accretion expense is included with occupancy and premises expenses.

(f) Contributed services:

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

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

(g) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations. As the Council does not have any unrealized changes in fair value, a statement of remeasurement gains and losses has not been presented.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

(h) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amounts of capital assets and asset retirement obligations. Actual results could differ from those estimates.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2014

2. Cash and cash equivalents:

Included in cash and cash equivalents is an amount of $4,055,378 (2013 - $4,954,795) invested in the Consolidated Investment Trust Fund (the CCITF). The CCITF is managed by the Government of Alberta with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The average interest rate during the year ended December 31, 2014 was 1.19% (2013 - 1.21%).

3. Capital assets:

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and office equipment	$ 444,801	$ 269,133	$ 175,668	$ 194,087
Computer equipment	572,616	383,482	189,133	185,251
Computer software	1,385,856	1,158,008	227,849	248,162
Leasehold improvements	1,063,221	616,371	446,850	492,338
Telephone equipment	5,233	968	4,265	1,476
	$ 3,471,727	$ 2,427,962	$ 1,043,765	$ 1,121,314

4. Deferred license, assessment, and continuing education fee revenue:

	2014	2013
License	$ 2,241,243	$ 2,136,067
Assessment	85,125	86,625
Continuing education	28,816	28,624
	$ 2,355,184	$ 2,251,316

A single annual renewal date of the terms of license was implemented effective July 1, 2014. The terms commence July 1 and remain in effect until June 30 of the following year.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2014

5. Asset retirement obligation:

The Council is required by the terms of its leases for premises in Edmonton and Calgary to remove improvements made to these premises upon termination of the leases. It is the opinion of management that it is highly probable that the Council will be required to remove improvements made to its Edmonton premises, and has recorded an asset retirement obligation and leasehold improvements for the discounted value of the estimated removal costs, using the discount rate of 0.94%. Amortization of $6,031 is included in amortization of capital assets, and the accretion expense in the amount of $609 has been included with occupancy costs. The undiscounted asset retirement obligation is $68,000 as at December 31, 2014.

Management has estimated the cost to remove improvements to its Calgary premises would not be material and believes the probability of incurring these costs is low. Accordingly, management has not recorded either an asset retirement cost or asset retirement obligation for the Calgary location.

The estimated carrying value of the Edmonton leasehold improvement is $364,679 at December 31, 2014 (2013 - $424,007).

6. Deferred rent and tenant inducements:

Deferred rent and tenant inducements consist of the following:

		2014		2013
Deferred rent	$	130,328	$	102,617
Deferred tenant inducements		338,768		393,403
	$	469,096	$	496,020

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2014

7. Manpower:

	Full Time Employees	Salary[a]	Benefits and other[b]	2014 Total
Chief Executive Officer	1	$ 263,915	$ 50,410	$ 314,325
Chief Operating Officer	1.4	309,260	154,858	395,068
Other staff	21.6	2,135,501	389,485	2,594,036
	24	$ 2,708,676	$ 594,753	$ 3,303,429

	Full Time Employees	Salary[a]	Benefits and other[b]	2013 Total
Chief Executive Officer	1	$ 268,299	$ 46,503	$ 314,802
Chief Operating Officer	1	221,799	46,759	268,558
Other staff	21.5	1,961,374	355,464	2,316,838
	23.5	$ 2,451,472	$ 448,726	$ 2,900,198

(a) Salary includes regular base pay, bonuses and overtime.

(b) Benefits and other includes 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, and recruitment costs.

Employees of the Council are specifically excluded from enrolment in the Province of Alberta's Public Service Plan and the Province of Alberta's Management Employees Pension Plan. The Council employees are also not included in any of the Province of Alberta's employee benefits plans.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2014

8. Councils, Boards and Committees:

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

		2014		2013
Councils and Council Committees	$	257,797	$	241,273
Appeal Boards		63,093		100,205
Continuing Education Accreditation Committee		74,083		64,435
	$	394,973	$	405,913

The Minister of Finance, responsible for the Insurance Act, has appointed the Continuing Education Accreditation Committee, provided for in Section 29 of the Insurance Agents and Adjusters Regulation. The Council funds the operations of and provides administrative services to the Continuing Education Accreditation Committee.

(b) Per diem payments of Council Members:

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

	Members	2014[c]	Members	2013[c]
	#	$	#	$
Councils[a]				
Alberta Insurance Council - Chair[b]	1	22,000	1	21,675
Other - Chairs	14	63,269	14	105,363
Members	41	154,153	37	131,366
Total		239,422		258,404

(a) This includes the Alberta Insurance Council, the Life Insurance Council, the General Insurance Council, the Insurance Adjusters Council, the Audit Committee, the Appeal Boards and the Continuing Education Accreditation Committee.

(b) This includes per diem payments made for attendance at Alberta Insurance Council, Audit Committee, and the Council chair annual stipend.

(c) All per diem payments made to members of Councils, Committees and Boards are paid by the Council out of fees received from insurance licenses. This includes public members appointed by the Lieutenant Governor in Council, as well as Continuing Education Accreditation Committee members appointed by the Minister of Finance pursuant to the Government Organization Act.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2014

9. Commitments:

The Council is committed under existing lease agreements and contracted services for operating lease payments. The annual lease payments over the next five years and thereafter are as follows:

2015	$	389,104
2016		412,188
2017		423,626
2018		432,152
2019		440,678
Thereafter		703,117

The Council is also committed to a purchase of computer equipment and a related servicing contract in the amount of $130,200, to be incurred in January 2015.

10. Financial risks and concentration of credit risk:

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Council is exposed to credit risk with respect to its accounts receivable.

The Council assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Council at December 31, 2014 is the carrying value of these assets.

There have been no significant changes to the credit risk exposure from 2013.

(b) Liquidity risk:

Liquidity risk is the risk that the Council will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Council manages its liquidity risk by monitoring its operating requirements. The Council prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

There have been no significant changes to the liquidity risk exposure from 2013.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2014

10. Financial risks and concentration of credit risk (continued):

(c) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in the market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Council to cash flow interest rate risk. The Council is exposed to this risk through its interest bearing deposit in the CCITF.

There have been no significant changes to the interest rate risk exposure from 2013.

11. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

ALBERTA INVESTMENT MANAGEMENT CORPORATION

Financial Statements

For the year ended March 31, 2015

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, 2015, 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, 2015, 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, 2015

Edmonton, Alberta

Statement of Financial Position

As at March 31, (*$ thousands*)	**2015**	**2014**
Assets		
Cash and cash equivalents (Note 4)	$ 29,293	$ 45,734
Accounts receivable	13,917	11,771
Prepaid expenses	4,773	4,915
Tangible capital assets (Note 5)	79,637	79,867
Other assets	2,416	2,416
	130,036	144,703
Liabilities		
Accounts payable and accrued liabilities	5,005	4,457
Accrued employment liabilities (Note 6)	56,077	64,642
Advance from the Province of Alberta (Note 7)	58,849	64,849
Pension liabilities (Note 8)	3,038	2,939
Deferred lease inducement (Note 15)	3,420	4,169
	126,389	141,056
Net assets (Note 9)	$ 3,647	$ 3,647

Contractual obligations (Note 15)

The accompanying notes are part of these financial statements.

Approved by the Board:

Original signed by:

Mac H. Van Wielingen
Board Chair

Original signed by:

Richard Bird
Audit Committee Chair

Statement of Operations

For the year ended March 31, (*$ thousands*)	**2015 Budget (unaudited) (Note 16)**	**2015**	**2014**
Revenue			
Cost recoveries	$ 411,349	$ 439,664	$ 444,763
Interest income	-	278	329
Total revenue	411,349	439,942	445,092
Expenses			
External investment management fees (Note 10)	147,986	145,205	138,249
External performance fees (Note 10)	77,579	95,097	114,701
External asset administration, legal, and other (Note 10)	68,128	76,914	73,279
Salaries, wages and benefits	71,907	76,369	76,979
Data, subscriptions and maintenance services	11,174	14,357	12,528
Amortization of tangible capital assets	12,000	11,685	8,501
Administrative expenses	7,855	7,843	6,657
Contract and professional services	7,784	6,842	8,640
Rent	6,311	4,938	4,849
Interest	625	692	709
Total expenses	411,349	439,942	445,092
Annual surplus	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the year ended March 31, (*$ thousands*)	**2015**	**2014**
Operating transactions		
Annual surplus	$ -	$ -
Non-cash items:		
Amortization of tangible capital assets	11,685	8,501
Amortization of deferred lease inducement	(749)	(450)
Loss on disposal of tangible capital assets	299	-
Change in obligation under capital leases	-	125
Change in pension liabilities	98	11
	11,333	8,187
Changes in operating accounts (Note 11)	(10,021)	4,483
	1,312	12,670
Capital transactions		
Acquisition of tangible capital assets	(11,776)	(18,722)
Proceeds on disposal of tangible capital assets	23	-
	(11,753)	(18,722)
Investment transactions		
Payment of obligation under capital leases	-	(125)
Financing transactions		
Proceeds from advance from the Province of Alberta	-	15,800
Payment of advance from the Province of Alberta	(6,000)	(3,000)
	(6,000)	12,800
(Decrease) Increase in cash and cash equivalents	(16,441)	6,623
Cash and cash equivalents at beginning of year	45,734	39,111
Cash and cash equivalents at end of year	$ 29,293	$ 45,734
Supplementary information		
Cash used for interest	$ 570	$ 599

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

For the year ended March 31, 2015 ($ 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 Treasury Board and Finance for which the President of Treasury Board and Minister of Finance is responsible. The Corporation was formed January 1, 2008.

The Corporation has assets under administration of approximately $90.3 billion (2014 - $80.4 billion) at March 31, 2015, see Note 12. These assets are invested in segregated investments owned by the client or aggregated in one or more pooled investment portfolios managed by the Corporation. Some of these assets are managed by third-party investment managers selected and monitored by the Corporation in order to achieve greater diversification, as well as to access external expertise and specialized knowledge. The segregated assets and the assets within the pooled investment portfolios are not consolidated in the financial statements of the Corporation. The Corporation makes investments on behalf of its clients and may also establish companies in which the Province of Alberta is the registered owner of the shares for the purpose of managing specific investments. As the Corporation has no beneficial interest in these entities, they are not consolidated in the Corporation's financial statements.

The Corporation recovers all operating expenses and capital expenditures on a cost recovery basis. The Corporation's board of directors may approve recoveries greater than costs to maintain or increase the Corporation's general reserve, although they have not done so in the past.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards ("PSAS") and include the following significant accounting policies:

a) Measurement Uncertainty

Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount. External investment management fees which are recorded as $145,205 (2014 - $138,249), external performance fees which are recorded as $95,097 (2014 - $114,701), and pension liabilities which are recorded as $3,038 (2014 - $2,939) in these financial statements, are subject to measurement uncertainty. External investment costs include estimates of management and performance fees that are based upon specified rates and commitment levels in the investment management agreements. The pension liabilities are based on key assumptions that could impact the reported liability. Refer to Note 8 for a description of the key assumptions and how a change in the assumptions can impact the reported pension liability.

Estimates and assumptions are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from these estimates.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Revenue Recognition

All revenues are reported on the accrual basis of accounting.

Cost recovery revenue is recognized on the recovery of direct costs related to management of government funds, pension plans and other investments, and on the recovery of indirect costs representing each government fund, pension plan and pooled fund's respective share of the Corporation's operating costs. The indirect charges are allocated based on assets under management and head count.

Cost recovery revenue is accrued and billed on a monthly basis as the related costs are incurred and investment management services are provided.

Under the *Alberta Investment Management Corporations Act*, the Corporation may establish and maintain one or more Reserve Funds with the ability to recover charges in excess of direct costs.

c) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

Interest expense is comprised primarily of debt servicing costs on the Advance from the Province of Alberta.

d) Assets

Financial assets which include cash and cash equivalents and accounts receivable are assets that could be used to discharge existing liabilities or finance future operations.

Prepaid expenses are charged to expense over the periods expected to benefit from it.

e) Liabilities

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

f) Financial Instruments

All financial assets and financial liabilities are measured at cost or amortized cost. The Corporation does not own any financial instruments designated in the fair value category and as such a Statement of Remeasurement Gains and Losses has not been included in the financial statements.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense.

The Corporation does not own any derivative financial instruments.

Cash and cash equivalents are recorded at cost, which is equivalent to their fair value, and include short-term and mid-term liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. These short-term investments generally have a maximum 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 (2015 and 2014 - $nil).

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Tangible Capital Assets

Tangible capital assets are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development, as well as interest costs that are directly attributable to the acquisition or construction of the asset. Computer systems hardware and software development costs, including labour and materials, and costs for design, development, testing and implementation, are capitalized when the related business systems are expected to be of continuing benefit to the Corporation.

The cost, less residual value, of the tangible capital assets, is amortized on a straight-line basis over their estimated useful lives as follows:

Computer systems hardware and software	5-10 years
Furniture and equipment	10 years
Leasehold improvements	Lesser of the useful life of the asset and the term of the lease

Computer systems hardware and software development costs are not amortized until the assets are available for use.

h) Write-down of Tangible Capital Assets

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The write-downs are accounted for as expenses in the statement of operations.

i) Net Assets

Net assets represent the difference between the carrying value of assets held by the Corporation and its liabilities.

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

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Employment Benefits

The Corporation participates in multi-employer defined benefit plans that meet the accounting requirements for treatment as defined contribution plans. The Corporation also participates in defined contribution pension plans. Employer contributions are expensed as incurred.

On January 1, 2010, the Corporation established a new Supplementary Retirement Plan ("SRP") for those individuals required to withdraw from the existing SRP for Public Service Managers. This pension plan is accounted for using the projected-benefits method pro-rated on service to account for the cost of the defined benefit pension plan. Pension costs are based on management's best estimate of expected plan investment performance, discount rate, salary escalation, and retirement age of employees. The discount rate used to determine the accrued benefit obligation is based on rates of return of assets currently held by the Plan. Plan assets are valued at fair value for the purpose of calculating the expected return on plan assets. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service life of employees active at the date of amendments. Net actuarial gains or losses and transitional obligations are amortized on a straight-line basis over the average remaining service life of active employees. Valuation allowances are calculated such that accrued benefit assets are limited to amounts that can be realized in the future by applying any plan surplus against future contributions.

The Corporation provides retention incentives to certain employees through a Long-Term Incentive Plan ("LTIP") and a Restricted Fund Unit Plan ("RFU"). The potential end value of these grants, if and when vested, fluctuate over the vesting period based on achievement of certain performance factors, and are expensed as salaries, wages and benefits over the vesting period of the awards. The liability for the grants are remeasured at each reporting period based on changes in the intrinsic values of the grants, such that the cumulative amount of the liability will equal the potential payout at that date. Any gains or losses on remeasurement are recorded in the statement of operations. For any forfeiture of the grants, the accrued compensation cost will be adjusted by decreasing salaries, wages and benefits expense in the period of forfeiture.

k) Foreign Currency

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

NOTE 4 CASH AND CASH EQUIVALENTS

as at March 31, ($ thousands)	2015	2014
Deposit in Consolidated Cash Investment Trust Fund	$ 29,147	$ 45,679
Cash in U.S. bank account	65	55
Cash in Great British Pounds bank account	81	-
	$ 29,293	$ 45,734

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, 2015, securities held by the Fund have a time-weighted return of 1.2% per annum (2014 – 1.2% per annum).

NOTE 5 TANGIBLE CAPITAL ASSETS

for the year ended March 31 ($ thousands)

	Computer systems hardware and software	Equipment under capital leases	Leasehold improvements	Furniture and equipment	2015	2014
Cost						
Opening Balance	$ 91,500	$ 268	$ 12,975	$ 4,554	$ 109,297	$ 90,575
Additions	11,709	-	59	8	11,776	18,722
Disposals	(10,760)	(268)	-	-	(11,028)	-
Transfers	-	-	-	-	-	-
Write-downs	-	-	-	-	-	-
Closing Balance	92,449	-	13,034	4,562	110,045	109,297
Accumulated Amortization						
Opening Balance	22,581	47	5,063	1,739	29,430	20,929
Amortization expense	9,861	9	1,367	447	11,684	8,501
Effect of disposals	(10,650)	(56)	-	-	(10,706)	-
Write-downs	-	-	-	-	-	-
Closing Balance	21,792	-	6,430	2,186	30,408	29,430
Net Book Value at March 31	$ 70,657	$ -	$ 6,604	$ 2,376	$ 79,637	$ 79,867

NOTE 6 ACCRUED EMPLOYMENT LIABILITIES

as at March 31, ($ thousands)	2015	2014
Annual incentive plan (a)	$ 22,974	$ 26,554
Long-term incentive plan (b)	30,493	34,241
Restricted fund unit incentive plan (c)	533	821
Accrued vacation, salaries and benefits	2,077	3,026
	$ 56,077	$ 64,642

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 6 ACCRUED EMPLOYMENT LIABILITIES (continued)

b) Long-Term Incentive Plan

The Corporation provides retention incentives to certain employees through an LTIP and an RFU plan. The LTIP program provides the opportunity for a performance payment for generating superior average net incremental return from active management ("value-added") over a four-year period. Senior management and other key professionals of the Corporation receive LTIP grants effective January 1 of each year that vary in size with their level of responsibility and quality of past performance and vest at the end of the fourth calendar period subsequent to the grant date. In the majority of situations, employees must be actively working for the Corporation on the date of payment. LTIP grants have an initial cash value of zero. When they vest after four years, and providing all vesting and plan conditions have been met by the employee, 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 could be paid if the average four-year value-added exceeds the average "stretch target" annually set by the Board. The stretch target for the 2015 calendar year is $906,000.

Information about the target, stretch target and actual results achieved for the last five calendar years is as follows:

	Target	Stretch Target	Value Add for Compensation Purposes[1]
2010	$ 166,667	$ 500,000	$ 192,000
2011	166,667	500,000	610,000
2012	200,000	600,000	1,245,000
2013	266,667	800,000	427,000
2014	269,000	807,000	(82,000)
Total	$ 1,069,001	$ 3,207,000	$ 2,392,000

[1] Historic value-added was adjusted to reflect the impact of changes in the valuation methodology in 2014 for certain insurance-related investments. Value-added for periods prior to 2014 declined as a result. This adjustment was for compensation purposes only.

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 and plan conditions 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 $2,226 (2014 – $2,311).

The accrued LTIP liability as at March 31, 2015 of $30,493 (2014 - $34,241) reflects the current 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)	2015		2014	
	Notional Value		Notional Value	
LTIP grants outstanding, beginning of year	34,063	$ 34,241	29,251	$ 32,504
Granted	11,055	173	10,753	709
LTIP Accrual	-	11,191	-	13,840
Forfeited	(2,428)	(2,442)	(2,563)	(2,848)
Paid	(4,236)	(12,670)	(3,378)	(9,964)
LTIP grants outstanding, end of year	38,454	$ 30,493	34,063	$ 34,241

The maximum potential obligation related to the LTIP as at March 31, 2015 was $115,362 (2014 - $102,189). Total expense related to the LTIP for the year ended March 31, 2015 was $8,922 (2014 - $11,554) which was recorded in salaries, wages and benefits.

NOTE 6 ACCRUED EMPLOYMENT LIABILITIES (continued)

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, 2015 of $533 (2014 - $821) reflects the current value of all RFUs, based on actual results to that date from the date they were awarded.

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

for the year ended March 31, (thousands)	2015			2014		
	Notional Value			Notional Value		
RFU grants outstanding, beginning of year	750	$	821	1,230	$	973
Granted	375		57	-		-
Accrual	-		151	-		385
Paid	(400)		(496)	(480)		(537)
RFU grants outstanding, end of year	725	$	533	750	$	821

Total expense related to the RFU plan for the year ended March 31, 2015 was $208 (2014 - $385) which was recorded in salaries, wages and benefits.

NOTE 7 ADVANCE FROM THE PROVINCE OF ALBERTA

Pursuant to Order in Council 219/2012 and in accordance with a loan advance agreement, the Corporation has not received advances from the Province of Alberta for the year ended March 31, 2015 (2014 - $15,800). As at March 31, 2015, the outstanding advances from the Province totaled $58,849 (2014 - $64,849).

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 0.92% (2014 - 0.84%). Interest expense on advance is $570 (2014 - $599) and is included on the statement of operations. At March 31, 2015, the Corporation was in compliance with the terms of its revolving demand facility.

NOTE 8 PENSION LIABILITIES

Information about the Corporation's SRP is as follows:

for the year ended March 31, ($ thousands)	2015	2014
Accrued retirement obligation		
Beginning of year	$ 3,287	$ 2,299
Current service cost	388	310
Interest cost	160	109
Benefits paid	(15)	(9)
Actuarial loss (gain)	548	578
End of year	4,368	3,287
Plan assets		
Fair value, beginning of year	1,192	812
Actual return on plan assets	149	117
Employer contributions	167	136
Employee contributions	167	136
Benefits paid	(15)	(9)
End of year	1,660	1,192
Funded status - plan deficit	(2,708)	(2,095)
Unamortized net actuarial gain	(330)	(844)
Reported liability	$ (3,038)	$ (2,939)
Current service cost	388	310
Interest cost	160	109
Expected return on plan assets	(59)	(40)
Net actuarial gain amortization	(56)	(96)
Less: employee contributions	(167)	(136)
Total SRP expense	$ 266	$ 147

The measurement date for the plan assets and the accrued retirement obligation for the Corporation's defined benefit pension plan is March 31. Actuarial valuations are performed at least every three years to determine the actuarial present value of the accrued retirement obligation. An actuarial valuation for funding purposes was prepared as of December 31, 2012. An extrapolation of the actuarial valuation dated December 31, 2012 was performed to March 31, 2015.

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

as at March 31,	2015	2014
Equity securities	55%	55%
Debt securities	44%	44%
Other	1%	1%

NOTE 8 PENSION LIABILITIES (continued)

The following table presents key assumptions applicable to the SRP:

as at March 31,	2015	2014
Annual discount rate	3.8%	4.4%
Annual salary increase - base	4.0%	4.0%
Expected long-term return on plan assets	5.0%	5.8%
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 $1,275 as at March 31, 2015 (2014 - $919). A 1% increase or decrease in the rate of salary increases would increase or decrease the reported liability by $1,392 as at March 31, 2015 (2014 - $1,023). A 1% increase or decrease in the inflation rate would increase or decrease the reported liability by $427 as at March 31, 2015 (2014 - $308).

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. 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 $4,386 (2014 - $3,694) for the year ended March 31, 2015 which was recorded in salaries, wages and benefits.

AIMCo accounts for multi-employer pension plans on a defined contribution basis. AIMCo is not responsible for future funding of the plan deficit other than through contribution increases.

AIMCo does not have sufficient plan information on the MEPP/PSPP to follow the standards for defined benefit accounting, and therefore follows the standards for defined contribution accounting. Accordingly, pension expense recorded for the MEPP/PSPP is comprised of employer contributions to the plan that are required for its employees during the year, which are calculated based on actuarially pre-determined amounts that are expected to provide the plan's future benefits.

At December 31, 2014, the Management Employees Pension Plan reported a surplus of $75,805 (2014 - $50,457) and the Public Service Pension Plan reported a deficiency of $803,299 (2014 - $1,254,678).

NOTE 9 NET ASSETS

The accumulated surplus is made up as follows:

as at March 31, ($ thousands)	2015	2014
Contributed surplus (a)	$ 3,647	$ 3,647
Share capital (b)	-	-
Accumulated surplus	-	-
	$ 3,647	$ 3,647

a) Contributed Surplus

Contributed surplus of $3,647 (2014 - $3,647) represents equity received by the Department of Treasury Board and Finance in exchange for the transfer of the net book value of capital assets to the Corporation on January 1, 2008.

NOTE 9 NET ASSETS (continued)

b) Share Capital

as at March 31, ($ thousands)	2015	2014
Issued and Authorized		
Province of Alberta - one share	$ -	$ -

NOTE 10 EXTERNAL INVESTMENT COSTS

External investment costs include external investment management and performance-based fees, as well as asset administration, legal and other expenses incurred on behalf of the Corporation's clients.

External investment management fees are based on a percentage of net assets under management at fair value and committed amounts in the case of private equity and private income pools. Fees charged by external managers include regular management fees as well as performance/incentive-based fees. These fees include significant estimates and measurement uncertainty. Actual results could differ from these estimates.

External asset administration, legal and other expenses are incurred directly by the Corporation's investment portfolios and include fees for the following services: asset custody and administration, audit, compliance and valuation, and investment acquisition, disposition and structuring.

NOTE 11 CHANGES IN OPERATING ACCOUNTS

for the year ended March 31, ($ thousands)	2015	2014
(Increase) decrease in accounts receivable	$ (2,146)	$ 3,042
Decrease (increase) in prepaid expenses	142	(1,673)
Increase (decrease) in accounts payable and accrued liabilities	548	(2,157)
(Decrease) increase in accrued employment liabilities	(8,565)	5,271
	$ (10,021)	$ 4,483

NOTE 12 ASSETS UNDER ADMINISTRATION

The Corporation provides investment management services on behalf of certain Province of Alberta endowment funds, other government funds and certain public sector pension plans.

At March 31, 2015 assets under administration totalled approximately $90.3 billion (2014 - $80.4 billion), at market value. These assets were administered on behalf of the following clients of the Corporation:

as at March 31, ($ thousands)	2015	2014
Pension plans	$ 53,618,290	$ 45,806,894
Ministry of Treasury Board and Finance		
General revenue and entity investment funds [1]	9,271,803	8,246,024
Endowment funds (including the Alberta Heritage Savings Trust Fund)	22,184,125	21,055,820
Insurance-related funds	3,016,499	2,672,544
Other government Ministry investment funds	2,188,502	2,587,099
	$ 90,279,219	$ 80,368,381

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

The Corporation manages the majority of these investments through pooled investment funds. However, some investments are managed by third party investment managers selected and monitored by the Corporation in order to achieve greater diversification, access to external expertise and specialized knowledge. Investments are made in accordance with the investment policies established and approved by the clients.

NOTE 12 ASSETS UNDER ADMINISTRATION (continued)

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

as at March 31, ($ thousands)	2015	2014
Fixed income		
Fixed income [1]	$ 28,106,254	$ 25,541,210
Private mortgages	3,089,601	2,313,914
Private debt & loan	908,343	770,284
Inflation sensitive		
Real estate	10,710,814	9,207,509
Infrastructure and timber	5,396,923	4,382,537
Real return bonds and commodities	2,572,349	2,341,455
Equities		
Public equities and absolute return strategies	34,797,630	31,690,568
Private equity and venture capital	4,453,637	3,748,189
Overlays	558,533	372,715
Currency derivatives	(314,865)	-
	$ 90,279,219	$ 80,368,381

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

NOTE 13 RELATED PARTY TRANSACTIONS

Related parties are the government funds, pension plans and other entities for which the Corporation provides investment management services. The Corporation had the following transactions with related parties recorded at the exchange amount which is the amount of consideration agreed upon between the related parties:

for the year ended March 31, ($ thousands)	2015	2014
Revenues		
Indirect cost recoveries [1]	$ 122,448	$ 118,534
Expenses		
Interest on advance from Province of Alberta	570	599
Contracted services (rent and other) [2]	745	777
	1,315	1,376
Assets		
Accounts receivable [1]	13,853	11,575
Liabilities		
Advance from Province of Alberta	58,849	64,849

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

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

NOTE 14 SALARIES AND BENEFITS DISCLOSURE

The Corporation has a pay for performance strategy that exists to attract, retain and motivate top performers. Base salaries are market driven and variable compensation programs reward long-term 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, 2015 in accordance with direction from the Department of Treasury Board and Finance.

for the year ended March 31, ($ thousands)						2015	2014
	Base Salary[1]	Incentive Plan Annual[2]	Incentive Plan Long-Term[3]	Other Cash Benefits[4]	Other Non-Cash Benefits[5]	Total	Total
Chairman of the Board[6] [7]	$ -	$ -	$ -	$ 90	$ -	$ 90	$ 90
Board Members[7]	-	-	-	503	-	503	372
Chief Executive Officer [8]	121	-	-	-	15	136	-
Chief Executive Officer [9]	375	998	1,500	761	94	3,728	3,409
Chief Investment Officer [10]	349	913	716	1	71	2,050	1,961
EVP, Private Investments	334	471	694	-	51	1,550	879
Chief Risk Officer	242	325	506	1	55	1,129	1,159
Chief Financial Officer	270	338	144	-	41	793	672
EVP, Investment Strategy & Risk [11]	291	-	-	946	45	1,282	1,148

(1) Base Salary consists of all regular pensionable base pay earned.
(2) Annual Incentive Plan is accrued based on goal attainment for the calendar year and paid in the subsequent period.
(3) Long-Term Incentive Plan consists of amounts that became eligible for payment in the year and paid in a subsequent period.
(4) Other Cash Benefits consist of RFU amounts that became eligible for payment in the year and paid in a subsequent period, 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) Two individuals occupied this position during fiscal 2014-15. Charles Baillie was Chairman of the Board until January 31, 2015 at which time Mac H. Van Wielingen was appointed. Amounts presented are for Charles Baillie who occupied the position for ten months of the fiscal year.
(7) The Board consisted of between nine and 11 independent members during fiscal 2014-15, including the Chairman whose compensation is disclosed separately.
(8) The incoming Chief Executive Officer, Kevin Uebelein, commenced employment with the Corporation on January 5, 2015.
(9) The outgoing Chief Executive Officer, Leo de Bever, ceased employment with the Corporation on December 31, 2014. According to the terms of Mr. de Bever's employment contract, LTIP grants that are unvested when the CEO ceases to be employed by the Corporation continue to accrue and are payable after the normal vesting period of the grant. Included in other cash benefits is a lump sum payment for payment of a working notice period of $683.
(10) The incumbent in this role was previously the Executive Vice President, Public Investments and amounts presented are for the incumbent for the full year.
(11) The Executive Vice President, Investment Strategy & Risk ceased employment with the Corporation on January 21, 2015. Included in other cash benefits is a lump sum payment for severance of $925.

NOTE 14 SALARIES AND BENEFITS DISCLOSURE (continued)

LTIP grants are awarded at the start of each fiscal year. The resulting value, if any, is paid out after the end of a four year vesting period and is based on long-term value-added performance. The table below shows the LTIP grants and estimated potential future payouts for each named executive. The future value of awards granted for 2012, 2013 and 2014 but not vested are estimated as at March 31, 2015 based on actual performance for calendar years 2012, 2013 and 2014 and no assumed growth for future years. For awards granted in 2015, the estimated future payout is estimated as at March 31, 2015 based on target performance for calendar year 2015 and no assumed growth for future years.

No amount is payable if performance is below a certain level or if the vesting and payment conditions pursuant to the plan are not met.

					Notional Value
	As at March 31, 2014	Granted in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2015
Chief Executive Officer [1]	-	500.0	-	-	500.0
Chief Executive Officer [2]	2,250.0	-	(500.0)	(7.0)	1,743.0
Chief Investment Officer [3]	1,625.9	613.5	(238.5)	-	2,000.9
EVP, Private Investments	1,139.0	333.5	(238.5)	-	1,234.0
Chief Risk Officer	964.1	346.4	(168.8)	(1.4)	1,140.3
Chief Financial Officer	317.2	157.1	(50.0)	-	424.3
EVP, Investment Strategy & Risk [4]	710.5	-	-	(710.5)	-

					Estimated Future Payout
	As at March 31, 2014	Change in Estimated Future Payout in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2015
Chief Executive Officer [1]	$ -	$ 125.0	$ -	$ -	$ 125.0
Chief Executive Officer [2]	$ 3,898.0	$ (197.4)	$ (1,500.0)	$ -	$ 2,200.6
Chief Investment Officer [3]	$ 2,663.4	$ 271.7	$ (715.5)	$ -	$ 2,219.6
EVP, Private Investments	$ 1,498.2	$ (301.7)	$ (691.6)	$ -	$ 504.9
Chief Risk Officer	$ 1,517.4	$ (173.6)	$ (506.3)	$ -	$ 837.5
Chief Financial Officer	$ 469.9	$ (33.0)	$ (143.8)	$ -	$ 293.1
EVP, Investment Strategy & Risk [4]	$ 578.0	$ -	$ -	$ (578)	$ -

(1) The incoming Chief Executive Officer, Kevin Uebelein, commenced employment with the Corporation on January 5, 2015.

(2) The outgoing Chief Executive Officer, Leo de Bever, ceased employment with the Corporation on December 31, 2014. According to the terms of Mr. de Bever's employment contract, LTIP grants that are unvested when the CEO ceases to be employed by the Corporation continue to accrue and are payable after the normal vesting period of the grant.

(3) The incumbent in this role was previously the Executive Vice President, Public Investments and amounts presented are for the incumbent for the full year.

(4) The Executive Vice President, Investment Strategy & Risk ceased employment with the Corporation on January 21, 2015. At that date, unvested LTIP awards with a notional amount of $578 were forfeited.

NOTE 14 SALARIES AND BENEFITS DISCLOSURE (continued)

RFU awards are granted on a discretionary basis to bridge the gap period between when an individual commences employment and when LTIP grants begin vesting. RFU awards have time horizons on one to three years for vesting period. The table below shows the RFU grants and estimated future payouts for each named executive. For awards granted in 2015, the estimated future payout is estimated to be equal to the grant amount.

	Notional Value				
	As at March 31, 2014	Granted in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2015
Chief Executive Officer [1]	-	375.0	-	-	375.0

	Estimated Future Payout				
	As at March 31, 2014	Change in Estimated Future Payout in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2015
Chief Executive Officer [1]	$ -	$ 375.0	$ -	$ -	$ 375.0

[1] The incoming Chief Executive Officer, Kevin Uebelein, commenced employment with the Corporation on January 5, 2015.

NOTE 15 CONTRACTUAL OBLIGATIONS

Contractual obligations of $31,813 are obligations to others that will become liabilities in the future when the terms of those contracts or agreements are met. The Corporation has entered into various agreements with minimum annual commitments for office space and other contracted services. Estimated payment requirements for each of the next five years and thereafter are as follows:

as at March 31, ($ thousands)	2015
2016	$ 10,054
2017	7,022
2018	5,445
2019	5,079
2020	3,131
Thereafter	1,082
Total	$ 31,813

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 which has been recognized as a reduction in lease expense over the 10-year term of the lease.

The Corporation also entered into a lease agreement commencing April 30, 2013, for nine years, with an option to renew for a further six years. Included in this agreement is a lease inducement of $300 to be recognized as a reduction in lease expense over the nine-year term of the lease.

The total deferred lease inducement as at March 31, 2015 is $3,420 (2014 – $4,169).

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, 2015 the balance outstanding against the facility is $134,257 (2014 - $134,059).

NOTE 16 2014-2015 BUDGET

The Corporation's budget for the year ended March 31, 2015 was approved by the Board of Directors on November 15, 2013.

NOTE 17 RISK MANAGEMENT

The Corporation has minimal exposure to credit risk, liquidity risk and foreign exchange risk due to the nature of our operations.

a) Credit Risk

Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the Corporation. 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 is directly or indirectly impacted by credit risk to some degree. 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, 2015, the total carrying amount in accounts receivable balance is current.

b) Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities. 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

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. 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, 2015 is $397 (2014 - $758).

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 $588 (2014 - $648).

NOTE 18 SUBSEQUENT EVENTS

An advance from the Province of Alberta was received on April 15, 2015 in the amount of $8 million.

NOTE 19 COMPARATIVE FIGURES

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

NOTE 20 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on May 28, 2015.

ALBERTA LOCAL AUTHORITIES PENSION PLAN CORPORATION

Financial Statements

Year Ended December 31, 2014

Independent Auditor's Report

To the Shareholder of Alberta Local Authorities Pension Plan Corp.

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Local Authorities Pension Plan Corp., which comprise the statement of financial position as at December 31, 2014, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

[Original signed by Merwan N. Saher, FCA]

Auditor General
May 22, 2015
Edmonton, Alberta

Alberta Local Authorities Pension Plan Corp.
Statement of financial position
As at December 31, 2014

	(thousands)	
	2014	2013
Assets		
Cash	$ 462	$ 141
Accounts receivable	1	2
	463	143
Liabilities		
Accrued liabilities	$ 241	$ 71
Deferred revenue (Note 5)	222	72
	463	143
Net Assets	-	-
	$ 463	$ 143

The accompanying notes are part of these financial statements.

Approved by the Board:

[original signed by]

Terry Agoto
Chair of the Board

[original signed by]

Don Sieben
Audit Committee Chair

Approved by Management:

[original signed by]

Christopher A. Brown
President & CEO

Alberta Local Authorities Pension Plan Corp.
Statement of operations
For the year ended December 31, 2014

	(thousands)		
	Budget 2014 (Note 9)	Actual 2014	Actual 2013
Revenue			
Service revenue (Note 5)	$ 3,102	$ 2,300	$ 2,458
Miscellaneous revenue	-	2	3
Total revenue	3,102	2,302	2,461
Operating costs			
Salaries and benefits (Note 7)	1,221	989	1,108
Professional fees	429	285	234
Stakeholder Relations & Communication	485	352	213
Board costs	360	217	281
Actuarial services	345	219	387
General and administrative	262	240	238
Total operating costs	3,102	2,302	2,461
Annual surplus	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

Alberta Local Authorities Pension Plan Corp.
Statement of cash flows
For the year ended December 31, 2014

	(thousands)	
	2014	2013
Operating activities		
Annual surplus	$ -	$ -
Changes in non-cash working capital		
Decrease (Increase) in accounts receivable	1	(1)
Increase (Decrease) in accrued liabilities	170	(172)
Increase (Decrease) in deferred revenue	150	(9)
Increase (Decrease) in cash for the year	321	(182)
Cash at beginning of year	141	323
Cash at end of year	$ 462	$ 141

The accompanying notes are part of these financial statements.

Alberta Local Authorities Pension Plan Corp.
Notes to the financial statements
December 31, 2014

1. Authority

Alberta Local Authorities Pension Plan Corp. (the Corporation) was incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000 and commenced operations on January 1, 2006. The Corporation is controlled by the Government of Alberta and is exempt from income and other taxes.

2. Nature of operations

The Minister of Finance of Alberta, operating under the authority of the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 (the Act) and the *Financial Administration Ac*t, Chapter F-12, RSA 2000, is responsible for administering the Local Authorities Pension Plan (the Plan). Certain governance services are provided by the Corporation pursuant to a delegation from the Minister and an Administrative Services Agreement with the Minister, each effective January 1, 2006. These services include supporting the Board of Trustees of the Plan in performing its statutory functions under the Act, and providing strategic guidance for the Plan.

3. Summary of Significant Accounting Policies and Reporting Practices

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards.

Revenue

All revenues are reported on the accrual basis of accounting. Revenue for future expenses received in advance is recorded as deferred revenue.

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations. Financial assets of the Corporation are limited to cash and accounts receivable.

Liabilities

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

Valuation of Financial Assets and Liabilities

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

Fair value of cash, accounts receivable and accrued liabilities are estimated to approximate their carrying values because of the short-term nature of these instruments.

Financial Instruments

As the Corporation does not have any transactions involving financial instruments that are classified in the fair value category and has no foreign currency transactions, there are no re-measurement gains and losses and therefore a statement of re-measurement gains and losses has not been presented.

4. Share capital

	2014	2013
Authorized		
Unlimited number of Class "A" common shares		
Issued		
100 Class "A" common shares (Note 1)	$ 1	$ 1

5. Service revenue / Deferred Revenue

The Corporation commenced charging the Local Authorities Pension Plan for its operating costs, as authorized by the Administrative Services Agreement with the Minister of Finance, effective January 1, 2006. Therefore, revenue is recognized as the related expenses are incurred and recorded by the Corporation.

6. Commitments

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

	(thousands)
2015	172
2016	176
2017	150
	$ 498

7. Salaries and benefits disclosure

(thousands)

		2014				2013
		Base Salary [a]	Other Cash Benefits [b]	Other Non-cash Benefits [c]	Total	Total
Corporation Board Chair	[d]	$ -	$ 18	$ -	$ 18	$ 34
Corporation Board Members (excluding Chair)	[d]	-	100	-	100	96
President & Chief Executive Officer	[e]	114	4	36	154	326
Vice-Presidents:						
Investments	[f]	152	70	7	229	197
Pension Policy & Funding		134	25	35	194	182
Stakeholder Relations		141	25	39	205	194

[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 position was vacant for six months in 2014.

(f) This position assumed the position of Interim CEO for six months in 2014.

8. Defined benefit plans
(thousands)

The Corporation participates in two multi-employer public sector pension plans, the Management Employees Pension Plan and the Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $98 for the year ended December 31, 2014 (2013: $118).

At December 31, 2013, the Management Employees Pension Plan reported a surplus of $50,457 (2012: deficiency of $303,423), the Public Service Pension Plan reported a deficiency of $1,254,678 (2012: deficiency of $1,645,141) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $12,384 (2012: deficiency of $51,870).

9. Approval of 2014 budget

The 2014 budget was approved by the Corporation's Board of Directors on October 18, 2013 and they were notified of the approval by the President of the Treasury Board and Minister of Finance on November 20, 2013.

10. Financial statement approval

The financial statements were approved by the Corporation's Board of Directors.

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ALBERTA PENSIONS SERVICES CORPORATION

Financial Statements

Year Ended December 31, 2014

These Alberta Pensions Services Corporation (APS) Financial Statements are a copy from the APS 2014 Annual Report. A complete copy of the APS Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the APS website at www.apsc.ca.

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, 2014, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 22, 2015

Edmonton, Alberta

ALBERTA PENSIONS SERVICES CORPORATION

STATEMENT OF OPERATIONS

Year ended December 31

(in thousands)	2014		2013
	Budget	Actual	Actual
EXPENSES			
Staff and related expenses	$ 33,427	$ 30,944	$ 29,244
Contract services	6,878	6,546	3,732
Materials and supplies	5,762	4,993	4,694
Amortization	2,465	2,085	2,179
Data processing and maintenance	2,501	2,845	1,796
Total before plan specific and employer specific services	51,033	47,413	41,645
Plan specific services (Note 6)	1,968	1,563	1,449
Employer specific services (Note 7)	99	92	99
Total operating expenses	53,100	49,068	43,193
Recovery of costs (Note 8)	$ 53,100	$ 49,068	$ 43,193

Contractual obligations (Note 12)

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

Approved by the Board:

[Original signed by]

AL MONDOR, FCA
Chair
Board of Directors

[Original signed by]

GARTH SHERWIN, FCA
Chair
Audit Committee

ALBERTA PENSIONS SERVICES CORPORATION

STATEMENT OF FINANCIAL POSITION

As at December 31

(in thousands)	2014	2013
ASSETS		
Cash	$ 273	$ 234
Accounts receivable	51	51
Prepaid expenses	865	878
Due from pension plans (Note 8)	5,321	3,967
Tangible capital assets (Note 4)	35,866	23,236
	$ 42,376	$ 28,366
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	$ 2,957	$ 1,592
Accrued salaries and benefits	2,406	2,204
Accrued vacation pay	288	289
Deferred lease inducement (Note 12)	859	1,045
Unamortized deferred capital contributions (Note 4)	35,866	23,236
	42,376	28,366
NET ASSETS		
Net assets (Note 5)	–	–
	$ 42,376	$ 28,366

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

ALBERTA PENSIONS SERVICES CORPORATION

STATEMENT OF CASH FLOWS

Year ended December 31

(in thousands)	2014	2013
OPERATING TRANSACTIONS		
Non–cash items:		
Amortization of tangible capital assets	$ 2,085	$ 2,179
Decrease in deferred lease inducement (Note 12)	(186)	(187)
Amortization of unamortized deferred capital contributions	(2,085)	(2,179)
	(186)	(187)
Decrease in accounts receivable	–	9
Decrease (increase) in prepaid expenses	13	(209)
(Increase) decrease in due from pension plans	(1,354)	918
Increase (decrease) in accounts payable and accrued liabilities	1,365	(865)
Increase in accrued salaries and benefits	202	321
(Decrease) increase in accrued vacation pay	(1)	44
Cash provided by operating transactions	39	31
CAPITAL TRANSACTIONS		
Acquisition of tangible capital assets	(14,715)	(14,466)
FINANCING TRANSACTIONS		
Increase in unamortized deferred capital contributions	14,715	14,466
Increase in cash	39	31
Cash at beginning of year	234	203
Cash at end of year	$ 273	$ 234

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

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2014

1. AUTHORITY

Alberta Pensions Services Corporation (APS) is incorporated under the *Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000*. The issued share of the Corporation is owned by the President of Treasury Board and Minister of Finance (the Minister) on behalf of the Government of Alberta and, accordingly, the Corporation is exempt from income and other taxes. APS is referred to as "the Corporation" throughout the Notes to the Financial Statements.

2. NATURE OF OPERATIONS

The Minister, operating under the authority of the *Public Sector Pension Plans Act, Chapter P-41, Revised Statutes of Alberta 2000,* is responsible for administering the following public sector pension plans:

- Local Authorities Pension Plan (LAPP)
- Public Service Pension Plan (PSPP)
- Management Employees Pension Plan (MEPP)
- Special Forces Pension Plan (SFPP)
- Public Service Management (Closed Membership) Pension Plan (PSM(CM)PP)

The Minister, operating under the authority of the *Provincial Court Act* and the *Court of Queen's Bench Act, Chapter 196, Regulation 2001,* is responsible for administering the following public sector pension plans:

- Provincial Judges and Masters in Chambers (Registered) Pension Plan (PJMC(R)PP)
- Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (PJMC(U)PP)

The Minister, operating under the authority of the *Members of the Legislative Assembly Pension Plan Act, Chapter M-12, Revised Statutes of Alberta 2000,* is responsible for administering the following public sector pension plan:

- Members of the Legislative Assembly Pension Plan (MLAPP)

The Minister, operating under the authority of the *Financial Administration Act, Chapter F-12, Revised Statutes of Alberta 2000* and the *Supplementary Retirement Plan – Retirement Compensation Arrangement Directive (Treasury Board Directive 01/06),* is responsible for administering the following public sector pension plan:

- Supplementary Retirement Plan for Public Service Managers (MSRP)

Specific pension 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, 2015. 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).

Recovery of Costs

All recoveries of costs are reported on the accrual basis of accounting. Accruals for the recovery of costs are recorded as the related expenses are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenses
Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed.

Tangible Capital Assets
Tangible capital assets are recorded at cost. The threshold for capitalizing software is $100,000 and $5,000 for all other items, where these items have a useful life in excess of one year. Amortization is calculated on a straight-line basis as follows:

Assets under construction	Refer to (a) below
Leasehold improvements	Refer to (b) below
Compass system (c)	10 years
Furniture and equipment	5 years
Computer hardware	3 years
Computer software	3 years
Telephone system	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.

(c) Compass system includes the portion of costs transferred from assets under construction as the asset becomes available for productive use. The Compass system is the replacement for the existing pension administration system.

Capital Contributions
All externally restricted contributions received for the acquisition or construction of depreciable tangible capital assets are recognized as revenue when the assets are used for the purposes specified. All external restricted contributions received before meeting these criteria are recorded as a liability until the assets are used.

Use of Estimates
The preparation of financial statements in conformity with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities in the financial statements. Actual results could differ from these estimates, and the impact of any such differences will be recorded in future periods. The significant area requiring the use of management estimates relates to the estimated useful lives of tangible capital assets.

Financial Instruments
Financial instruments of the Corporation consist of cash, accounts receivable, due from pension plans, accounts payable and accrued liabilities, accrued salaries and benefits, and accrued vacation pay. Due to their short-term nature, the carrying value of these instruments approximates their fair value.

As the Corporation does not have any transactions involving financial instruments that are classified in the fair value category, there are no remeasurement gains and losses and, therefore, a statement of remeasurement gains and losses has not been presented.

4. TANGIBLE CAPITAL ASSETS

(in thousands)

	2014			2013
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Assets under construction	$ 23,043	$ –	$ 23,043	$ 20,840
Compass system	10,694	255	10,439	–
Computer hardware	9,556	7,816	1,740	1,012
Leasehold improvements	7,933	7,650	283	1,064
Furniture and equipment	1,682	1,434	248	315
Computer software	12,654	12,541	113	–
Telephone system	406	406	–	5
	$ 65,968	$ 30,102	$ 35,866	$ 23,236

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

	2014	2013
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

(in 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:

	2014				2013
Plan	Contract Services	Other	Board and Committee Remuneration	Total	Total
SFPP	$ 600	$ 65	$ 55	$ 720	$ 445
PSPP	298	96	31	425	408
MEPP	261	50	43	354	524
MSRP	20	1	–	21	43
PJMC(R)PP	12	4	–	16	4
PJMC(U)PP	13	–	–	13	3
PSM(CM)PP	9	–	–	9	7
MLAPP	5	–	–	5	15
	$ 1,218	$ 216	$ 129	$ 1,563	$ 1,449

7. EMPLOYER SPECIFIC SERVICES

(in 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	2014	2013
City of Edmonton	$ 6	$ 7
EPCOR	5	5
City of Calgary	3	9
Government of Alberta	2	2
Legislative Assembly	1	1
	17	24
Alberta Investment Management Corporation[1]	75	75
	$ 92	$ 99

[1]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.

8. RECOVERY OF COSTS

(in 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, 2014, $5,321 (2013 – $3,967) is receivable from the plans. The receivable at year end is directly related to the timing of the receipt and disbursement of funds.

Plan	2014	2013
LAPP	$ 30,913	$ 26,919
PSPP	12,000	10,618
MEPP	2,494	2,398
SFPP	2,332	2,007
MSRP	592	549
PSM(CM)PP	298	281
PJMC(R)PP	130	99
PJMC(U)PP	112	98
MLAPP	79	93
	48,950	43,062
Interest and other miscellaneous cost recoveries	26	32
Employer specific services (Note 7)	92	99
	$ 49,068	$ 43,193

9. EMPLOYEE FUTURE BENEFITS

(in thousands)

The Corporation participates in three multi-employer, defined benefit public sector pension plans: PSPP, MEPP and MSRP. The Trustee of the plans is the Minister. Multi-employer plans are accounted for as defined contribution plans. Accordingly, the Corporation does not recognize its share of any plan surplus or deficit. The expense for these pension plans is equivalent to the annual contributions of $3,577 for the year ended December 31, 2014 (2013 – $3,315). This amount is included in staff and related expenses.

An actuarial valuation is performed to assess the financial position of each plan and adequacy of the plan funding. At December 31, 2013, PSPP reported a deficiency of $1,254,678 (2012 – deficiency of $1,645,141), MEPP reported a surplus of $50,457 (2012 – deficiency of $303,423) and MSRP had a deficiency of $12,384 (2012 – deficiency of $51,870).

10. RELATED PARTY TRANSACTIONS

(in thousands)

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

		2014		2013
Service Alberta	$	1,165	$	1,125
Data processing, software licences, printing, postage and training				
Treasury Board and Finance		62		45
Risk management and insurance				
University of Alberta		8		3
Management training				
	$	1,235	$	1,173

At year end, $214 (2013 – $151) 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 2014 Annual Report.

12. CONTRACTUAL OBLIGATIONS

(in thousands)

The Corporation has entered into some multi-year agreements whereby the Corporation will be obligated to make future payments when the goods or services are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

Year		Obligations
2015	$	9,483
2016		2,294
2017		2,044
2018		2,044
2019		1,321
Thereafter		–
	$	17,186

The Corporation entered into a lease agreement for a new facility commencing on September 1, 2009. This agreement is for 10 years, with two optional renewal periods of five years each. As part of the lease agreement, the Corporation received a lease inducement of $1,868. The inducement is recognized as a reduction in lease expense over the 10-year term of the lease.

In 2012, the Corporation entered into an agreement for consulting services related to a major pension services systems replacement project with expected completion by March 2016, and total contractual obligations over the next two years totalling $7,667.

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. 2014 BUDGET

The Corporation's 2014 budget was approved by the Board of Directors on November 20, 2013.

15. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors.

ALBERTA SECURITIES COMMISSION

Financial Statements

Year Ended March 31, 2015

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, 2015, 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, 2015, 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 10, 2015

Edmonton, Alberta

Statement of Financial Position		
thousands of dollars	**March 31, 2015**	March 31, 2014
Assets		
Cash and cash equivalents (Note 4)	**7,064**	7,540
Accounts receivable	**135**	98
Prepaid expenses	**291**	213
Restricted cash (Note 3)	**1,068**	2,216
Investments (Note 4)	**26,065**	28,006
Capital assets (Note 6)	**6,787**	7,241
	41,410	45,314
Liabilities		
Accounts payable and accrued liabilities	**5,714**	4,815
Lease inducements	**2,391**	2,666
Accrued pension liability (Note 7)	**7,134**	6,458
	15,239	13,939
Net Assets		
Accumulated operating surplus, beginning of year	**30,692**	31,162
Operating deficit	**(6,245)**	(470)
Accumulated operating surplus, end of year	**24,447**	30,692
Accumulated remeasurement gains, end of year	**1,724**	683
Net assets, end of year (Note 3)	**26,171**	31,375
	41,410	45,314

Commitments and contingent liabilities (Note 10)

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

June 10, 2015

Statement of Operations

thousands of dollars			For year ended March 31
	2015	**2015**	2014
	Budget (Note 11)	**Actual**	Actual
Revenue			
Fees (Note 8)	**29,684**	**31,369**	30,196
Investment income (Note 5)	**1,196**	**1,568**	2,014
Other enforcement receipts Note 8)	**1,250**	**155**	1,037
Conference and other	**20**	**13**	15
Administrative penalties (repayments) (Note 3)	**250**	**(855)**	2,034
	32,400	**32,250**	35,296
Regulatory Expenses			
Salaries and benefits	**27,953**	**28,198**	25,632
Premises	**3,180**	**3,098**	3,044
Administration	**3,443**	**2,920**	2,893
Professional services	**2,870**	**2,694**	2,642
Amortization of capital assets	**1,490**	**1,081**	1,359
Investor education (Note 3)	**509**	**504**	196
	39,445	**38,495**	35,766
Budget contingency	**955**	**–**	-
Operating deficit	**(8,000)**	**(6,245)**	(470)

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

Statement of Remeasurement Gains and Losses (Notes 2 and 4)

thousands of dollars		For year ended March 31
	2015	2014
Accumulated remeasurement gains, beginning of year	**683**	867
Unrealized gains (losses) on investments during the year	**1,232**	(56)
Less: Amounts reclassified during the year to the Statement of Operations	**(191)**	(128)
Net remeasurement gains (losses) for the year	**1,041**	(184)
Accumulated remeasurement gains, end of year	**1,724**	683

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

Statement of Cash Flows

thousands of dollars	For year ended March 31	
Operating transactions	**2015**	2014
Fees and other	**31,404**	30,212
Payments to and on behalf of employees	**(26,271)**	(24,524)
Payments to suppliers for goods and services	**(9,955)**	(9,615)
Investment income	**1,568**	2,014
Other enforcement receipts	**155**	1,159
Administrative penalties (repayments)	**(855)**	2,034
Cash received from (used in) operating transactions	**(3,954)**	1,280
Capital transactions		
Cash used to acquire capital assets	**(653)**	(694)
Proceeds on disposal of capital assets	**-**	2
Cash used in capital transactions	**(653)**	(692)
Investing transactions		
Decrease (Increase) in restricted cash	**1,148**	(1,851)
Purchases of investments	**(1,517)**	(1,958)
Disposals of investments	**4,500**	3,000
Cash received from (used in) investing transactions	**4,131**	(809)
Decrease in cash and cash equivalents	**(476)**	(221)
Cash and cash equivalents, beginning of year	**7,540**	7,761
Cash and cash equivalents, end of year	**7,064**	7,540

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

Notes to the Financial Statements

March 31, 2015

in thousands of dollars unless otherwise noted

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, as an Alberta provincial corporation, is exempt from income tax under the *Income Tax Act* (Canada).

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

a) INVESTMENTS

The Alberta Investment Management Corporation (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 financial instruments of AIMCo's pooled investment funds 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 (i), (ii), and (iii). 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.

i. 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, any price point between the bid/ask spread that is deemed to be the most representative of fair value;
- 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
- The pools include derivative contracts that contain equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts, interest rate swaps and equity index futures contracts. The value of derivative contracts is included in the fair value of the pools.

ii. 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.

iii. Remeasurement Gains and Losses

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

b) VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Cash and cash equivalents, accounts receivable, restricted cash and accounts payable and accrued liabilities are measured at cost or amortized cost. The fair values of cash and cash equivalents, accounts receivable, restricted cash and accounts payable approximate their carrying values due to their short-term nature.

c) 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	one 15-year lease term to November 2025, and one 3.5-year lease term to March 2016.

d) FEES, ADMINISTRATIVE PENALTIES (REPAYMENTS) AND OTHER ENFORCEMENT RECEIPTS RECOGNITION

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

Administrative penalties and other enforcement receipts that include disgorgements, settlement payments and cost recoveries, are recognized when the decision is issued or agreement reached and collectability is assured, which is generally upon cash receipt.

e) EXPENSES

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed.

f) 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 five years.

The ASC also maintains a plan whereby it makes Registered Retirement Savings Plan contributions on behalf of certain employees of the ASC. The contributions are calculated based on a fixed percentage of the employee's salary to a maximum of the Registered Retirement Savings Plan contribution limit as specified in the *Income Tax Act* (Canada). The expense included in these financial statements represents the current contributions made on behalf of the employees.

g) LEASE INDUCEMENTS

Cash payments received as lease inducements are deferred and amortized on a straight-line basis over the lease terms (15 years ending November 30, 2025 and 3.5 years ending March 31, 2016).

h) MEASUREMENT UNCERTAINTY

The financial statements prepared in conformity with PSAS 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.

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.

i) 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.

j) 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. The 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 as a 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 include $1,068 of accumulated net penalty revenues ($2,216 in F2014) represented as restricted cash. The ASC is required to hold the entire balance of $1,068 in an interest bearing separate cash account, as directed by a decision of the Alberta Court of Appeal. The balance will be held pending an ASC review of sanctions imposed by an ASC tribunal.

The change in restricted cash is comprised of:

	2015	2014
Administrative penalties	**2,810**	6,910
Less provision for uncollectible amounts	**(2,789)**	(5,022)
Less repayments	**(985)**	-
Plus recoveries of prior-year assessments	**101**	126
Net realizable value	**(863)**	2,014
Interest income and other	**8**	20
Administrative penalties (repayments)	**(855)**	2,034
Plus education conference	**12**	13
Less eligible restricted cash expenses	**(479)**	(196)
Plus funds transferred due to Alberta Court of Appeal decision	**174**	-
Restricted cash increase (decrease)	**(1,148)**	1,851
Restricted cash, beginning of year	**2,216**	365
Restricted cash, end of year	**1,068**	2,216

NOTE 4 CASH AND CASH EQUIVALENTS AND INVESTMENTS

a) SUMMARY

	2015					2014			
				Fair Value Hierarchy					
	Cost	Remeasurement Gain	Fair Value	Level 1	% Level 2	Cost	Fair Value	%	
Cash and cash equivalents									
CCITF deposit	**7,064**	**-**	**7,064**	**-**	**7,064**	-	7,540	7,540	-
Investments									
CCITF deposit	**79**	**-**	**79**	**-**	**79**	0.3	78	78	0.3
Fixed-income securities	**18,496**	**1,179**	**19,675**	**-**	**19,675**	75.5	20,484	20,546	73.4
Canadian equities	**5,766**	**545**	**6,311**	**4,733**	**1,578**	24.2	6,761	7,382	26.3
	24,341	**1,724**	**26,065**	**4,733**	**21,332**	100.0	27,323	28,006	100.0

Cash and cash equivalents consist 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, 2015, securities held by the CCITF have a time weighted annualized return of 1.18 per cent (1.17 per cent in F2014).

At March 31, 2015, the carrying amounts of the ASC's investments are recorded on a fair-value basis. The ASC's investments are held in pooled investment funds established and managed by AIMCo. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

Fixed-income securities held at March 31, 2015 have maturities ranging from less than one year to over 10 years (38.3 per cent of maturities are greater than 10 years), a market yield of 2.61 per cent (3.22 per cent in F2014) and an average duration of 7.0 years (6.3 years in F2014). The fixed-income pool includes a mix of high-quality government and corporate (public and private) fixed-income securities and debt related derivatives. The fund is actively managed to minimize credit and market risk through the use of derivatives, portfolio duration and sector rotation.

Equity investments include publicly traded Canadian large cap and market index participant equities. The equity pools participate in derivative transactions to simulate index composition and minimize investment risk.

Disclosure of the hierarchy of inputs used in the determination of fair value for investments are reported according to the following levels:

a) Level one: Fair value is based on quoted prices in an active market.

b) Level two: Fair value is based on model-based valuation methods for which all significant inputs are market-observable other than quoted prices.

b) INVESTMENT RISK MANAGEMENT

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 in residual cash.

Income and financial returns of the ASC are exposed to credit, interest rate, price and market risk.

AIMCo manages risk through diversification within each asset class, quality and duration constraints on fixed-income instruments, and use of derivative contracts. Specific risk management measures and exposures include:

- fixed-income credit risk reduction primarily through credit ratings of investment grade (BBB Corporate Bonds) or higher of 95.9 per cent (94.6 per cent in F2014);
- for each 1.0 per cent increase in interest rates this would limit loss exposure on fixed income securities to 7.0 per cent (6.3 per cent in F2014) as this is controlled using duration constraints;
- price risk associated with equity investments that, subject to a decline of 10 per cent in equity values, with all other variables held constant, would cause a 2.5 per cent (2.5 per cent in F2014) decline in the fair value of total investments; and
- market risk using derivative instruments.

AIMCo uses several types of derivatives across most product areas to cost-effectively manage asset exposure, hedge interest rate and foreign currency risk, and enhance return. Current credit exposure is represented by the current replacement cost of all outstanding derivative contracts in a favourable position (positive fair value).

NOTE 5 INVESTMENT INCOME

The ASC's investment income included $914 from interest-bearing securities ($1,126 in F2014) and $654 from equities ($888 in F2014). The ASC's investments realized market value returns of 10.0 per cent for the year ended March 31, 2015 (6.6 per cent in F2014). This performance compares to a benchmark (composite of FTSE TMX 91 Day T-Bill, FTSE TMX Canada Uni-

verse Bond and S&P/TSX indexes) gain of 9.6 per cent in F2015 and a benchmark gain of 4.5 per cent in F2014.

NOTE 6 CAPITAL ASSETS

Computer Equipment & Software	Furniture & Equipment	Leaseholds		2015	2014
Estimated useful life	**3 years**	**10 years**	**Lease duration**		
Cost					
Beginning of year	**2,486**	**2,619**	**6,473**	11,578	12,147
Additions	**482**	**153**	**31**	666	604
Disposals	**(1)**	**(77)**	**-**	(78)	(1,173)
	2,967	**2,695**	**6,504**	12,166	11,578
Accumulated amortization					
Beginning of year	**1,775**	**1,045**	**1,517**	4,337	4,148
Amortization expense	**331**	**248**	**493**	1,072	1,359
Disposals	**37**	**(67)**	**-**	(30)	(1,170)
	2,143	**1,226**	**2,010**	5,379	4,337
Net book value	**824**	**1,469**	**4,494**	6,787	7,241

Leaseholds relate to a 15-year lease (leasehold net book value of $4,403) commencing December 1, 2010 and a 3.5 year lease (leasehold net book value of $91) commencing October 2012. The amortization expense of $1,081 recognized in the statement of operations includes a loss on disposal of $9. The disposals for accumulated amortization include immaterial adjustments relating to prior years.

NOTE 7 ACCRUED PENSION LIABILITY AND PENSION EXPENSE

The accrued pension liability is comprised of:

	2015	2014
Retirement Plan	**57**	84
Supplemental Pension Plan	**7,315**	6,539
Less accounts payable	**(238)**	(165)
	7,134	6,458

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

	2015	2014
Public Service Pension Plan	**1,275**	1,193
Registered Retirement Savings Plan	**684**	527
Supplemental Pension Plan	**918**	955
	2,877	2,675

a) Retirement Plan

The Retirement Plan is unfunded and the benefits will be paid to August 2017. For the year ended March 31, 2015, the ASC paid $27 ($26 in F2014).

b) Public Service Pension Plan

The ASC participates in the Public Service Pension Plan. At December 31, 2014, the Public Service Pension Plan reported a deficiency of $803,000 ($1,254,000 as at December 31, 2013). The ASC is not responsible for future funding of the plan deficit other than through contribution increases.

c) 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.

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.

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 imposed by the *Income Tax Act* (Canada) on registered pension arrangements.

Pension benefits from the Supplemental Pension Plan are payable on or after attainment of age 55 and are equal to 1.75 per cent of the highest average pensionable earnings (average over five years) for each year of service with the ASC. Members of the Supplemental Pension Plan become vested in the benefits of the plan after two years of service.

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, 2015, an independent actuary performed a Supplemental Pension Plan valuation. The next valuation is scheduled for March 31, 2018. 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	**2015**	2014
Accrued benefit and unfunded obligation	**8,951**	7,226
Unamortized actuarial loss	**(1,636)**	(687)
Accrued benefit liability	**7,315**	6,539

Accrued benefit obligation	**2015**	2014
Accrued benefit obligation at beginning of year	**7,226**	6,549
Service cost	**441**	502
Interest cost	**311**	281
Benefits paid	**(142)**	(106)
Actuarial Loss – experience & assumptions	**1,115**	-
Accrued benefit obligation at end of year	**8,951**	7,226

Pension Expense for the Supplemental Pension Plan	**2015**	2014
Service cost	**441**	503
Interest cost	**311**	281
Amortization of actuarial losses during the year	**166**	171
	918	955

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.

Assumptions	**2015**	2014
Discount rate, year-end obligation	**3.25%**	4.00%
Discount rate, annual pension expense	**3.25%**	4.00%
Rate of inflation, year-end obligation	**2.25%**	2.25%
Salary increases, year-end obligation	**3.00%**	3.50%
Remaining service life, year-end obligation	**5 years**	6 years

NOTE 8 FEES AND OTHER ENFORCEMENT RECEIPTS

Fees	**2015**	2014
Distribution of securities	**14,943**	14,139
Registrations	**10,895**	10,498
Annual financial statements	**4,945**	5,227
SEDI, exempt distributions & registration late fees	**394**	104
Orders (applications)	**192**	228
Fees	**31,369**	30,196

Other enforcement receipts	**2015**	2014
Settlement payments, disgorgements and cost recoveries assessed	**785**	11,892
Less provision for uncollectible amounts	**(488)**	(11,023)
Plus recoveries of prior-year assessments	**5**	168
Less repayment	**(147)**	-
Other enforcement receipts	**155**	1,037

NOTE 9 NATIONAL SYSTEMS

Canadian Securities Administrators (CSA), National Systems and Operating Agreements

The CSA National Systems are comprised of the following: System for Electronic Document Analysis and Retrieval (SEDAR), National Registration Database (NRD) and System for Electronic Disclosure by Insiders (SEDI). These systems are administered under a CSA National Systems operations management and governance agreement (the Agreement). The Agreement empowers the ASC, jointly with three other CSA members, to manage the systems and to engage an external service provider to operate the systems. The ASC, as one of the agreement signatories, commits to pay 25 per cent of any shortfall from approved system operating costs that exceed revenues. Alternatively, any revenues in excess of system operating costs (surplus) are accumulated for future systems operations including possible revenue shortfalls, fee adjustments and system enhancements. The surplus is not divisible; the CSA owns it as a group. As at March 31, 2015 the accumulated operating surplus totalled $128.8 million (March 31, 2014 - $115.7 million) made up of $35.4 million cash held by the Ontario Securities Commission earning interest at a rate of 1.85 per cent below the prime rate and $90 million marketable securities held in one year term deposits and GICs earning 1.25 per cent to 2.00 per cent. The average rate of interest for the year was 1.32 per cent (1.15 per cent in F2014).

NOTE 10 COMMITMENTS AND CONTINGENT LIABILITIES

Details of commitments to organizations outside the ASC are set out below.

a) Commitments

Premises Leases and Equipment Rental
Commitments arising from contractual obligations are associated primarily with the lease of premises to March 31, 2016 and November 30, 2025, and rental of office equipment to 2018 totalling $51,064 ($53,935 in F2014). These commitments become expenses of the ASC when the terms of the contracts are met.

2015–16	3,766
2016–17	4,376
2017–18	4,468
2018–19	4,468
2019–20	4,568
Thereafter	29,418
Total	51,064

Canadian Securities Administrators
The ASC shares, based on an agreed-upon cost-sharing formula, the costs incurred for the maintenance of the CSA Secretariat and any third-party costs incurred in the development of harmonized rules, regulations and policies. The CSA Secretariat was established to assist in the development and harmonization of rules, regulations and policies across Canada.

b) Contingent Liabilities

There are appeals involving the ASC that arise in the normal course of business. The outcome of these matters are not determinable at this time, therefore impact to operating deficit cannot be determined. However, management does not expect the impact to be material.

NOTE 11 BUDGET

The ASC's F2015 budget was approved by the Commission on January 15, 2014.

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 $49 in administration expenses primarily for insurance and postage ($36 in F2014).

NOTE 13 COMPARATIVE FIGURES

Certain F2014 figures have been reclassified to conform to the F2015 presentation.

Schedule of Salaries & Benefits – Schedule A

thousands of dollars				2015	2014
	Base salary[1]	Cash benefits[2]	Non-cash benefits[3]	Total	Total
Chair, Securities Commission[4]	533	89	169	791	764
Executive Director	375	63	181	619	596
Vice-Chair, Securities Commission[4]	361	57	142	560	542
Vice-Chair, Securities Commission[4,6]	356	56	57	469	381
Independent Members[5]	474	–	–	474	522

[1] *Base salary includes regular base pay and Independent Member compensation.*

[2] *Cash benefits include variable pay, Chair and Executive Director's automobile allowances, transit allowances and memberships.*

[3] *Employer's share of all employee non-cash benefits includes: health, insurance, pension, professional memberships, RRSP and current and prior service cost for the unfunded Supplemental Pension Plan for designated executives as described in Note 7(d) of the financial statements and summarized in the accounting narrative.*

[4] *The Chair and Vice-Chairs are full-time Commission Members.*

[5] *During the year there were changes in the Member Fees. The Independent Members' compensation includes total fees paid for governance responsibilities of $302,000 ($290,000 in F2014) and hearing and application panel participation of $172,000 ($232,000 in F2014). Independent Member fees include:*

	April 1 to October 14	Effective on or after October 15
Annual retainer	$ 10,000	$ 10,000
Committee memberships (other than Audit Committee)	$ 2,500	$ 2,500
Committee memberships (Audit Committee)	$ 2,500	$ 4,000
Committee chairing (other than Audit Committee)	$ 5,000	$ 5,000
Committee chairing (Audit Committee)	$ 5,000	$ 8,000
Lead Independent Member	$ 5,000	$ 5,000
Meeting attendance fee	$1,000 per day for an ASC meeting; $750 for a Committee meeting	$1,000 per day for an ASC meeting; $750 for a Committee meeting
Hearing fees	$1,000 per hearing day; and $125 per hour of related preparation, review and decision writing	$1,500 per hearing day; and $200 per hour of related preparation, review and decision writing
Hearing fees (Panel Chair)	$1,000 per hearing day; and $125 per hour of related preparation, review and decision writing	$2,000 per hearing day; and $250 per hour of related preparation, review and decision writing

[6] *This Vice-Chair does not participate in the Supplemental Pension Plan, but participates in the RRSP program. This RRSP benefit is reported on Schedule A, Non-Cash Benefits.*

Supplemental Retirement Benefits

Under the terms of the Supplemental Pension Plan as described in Note 7(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 7(d). The cost of these benefits is actuarially determined using the projected benefit method pro-rated on services, a cost of borrowing interest rate and management's best estimate of expected inflation, salary costs and the remaining service period for benefit coverage. Net actuarial gains and losses of the benefit obligations are amortized over the average remaining service life of the employee group. Current service cost is the actuarial present value of the benefits earned in the fiscal year. Prior service and other costs include amortization of past service costs on plan initiation, amortization of actuarial gains and losses, and interest accruing on the actuarial liability.

Annual expense

thousands of dollars			**2015**	2014[1]
	Current service costs	**Prior service and other costs**	**Total**	Total
Chair, Securities Commission	**144**	**(5)**	**139**	129
Executive Director	**118**	**31**	**149**	142
Vice-Chair, Securities Commission	**87**	**25**	**112**	106
Vice-Chair, Securities Commission[2]	**-**	**-**	**-**	-

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, 2014	Changes in accrued obligation	**Accrued obligation March 31, 2015**
Chair, Securities Commission	900	130	**1,030**
Executive Director	1,189	249	**1,438**
Vice-Chair, Securities Commission	649	274	**923**
Vice-Chair, Securities Commission[2]	-	-	-

[1] *The previous Vice-Chair had annual expenses of $137,000 in F2014.*

[2] *This Vice-Chair does not participate in the Supplemental Pension Plan, but participates in the RRSP program. This benefit is reported on Schedule A, Non-Cash Benefits.*

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N.A. PROPERTIES (1994) LTD.

Financial Statements

Year Ended March 31, 2015

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, 2015, and the statement of operations and surplus for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of N.A. Properties (1994) Ltd. as at March 31, 2015, 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 5, 2015

Edmonton, Alberta

Statement of Financial Position

As at March 31

	($ thousands)	
	2015	**2014**
Assets		
Cash and cash equivalents (Note 4)	$ 3,057	$ 3,022
Note receivable (Note 5)	91	75
	$ 3,148	$ 3,097
Liabilities		
Obligations under indemnities and commitments (Note 6)	$ 120	$ 137
Net assets		
Accumulated surplus	3,028	2,960
	$ 3,148	$ 3,097

The accompanying notes are part of these financial statements.

On Behalf of the Board:

[Original signed by]

Lowell Epp
Sole Director

Statement of Operations and Surplus

Year Ended March 31

	($ thousands)	
	2015	**2014**
Revenue		
Interest and other	$ 51	$ 48
Operating income before provision	51	48
Recovery of obligations under indemnities and commitments (Note 6)	17	17
Excess of revenue over expense for the year	68	65
Accumulated surplus, beginning of year	2,960	2,895
Accumulated surplus, end of year	$ 3,028	$ 2,960

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31
(thousands of dollars)

NOTE 1 AUTHORITY

N.A. Properties (1994) Ltd. (the "Company") was continued on March 31, 1994 as an amalgamated corporation under the *Business Corporation Act, Statutes of Alberta 2000,* Chapter B-9, as amended. The Province of Alberta owns all issued shares of the Company and accordingly the Company is exempt from income tax.

NOTE 2 NATURE OF OPERATIONS

The Company's mandate is to dispose of its remaining assets. The Province of Alberta has indemnified the Company for all net losses, expenses or liabilities existing or subsequently incurred by the Company. There were no recoveries from the Province of Alberta in satisfaction of this indemnity in the past three years.

The Company also manages indemnities described in Note 6.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards. Effective April 1, 2012, the Company adopted PS 3450 Financial Instruments. This section deals with how to account for and report financial instruments. The accounting policies of significance to the Company are as follows:

a) FINANCIAL STATEMENT PRESENTATION

A cash flow statement is not provided due to the limited nature of the Company's operations. All information about the Company's cash flows are contained within the financial statements.

b) VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of cash is estimated to approximate its carrying value because of the short-term nature of this instrument.

c) FINANCIAL INSTRUMENTS

As the Company does not have any transactions involving financial instruments that are classified in the fair value category and has no foreign currency transactions, there are no remeasurement gains and losses and therefore a statement of remeasurement gains and losses has not been presented.

NOTE 4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents is comprised of deposits in the bank. At March 31, 2015 the deposits in the bank had a time weighted return of 1.2% per annum (2014: 1.2% 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, 2015 is $91 (2014: $75). The note receivable is discounted by 20% based on the yield in effect at the time of issuance and adjusting the rate for a risk premium.

NOTE 6 INDEMNITIES AND COMMITMENTS

In the past, the Company provided indemnities of principal and interest on mortgages sold to a Canadian chartered bank. The principal and interest on these mortgages totaled $120 at March 31, 2015 (2014: $137). 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)	
	2015	**2014**
Beginning balance	$ 137	$ 154
Recovery of obligations under indemnities and commitments	(17)	(17)
Ending balance	$ 120	$ 137

NOTE 7 SHARE CAPITAL

		($ thousands)	
		2015	**2014**
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, 2015.

NOTE 9 FEES AND SALARIES

There were no director's fees or salaries paid during the year. The Company had no employees in 2015.

NOTE 10 BUDGET

The Company's annual budget appears in the 2014-15 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, 2014

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, 2014, and the consolidated statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Gainers Inc. as at September 30, 2014, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

December 18, 2014

Edmonton, Alberta

Consolidated Statement of Financial Position

As at September 30

	($ thousands)	
	2014	**2013**
Assets		
Cash	$ 1	$ 1
Investment in and amount due from former affiliate (Note 3)	-	-
	$ 1	$ 1
Liabilities		
Accounts payable and accrued liabilities	$ 4	$ 7
Principal and interest on prior years income taxes (Note 4)	11,334	11,334
Long-term debt (Note 5)	193,189	193,178
	204,527	204,519
Net Liabilities		
Accumulated deficit	(204,526)	(204,518)
	$ 1	$ 1

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)		
	2014		2013
	Budget	Actual	Actual
Expenses			
Legal expenses	$ -	$ 4	$ 5
General and administrative	-	4	4
Annual deficit	-	(8)	(9)
Accumulated deficit, beginning of year	-	(204,518)	(204,509)
Accumulated deficit, end of year	$ -	$ (204,526)	$ (204,518)

The accompanying notes are part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended September 30

	($ thousands)	
	2014	2013
Cash provided by (used in)		
Operating activities		
Annual deficit	$ (8)	$ (9)
(Decrease) increase in payables	(3)	3
	(11)	(6)
Financing activities		
Proceeds from long-term debt	11	6
Change in cash	-	-
Cash, beginning of year	1	1
Cash, end of year	$ 1	$ 1

Notes to the Consolidated Financial Statements

September 30
(in thousands of dollars, except per share amounts)

NOTE 1 AUTHORITY

Gainers Inc. is a commercial Crown-controlled corporation and operates under the Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000. The Corporation is controlled by the Government of Alberta and is exempt from income and other taxes.

Through September 25, 1993, the company operated on a going-concern basis, which contemplated the realization of assets and discharge of liabilities in the normal course of business. Events since that date have resulted in the discontinuance of all ongoing business. The company has disposed of its non-monetary assets, with the exception of its investment in Pocklington Corp. Inc. described below. Management does not expect any recovery of that investment.

Any repayment of the long-term debt by the company is expected by management to be immaterial.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards.

a) REPORTING ENTITY AND METHOD OF CONSOLIDATION

The consolidated financial statements reflect the assets, liabilities, revenues, and expenses of the reporting entity, which is composed of all organizations, which are controlled by Gainers. These organizations are Gainers Properties Inc. (GPI) and MPF Note Inc., collectively the “company”.

b) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year end is recorded as deferred revenue.

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed. Interest expense includes debt servicing costs such as amortization of discounts and premiums, foreign exchange gains and losses, and issuance costs.

Assets

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Liabilities

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

Liabilities include the unrecognized portions of government transfers received and restricted donations and other contributions.

Financial Instruments

As the Company does not have any transactions involving financial instruments that are classified in the fair value category and has no foreign currency transactions, there are no remeasurement gains and losses and therefore a statement of remeasurement gains and losses has not been presented.

Valuation of Financial Assets and Liabilities

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

The fair values of cash, accounts payable and accrued liabilities are estimated to approximate their carrying values because of the short-term nature of these instruments. Fair values of loans and debts are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair value with sufficient reliability.

NOTE 3 INVESTMENT IN AND AMOUNTS DUE FROM FORMER AFFILIATES

The investment, which has been written down to $nil value, comprises 77,500 Class A preferred shares of Pocklington Corp. Inc. with a par value of, and which are redeemable at, US $100 per share and which carry annual non-cumulative dividends of US $11 per share. In November 1989, a demand for redemption of the shares was made by Gainers Inc. and an action was commenced against Mr. Pocklington arising from this investment, seeking by way of damages the monies invested together with interest thereon. Mr. Pocklington has counterclaimed seeking statutory indemnification as a director for his actions. Management believes that this counterclaim is without merit. Management does not expect any recovery from this claim.

Advances to the former affiliate, Pocklington Financial Corporation (formerly Pocklington Holdings Inc.), which are recorded at $nil value, are non-interest bearing and have no specific terms of repayment. In January 1990, Gainers Inc. made demand on and brought an action against Pocklington Financial Corporation to recover the advances. In December 1995, a judgment was rendered and collected in favour of Gainers Inc. in the amount of $770. This amount has been recovered by the company from Pocklington Financial Corporation. This amount was subject to the secured claim of the Province as described in Note 5 and was subsequently remitted to the Province of Alberta ("Alberta"). Gainers Inc. appealed this decision to the Alberta Court of Appeal and was successful on all issues. The Court of Appeal ordered that a new calculation of the amount to be repaid be made by the Court of Queen's Bench. Gainers Inc. has not taken further steps as Pocklington Financial Corporation is bankrupt.

On August 8, 1989, Gainers Inc. acquired the shares of 350151 Alberta Ltd. (350151) for $100 cash. On October 4, 1989, Gainers Inc., at the direction of the former owner, sold the shares of 350151 to Pocklington Holdings Inc. for one hundred dollars cash. Alberta filed a claim to have the sale reversed. The accounts of 350151 are not included in these financial statements. In December 1995, a judgment as to the ownership of the shares was rendered in favour of Pocklington Financial Corporation. Alberta appealed this decision, and on November 21, 2000 the Alberta Court of Appeal reversed the 1995 judgment. The Court of Appeal has held that the purported sale of the shares of 350151 to Pocklington Holdings Inc. on October 4, 1989 was a breach of the Master Agreement (Note 5) and awarded $4,700 in damages plus trial and appeal costs of Alberta against Mr. Pocklington. This judgment was subsequently paid from realizing on collateral security held for the debt.

NOTE 4 INCOME TAXES

The prior years' liability for income taxes plus accrued interest is an unsecured debt. The long-term debt owed to Alberta is a secured debt and thus ranks in priority. The company will not be able to settle this liability for income taxes and interest as the amount owing to Alberta exceeds the amount which is reasonably expected to be recovered from the remaining assets of the company.

The company has capital and non-capital income tax losses available for carry forward to reduce taxable income of future years. The amount of capital losses available for carry forward is $54,491. The amount of non-capital losses available for carry forward is $151. These non-capital losses expire between 2014 and 2034.

NOTE 5 LONG-TERM DEBT

	($ thousands)	
	2014	**2013**
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	13,890	13,879
Accrued interest	34,491	34,491
	$193,189	$193,178

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, 2014 is estimated to be $nil.

PROVINCE OF ALBERTA

On September 25, 1987, Gainers Inc. and GPI entered into the Master Agreement with Alberta, which provided for a term loan facility and a loan guarantee. Pursuant to the Master Agreement, Gainers Inc. and GPI granted securities to 369413 Alberta Ltd. (Nominee) which holds the securities and loans, as later described in this Note, in trust for

NOTE 5 LONG TERM DEBT... CONTINUED

Alberta. A number of events of default, which still continue, occurred during 1989, resulting in the long-term debt and liability to Alberta becoming due and payable. Alberta acted on its security and, on October 6, 1989, took control of Gainers Inc.'s issued and outstanding shares, which previously were controlled by Mr. Pocklington.

On October 6, 1989, operating loans of $20,979, and a term loan of US $8,749 were purchased, transferred and assigned to the Nominee. In addition, Alberta made payments from October 6, 1989 under the guarantee to cover principal and interest payments due, until the purchase in December 1993 of the balance due under the promissory note made by GPI to Yasuda Mutual Life Assurance Company.

INTEREST

The interest on the loans and other indebtedness owing to Alberta has not been paid in accordance with the terms of the indebtedness. Effective February 5, 1994, Alberta declared all indebtedness owing by the company to Alberta to be non-interest bearing from the later of February 5, 1994 and the date the indebtedness to the Province of Alberta was incurred.

SECURITY

Collateral security for the indebtedness to Alberta includes a general assignment of book debts, general security agreements over all real and personal property of the company, a pledge of inventory, and fixed and floating charge debentures amounting to $70,000 covering all of the assets of the company. The company continues to be in default and in breach of certain covenants of this indebtedness.

MASTER AGREEMENT

The Master Agreement provided for Alberta to advance a term loan to GPI in the aggregate amount of $12,000. As at September 30, 1989, $6,000 of the term loan had been advanced. An interest payment due on October 1, 1989 was not made and Alberta, acting on its security, seized control of the company. Since default has occurred under the Master Agreement, the entire amount of the monies advanced for the term loan is due and owing by GPI to Alberta. The term loan which has been advanced, and interest thereon, and the performance and observance of the other covenants of GPI under the Master Agreement, including the obligations of GPI to the Nominee in the principal sum of $67,000 dated September 25, 1987 and constituting a fixed mortgage and charge over all of the real property, equipment and chattels of GPI and a floating charge over all of the undertaking and other property and assets of GPI, and by a pledge by GPI of preferred shares held by GPI in Gainers Inc.

NOTE 6 CONTINGENT LIABILITIES

a) The company and Alberta have filed claims against Mr. Pocklington and companies controlled by him for recovery of certain loans, payments and other transactions prior to October 6, 1989. The claim aggregates approximately $38,000 plus interest. Management does not expect any recovery of this claim.

b) Under the terms of the Master Agreement, the company and Mr. Pocklington are liable for all losses, expenses, costs and claims incurred by Alberta as a consequence of a default by the company, as defined in Note 1, or by Mr. Pocklington. As a result, since the date of default the company has incurred approximately $14,226 (net of repayments)

in the consolidated financial statements for these costs and expenses. It is expected that further costs and expenses will be incurred in the future as a result of continuing default. Management does not expect any recovery of this claim.

c) Alberta has brought a claim against Mr. Pocklington for damages arising out of breaches by him of the Master Agreement or alternatively, negligent misrepresentations made by him in certificates sworn by him in 1988 and 1989, which caused the Crown to make advances under the Term Loan.

Alberta obtained summary judgment which has been upheld by the Alberta Court of Appeal in the amount of $2,000 in respect of one of the certificates made by Mr. Pocklington in 1988. The Court of Appeal sent the issue of the amount of interest on the judgment to the Trial Court to calculate. The Trial Court granted summary judgment to Alberta for $10,000 for such interest. The judgments were renewed by Order granted November 25, 2009, in the amount of $12,747. Mr. Pocklington has filed for bankruptcy in California and the Province has registered its claim in California.

NOTE 7 SHARE CAPITAL

AUTHORIZED

Unlimited number of Class A common shares.

Unlimited number of Class B preferred shares, redeemable/retractable at $1 per share with non-cumulative annual dividends at a rate not exceeding 16% of the redemption value.

12,000,000 Class C preferred shares redeemable at $1 per share with cumulative annual dividend compounded semi-annually at 9.6% of the redemption price.

ISSUED

	($ thousands)	
	2014	**2013**
101 Class A common shares	$ 1	$ 1
6,000,000 Class C preferred shares	6,000	6,000
	6,001	6,001
Less: 6,000,000 Class C preferred shares held by GPI	(6,000)	(6,000)
	$ 1	$ 1

NOTE 8 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Gainers Inc.

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Government Business Enterprises

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ALBERTA GAMING AND LIQUOR COMMISSION

Financial Statements

Year Ended March 31, 2015

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, 2015, and the statements of operations, 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, 2015, 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 27, 2015

Edmonton, Alberta

Balance Sheet

(thousands of dollars)

Balance Sheet
(thousands of dollars)

At March 31

	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents (note 4)	$ 194,488	$ 163,624
Accounts receivable	22,832	37,190
Prepaid expenses and inventories (note 5)	11,255	12,746
	228,575	213,560
Property, Plant and Equipment (note 6)	276,795	261,548
Computer Software (note 7)	29,400	31,391
Investment Property (note 8)	33,765	7,881
Investment in Western Canada Lottery Corporation (note 16)	35,204	31,074
	$ 603,739	$ 545,454
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 183,122	$ 152,458
Due to the Alberta Lottery Fund (note 9)	108,085	84,547
	291,207	237,005
Due to General Revenues (note 10)	279,461	276,689
Provision for Loss on Leased Properties (notes 17 and 18)	225	236
Net Defined Benefit Pension Liability (notes 3d and 11)	68,213	58,090
Accumulated Other Comprehensive Income (Loss) (note 11)	(35,367)	(26,566)
	$ 603,739	$ 545,454

The accompanying notes are part of these financial statements.

Approved by:

BOARD

[Original signed by]

Thorna Lawrence, CA
Chair of the Audit Committee

MANAGEMENT

[Original signed by]

D. W. (Bill) Robinson
President and Chief Executive Officer

Statement of Operations
(thousands of dollars)

For the year ended March 31

	2015	2014
Liquor Revenue (note 12)	$ 2,540,264	$ 2,402,714
Liquor Cost of Sales (note 12)	(1,758,364)	(1,644,463)
	781,900	758,251
Gaming Revenue (note 12)	1,905,602	1,844,027
	2,687,502	2,602,278
Commissions and Federal Payments (note 13)	(475,501)	(464,221)
Operating Expenses (note 14)	(221,043)	(223,778)
PROFIT FROM OPERATIONS FOR THE YEAR	1,990,958	1,914,279
Other Revenue (note 15)	17,833	19,078
Income from Western Canada Lottery Corporation (note 16)	285,322	298,126
NET OPERATING RESULTS (notes 3j and 12)	$ 2,294,113	$ 2,231,483

The accompanying notes are part of these financial statements.

Statement of Comprehensive Income
(thousands of dollars)

For the year ended March 31

	2015	2014
NET OPERATING RESULTS (notes 3j and 12)	$ 2,294,113	$ 2,231,483
OTHER COMPREHENSIVE INCOME (LOSS)		
Net Actuarial Losses (note 11)	(8,801)	(9,735)
TOTAL COMPREHENSIVE INCOME	$ 2,285,312	$ 2,221,748

The accompanying notes are part of these financial statements.

Statement of Cash Flows
(thousands of dollars)

For the year ended March 31

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating results for the year	$ 2,294,113	$ 2,231,483
Decrease in provision for loss on leased properties	(11)	(1,515)
Amortization	51,518	59,851
Gain on disposal of property, plant and equipment	(1,704)	(1,150)
Net changes in operating assets and liabilities	47,834	(20,046)
	2,391,750	2,268,623
Transfers to the Alberta Lottery Fund	(1,504,803)	(1,493,495)
Transfers to General Revenues	(763,000)	(740,000)
	123,947	35,128
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(62,627)	(106,183)
Purchase of computer software	(5,203)	(3,868)
Additions to investment property	(26,396)	(434)
Proceeds on disposal of property, plant and equipment	5,273	3,726
Net change in Investment in Western Canada Lottery Corporation	(4,130)	1,030
	(93,083)	(105,729)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	30,864	(70,601)
CASH AND CASH EQUIVALENTS, beginning of year	163,624	234,225
CASH AND CASH EQUIVALENTS, end of year	$ 194,488	$ 163,624
Supplemental cash flow information:		
Interest received	$ 1,624	$ 2,082

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, 2015 were authorized by the Board on May 27, 2015.

NOTE 2 BASIS OF PREPARATION

Statement of Compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Standards Interpretation Committee (IFRIC).

These financial statements have been prepared on a historical cost basis and are presented in Canadian dollars. All values are rounded to the nearest thousand dollars, except where indicated.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The preparation of the Commission's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

For long lived assets, judgment is used to estimate each component of an asset's useful life and is based on an analysis of all pertinent factors including the expected use of the asset. If the estimated useful lives were incorrect, this could result in an increase or decrease in the annual amortization expenses, and future impairment charges.

For the provision for pension liability, judgment is used to estimate the underlying assumptions for future salary increases, inflation rates, and discount rates. If these assumptions are incorrect, this could result in an adjustment to the liability and the gain or loss recorded in Other Comprehensive Income (Loss) in the Statement of 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 receivable	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 impairment exists, the loss is recorded on the Statement of Operations. 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, related duties and taxes are not recorded in these financial statements.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Cont'd)

(c) Property, Plant and Equipment, Computer Software and Investment Property

Property, plant and equipment, computer software, and investment property are reported at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful life of the assets, reducing the original cost to estimated residual value. Where an item is comprised of major components with different useful lives, the components are accounted for as separate items. Amortization begins when the asset is put into use. Land is not amortized.

The estimated useful lives, residual value and amortization method are reviewed at the end of each fiscal year, with the effect of any changes in estimate accounted for on a prospective basis.

Investment property is defined as land, building or a combination thereof, that is held to earn rental income rather than for use in the ordinary course of business by the owner. The warehouse located in St. Albert that is leased to Connect Logistics Services Inc. is an investment property. Investment property also includes the acquired land for construction of a new liquor warehouse.

(d) Defined Benefit Pension Plans

The Commission participates in multi-employer defined benefit pension plans sponsored by the Province of Alberta: the Public Services Pension Plan (PSPP), the Management Employees Pension Plan (MEPP), and the Supplementary Retirement Plan for Public Service Managers (SRP). The cost of providing benefits under the defined benefit plans is determined separately for each plan by independent actuaries based on several assumptions. An expense and a liability for benefits earned are recognized in the period that employee service has been rendered. Under defined benefit pension plan accounting, the Commission must recognize its proportionate share, determined on an actuarial basis, of plan assets, obligations, re-measurement amounts, and service cost.

For defined benefit pension plans, current benefit cost represents the actuarial present value of the benefits earned in the current period. Such cost is actuarially determined using the accrued benefit method prorated on service, a market interest rate, management's best estimate of projected costs, and the expected years of service until retirement. The liability is the present value of the defined benefit obligation, which is determined by discounting the estimated future cash flows using a discount rate based on market yields of high quality corporate bonds having terms to maturity that approximate the duration of the related benefit liability. Interest expense represents the amount required in each year to build up the liability over the projected period to its future value. Re-measurement changes in benefit liabilities, composed of actuarial changes in assumptions and experience gains and losses, are recognized in other comprehensive income.

The Net Defined Benefit Pension Liability, including the underlying assumptions for future salary increases, inflation rates and discount rates, is reviewed annually.

(e) Investment in an Associate – Western Canada Lottery Corporation

The Commission's investment in its associate is accounted for using the equity method of consolidation. The associate is the Western Canada Lottery Corporation (WCLC) in which the Commission has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the associate but has no control or joint control over those policies.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Cont'd)

(e) Investment in an Associate – Western Canada Lottery Corporation (Cont'd)

WCLC is a non-profit organization authorized to manage, conduct and operate ticket lottery activities for its members, the governments of Alberta, Saskatchewan, and Manitoba. The Yukon Territory, the Northwest Territories, and Nunavut participate as associate members.

Under the equity method, the investment in WCLC is carried in the balance sheet at cost plus post acquisition changes in the Commission's share of net assets of WCLC.

The Statement of Operations 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.

The financial statements of WCLC are prepared under IFRS for the same reporting period as the Commission. Where necessary, adjustments are made to bring the accounting policies into conformity with those of the Commission.

If there are indicators that the investment in WCLC is impaired, the Commission calculates the amount of impairment as the difference between the recoverable amount of WCLC and its carrying value. This difference would be recognized in the income from WCLC in the Statement of Operations.

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.

(f) Revenue and Expense Recognition

Revenue from gaming terminals, video lottery terminals and personal play electronic bingo is based on each bet and is recognized at the time that play has been completed and all machine credits have been played or converted to cash. Revenue from play along electronic bingo is recognized at the time of purchase of the cards. Prizes, commissions and federal payments related to gaming terminals, video lottery terminals, and all forms of electronic bingo, are recognized on the same basis as related revenues.

Revenue from the sale of liquor is recognized when goods are shipped and title has passed to the customer. Revenue received in advance of shipment is deferred and recognized when goods are shipped and title has passed to the customer. Cost of product sold related to liquor is recognized on the same basis as the related revenue.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Cont'd)

(g) Impairment of Non-Financial Assets

At each reporting date, if there are indicators that non-financial assets carried at amortized cost may be impaired, the Commission would complete a formal impairment assessment. For this purpose, non-financial assets would be grouped at the lowest levels for which are there are separately identifiable cash inflows; these groupings are referred to as cash-generating units. An impairment loss would be the amount by which the cash-generating units' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses would be recognized in the Statement of Operations.

For previously impaired non-financial assets, an assessment is made annually as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Commission estimates the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the non-financial asset's recoverable amount since the last impairment loss was recognized. An impairment loss is reversed only to the extent that the non-financial asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the non-financial asset in prior years.

Such reversal is recognized in the Statement of Operations in a manner consistent with the originally recognized impairment loss.

(h) Federal Taxes

Under the Excise Tax Act and Games of Chance (GST/HST) Regulations, the Commission is required to pay GST and Federal Tax on gaming operations. However, the Commission as a Crown agent of the Government of Alberta has a tax-exempt status for its liquor and regulatory operations.

(i) Operating Expenses

Operating expenses are allocated against Provincial Lotteries Revenue or Liquor and Other Revenue, based on the nature of the expense.

(j) Allocation of Net Operating Results

The *Gaming and Liquor Act* requires the Commission to transfer net operating results to the Alberta Lottery Fund and the General Revenue Fund.

Net operating results arising from the conduct of authorized gaming terminal, video lottery, lottery ticket, and electronic bingo in Alberta is transferred to the Alberta Lottery Fund. Note 9 discloses further information on amounts due to the Alberta Lottery Fund.

Net operating results of liquor operations and other income is transferred to General Revenues. Note 10 discloses further information on amounts due to General Revenues.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Cont'd)

(k) Contingent Liabilities and Provisions

Contingent liabilities are possible obligations that may result in the future sacrifice of economic benefits arising from existing conditions or situations involving uncertainty.

Provisions are recognized when the Commission has a present obligation as a result of a past event. It is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Statement of Operations 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. The following information 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.

IFRS 9 (2014) *Financial Instruments* – Issued on July 24, 2014, mandatorily effective for annual reporting periods commencing on or after January 1, 2018, with early adoption permitted. For a limited period, previous versions of IFRS 9 (2013) may be adopted early if not already done so, provided the relevant date of initial application is before February 1, 2015. The Standard includes requirements for recognition, measurement, impairment, and de-recognition of financial instruments, as well as general hedge accounting. The Commission is not expecting any impact on the financial statements in relation to this new standard.

IFRS 15 *Revenue from Contracts with Customers* - Issued in May of 2014, mandatorily effective for annual reporting periods commencing on or after January 1, 2017. The Standard provides framework for recognition, measurement, and disclosure of revenue, as well as a requirement for entities to provide users of financial statements with more informative and relevant revenue-related disclosures. The Commission is currently assessing the impact of this new standard on the financial statements.

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, 2015, securities held by the Fund had a time-weighted yield of 1.18% per annum (March 31, 2014: 1.17% 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)

	2015	2014
Gaming Parts	$ 9,358	$ 10,357
Prepaid Expenses	1,280	1,542
Supplies	617	847
	$ 11,255	$ 12,746

NOTE 6 PROPERTY, PLANT, AND EQUIPMENT
(in thousands)

	Land	Buildings & Leasehold Improvements	Vehicles	Equipment & Computer Hardware	Gaming Equipment &Terminals	Total
Cost, March 31, 2014	$ 2,057	$ 36,682	$ 3,800	$ 33,482	$ 426,778	$ 502,799
Additions	-	1,217	1,034	2,001	58,375	62,627
Disposals	-	-	(970)	(2,115)	(38,013)	(41,098)
Cost, March 31, 2015	2,057	37,899	3,864	33,368	447,140	524,328
Accumulated Amortization, March 31, 2014	-	(20,608)	(2,876)	(25,698)	(192,069)	(241,251)
Additions	-	(960)	(641)	(1,227)	(40,984)	(43,812)
Disposals	-	-	954	2,115	34,461	37,530
Accumulated Amortization, March 31, 2015	-	(21,568)	(2,563)	(24,810)	(198,592)	(247,533)
Net Book Value, March 31, 2015	$ 2,057	$ 16,331	$ 1,301	$ 8,558	$ 248,548	$ 276,795
Cost, March 31, 2013	$ 2,057	$ 34,959	$ 3,670	$ 32,203	$ 434,079	$ 506,968
Additions	-	1,776	716	7,180	96,511	106,183
Disposals	-	(53)	(586)	(5.901)	(103,812)	(110,352)
Cost, March 31, 2014	2,057	36,682	3,800	33,482	426,778	502,799
Accumulated Amortization, March 31, 2013	-	(19,780)	(2,839)	(29,719)	(242,764)	(295,102)
Additions	-	(881)	(618)	(1,880)	(50,590)	(53,969)
Disposals	-	53	581	5,901	101,285	107,820
Accumulated Amortization, March 31, 2014	-	(20,608)	(2,876)	(25,698)	(192,069)	(241,251)
Net Book Value, March 31, 2014	$ 2,057	$ 16,074	$ 924	$ 7,784	$ 234,709	$ 261,548

The estimated useful life over which property, plant, and equipment are amortized is as follows:

Buildings	Up to 40 years
Leasehold Improvements	Lease term
Vehicles	3 years
Equipment and Computer Hardware	Up to 10 years
Gaming Equipment and Terminals	Up to 8 years

NOTE 7 COMPUTER SOFTWARE
(in thousands)

	Computer Software	Software Under Development	Gaming (VLT) Software	Total
Cost, March 31, 2014	$ 23,388	$ 1,208	$ 26,261	$ 50,857
Additions	2,720	2,479	4	5,203
Disposals	-	-	-	-
Cost, March 31, 2015	26,108	3,687	26,265	56,060
Accumulated Amortization, March 31, 2014	(13,753)	-	(5,713)	(19,466)
Additions	(1,941)	-	(5,253)	(7,194)
Disposals	-	-	-	-
Accumulated Amortization, March 31, 2015	(15,694)	-	(10,966)	(26,660)
Net Book Value, March 31, 2015	$ 10,414	$ 3,687	$ 15,299	$ 29,400
Cost, March 31, 2013	$ 14,677	$ 7,847	$ 26,261	$ 48,785
Additions	2,699	1,169	-	3,868
Transfers	7,808	(7,808)	-	-
Disposals	(1,796)	-	-	(1,796)
Cost, March 31, 2014	23,388	1,208	26,261	50,857
Accumulated Amortization, March 31, 2013	(14,159)	-	(1,734)	(15,893)
Additions	(1,390)	-	(3,979)	(5,369)
Disposals	1,796	-	-	1,796
Accumulated Amortization, March 31, 2014	(13,753)	-	(5,713)	(19,466)
Net Book Value, March 31, 2014	$ 9,635	$ 1,208	$ 20,548	$ 31,391

The estimated useful life over which computer software is amortized is as follows:

Computer Software	Up to 10 years
Gaming (VLT) Software	5 years

NOTE 8 INVESTMENT PROPERTY (LIQUOR WAREHOUSES)

(in thousands)

	Land	Building	Work in Progress Land	Work in Progress Building	Total
Cost, March 31, 2014	$ 2,056	$ 28,766	$ 31	$ 143	$ 30,996
Additions	1	1,481	19,035	5,879	26,396
Disposals	-	-	-	-	-
Cost, March 31, 2015	2,057	30,247	19,066	6,022	57,392
Accumulated Amortization, March 31, 2014	-	(23,115)	-	-	(23,115)
Additions	-	(512)	-	-	(512)
Disposals	-	-	-	-	-
Accumulated Amortization, March 31, 2015	-	(23,627)	-	-	(23,627)
Net Book Value, March 31, 2015	$ 2,057	$ 6,620	$ 19,066	$ 6,022	$ 33,765
Cost, March 31, 2013	$ 2,056	$ 28,506	$ -	$ -	$ 30,562
Additions	-	260	31	143	434
Disposals	-	-	-	-	-
Cost, March 31, 2014	2,056	28,766	31	143	30,996
Accumulated Amortization, March 31, 2013	-	(22,557)	-	-	(22,557)
Additions	-	(558)	-	-	(558)
Disposals	-	-	-	-	-
Accumulated Amortization, March 31, 2014	-	(23,115)	-	-	(23,115)
Net Book Value, March 31, 2014	$ 2,056	$ 5,651	$ 31	$ 143	$ 7,881

(a) The estimated useful life over which investment property is amortized is as follows:

Buildings	Up to 40 years

(b) Net Profit from Investment Property

	2015	2014
Rental income derived from investment property	$ 2,841	$ 2,841
Direct operating expenses (including repair and maintenance) generating rental income	(280)	(102)
Net profit arising from investment property	$ (2,561)	$ 2,739

Estimated rental income for the current lease term which expires January 31, 2018 is:

2015-16	$ 2,943
2016-17	$ 3,251
2017-18	$ 2,712

NOTE 8 INVESTMENT PROPERTY (LIQUOR WAREHOUSES) (Cont'd)
(in thousands)

(c) Fair Value of Investment Property

	2015	2014
Fair value of investment property	$ 47,400	$ 45,850

Investment property is stated at cost.

The fair value at March 31, 2015 and March 31, 2014 is based on a valuation performed by Bourgeois & Company Ltd., an accredited independent valuer. Bourgeois & Company Ltd. have appropriate qualifications and recent experience in the valuation of similar properties. Two market based techniques (income and direct comparison approaches) were applied to estimate fair value.

The fair value valuation was performed on the distribution and storage facility at 50 Corriveau Avenue, St. Albert, Alberta. The valuation does not include land purchased in April 2014 for construction of the new liquor warehouse. The total cost of $19.1 million is assumed to be equal to the fair market value.

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 due to year end invoicing cycles and timing of transfers to the Alberta Lottery Fund.

	2015	2014
Due to the Alberta Lottery Fund, beginning of year	$ 84,547	$ 93,585
Net operating results, Provincial Lotteries (note 12)	1,528,341	1,484,457
Transfers to the Alberta Lottery Fund	(1,504,803)	(1,493,495)
Due to the Alberta Lottery Fund, end of year	$ 108,085	$ 84,547

Amounts due to the Alberta Lottery Fund are unsecured, non-interest bearing and have no specific terms of repayment.

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:

	2015	2014
Due to General Revenues, beginning of year	$ 276,689	$ 269,663
Net operating results, Liquor and Other (note 12)	765,772	747,026
Transfers to General Revenues	(763,000)	(740,000)
Due to General Revenues, end of year	$ 279,461	$ 276,689

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 a 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:

	2015			2014		
	PSPP	MEPP	SRP	PSPP	MEPP	SRP
Discount rate:	3.40%	3.40%	3.80%	4.40%	4.40%	4.40%
Inflation rate:	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%
Average wage increases:	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Commission's share of plan payroll:	2.10%	1.76%	1.81%	2.18%	1.79%	1.81%
Date of the most recent actuarial valuation from which results are extrapolated:	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2012	Dec. 31, 2012	Dec. 31, 2012	Dec. 31, 2012
Commission's Expected Contributions For The Next Period:						
All plans		$ 9,300			$ 9,892	

Additional assumptions are described in the valuation reports for each of the respective plans.

NOTE 11 EMPLOYEE BENEFIT PLANS (Cont'd)
(in thousands)

The Commission's Proportionate Share of Defined Benefit Pension Plan Liabilities

	2015				2014			
	PSPP	MEPP	SRP	Total	PSPP	MEPP	SRP	Total
Change in Fair Value of Plan Assets								
Opening fair value of plan assets	$ 94,925	$ 38,314	$ 1,259	$ 134,498	$ 63,500	$ 27,752	$ 1,655	$ 92,907
Employer contributions	6,809	2,247	112	9,168	7,041	1,922	185	9,148
Benefit payments	(4,945)	(1,880)	(42)	(6,867)	(4,851)	(1,678)	(36)	(6,565)
Interest income on assets	4,218	1,694	57	5,969	2,455	1,059	66	3,580
Actuarial (loss) gain	2,958	2,500	19	5,477	26,780	9,259	(611)	35,428
Closing Fair Value of Plan Assets	$103,965	$ 42,875	$ 1,405	$ 148,245	$ 94,925	$ 38,314	$ 1,259	$ 134,498
Change in Defined Benefit Obligation								
Opening defined benefit obligation	$140,731	$ 50,407	$ 1,450	$ 192,588	$ 99,000	$ 39,123	$ 1,855	$ 139,978
Current service cost (employer)	5,799	2,037	125	7,961	6,260	2,278	120	8,658
Benefit paid	(4,945)	(1,880)	(42)	(6,867)	(4,851)	(1,678)	(36)	(6,565)
Interest expense	6,211	2,221	66	8,498	3,773	1,498	82	5,353
Actuarial losses (gains)	7,512	6,523	243	14,278	36,549	9,186	(571)	45,164
Closing Defined Benefit Obligation	$155,308	$ 59,308	$ 1,842	$ 216,458	$140,731	$ 50,407	$ 1,450	$ 192,588
Net Defined Benefit Liability	$ 51,343	$ 16,433	$ 437	$ 68,213	$ 45,806	$ 12,093	$ 191	$ 58,090

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 54% for SRP.

Accumulated Other Comprehensive Income

	2015				2014			
	PSPP	MEPP	SRP	Total	PSPP	MEPP	SRP	Total
Actuarial loss(gain) on plan assets	$ (2,958)	$ (2,500)	$ (19)	$ (5,477)	$ (26,780)	$ (9,259)	$ 611	$ (35,428)
Experience loss on plan liabilities	7,512	6,523	243	14,278	36,548	9,186	(571)	45,163
Amount recognized in OCI	4,554	4,023	224	8,801	9,768	(73)	40	9,735
Beginning balance, AOCI	21,415	5,107	44	26,566	11,647	5,180	4	16,831
Ending balance, AOCI	$ 25,969	$ 9,130	$ 268	$ 35,367	$ 21,415	$ 5,107	$ 44	$ 26,566

Defined Benefit Pension Expense

	2015				2014			
	PSPP	MEPP	SRP	Total	PSPP	MEPP	SRP	Total
Current service cost (employer)	$ 5,799	$ 2,037	$ 125	$ 7,961	$ 6,260	$ 2,278	$ 120	$ 8,658
Interest expense	6,211	2,221	66	8,498	3,773	1,498	82	5,353
Interest income on assets	(4,218)	(1,694)	(57)	(5,969)	(2,455)	(1,059)	(66)	(3,580)
Net pension-benefit expense recognized	$ 7,792	$ 2,564	$ 134	$ 10,490	$ 7,578	$ 2,717	$ 136	$ 10,431

NOTE 11 EMPLOYEE BENEFIT PLANS (Cont'd)
(in thousands)

Risks arising from defined benefit plans

Economic risks
Defined benefit plans are directly exposed to economic risks from plan assets invested in capital markets, and indirectly with respect to measurement risk from assumptions based on economic factors, such as discount rates affected by volatile bond markets.

Demographic risks
Demographic factors affect current and future benefit costs with respect to the amount and time horizon of expected payments due to such factors as workforce average age and earnings levels, attrition and retirement rates, mortality and morbidity rates, etc.

Multi-employer plan funding risk
In addition to economic and demographic risk factors, the Commission is exposed to funding risk in the multi-employer plans arising from:

- Legislative changes affecting eligibility for and amount of pension and related benefits; and
- Performance of plan assets affected by investment policies set by the government.

Because these plans are governed by legislation rather than contract, there is little flexibility for participants with respect to withdrawal from the plan, plan wind-up or amendments, and mandatory funding requirements.

Sensitivity Analysis:

	2015			2014		
	PSPP	**MEPP**	**SRP**	**PSPP**	**MEPP**	**SRP**
Estimated sensitivity of liabilities to a 1% change in the discount rate:	13.70%	13.70%	19.30%	14.20%	13.40%	18.70%
Estimated sensitivity of liabilities to a 1% change in the inflation rate:	6.60%	7.50%	8.50%	9.04%	7.92%	25.09%

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.*

	2015					
	Provincial Lotteries				Liquor and Other	Total
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo (a)	Subtotal		
Credits Played	$ 16,262,377	$ 8,323,763	$ 30,129	$ 24,616,269	$ -	$ 24,616,269
Liquor Revenue	-	-	-	-	2,540,264	2,540,264
	16,262,377	8,323,763	30,129	24,616,269	2,540,264	27,156,533
Credits Won	(15,027,978)	(7,663,399)	(19,290)	(22,710,667)	-	(22,710,667)
Cost of Liquor Product	-	-	-	-	(1,758,364)	(1,758,364)
	(15,027,978)	(7,663,399)	(19,290)	(22,710,667)	(1,758,364)	(24,469,031)
	1,234,399	660,364	10,839	1,905,602	781,900	2,687,502
Commissions & Federal Payments	(367,262)	(104,760)	(3,479)	(475,501)	-	(475,501)
	$ 867,137	$ 555,604	$ 7,360	1,430,101	781,900	2,212,001
Operating Expenses				(188,786)	(32,257)	(221,043)
Profit from Operations for the Year				1,241,315	749,643	1,990,958
Other Revenue				1,704	16,129	17,833
Income from Western Canada Lottery Corporation				285,322	-	285,322
Net Operating Results				$ 1,528,341	$ 765,772	$ 2,294,113

(a) includes Keno charity commissions

NOTE 12 GAMING AND LIQUOR OPERATING RESULTS (Cont'd)
(in thousands)

	2014					
	Provincial Lotteries				Liquor and Other	Total
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo (a)	Subtotal		
Credits Played	$ 15,812,590	$ 7,641,522	$ 34,691	$ 23,488,803	$ -	$ 23,488,803
Liquor Revenue	-	-	-	-	2,402,714	2,402,714
	15,812,590	7,641,522	34,691	23,488,803	2,402,714	25,891,517
Credits Won	(14,591,778)	(7,029,632)	(23,366)	(21,644,776)	-	(21,644,776)
Cost of Liquor Product	-	-	-	-	(1,644,463)	(1,644,463)
	(14,591,778)	(7,029,632)	(23,366)	(21,644,776)	(1,644,463)	(23,289,239)
	1,220,812	611,890	11,325	1,844,027	758,251	2,602,278
Commissions & Federal Payments	(363,302)	(97,280)	(3,639)	(464,221)	-	(464,221)
	$ 857,510	$ 514,610	$ 7,686	1,379,806	758,251	2,138,057
Operating Expenses				(193,475)	(30,303)	(223,778)
Profit from Operations for the Year				1,186,331	727,948	1,914,279
Other Revenue				-	19,078	19,078
Income from Western Canada Lottery Corporation				298,126	-	298,126
Net Operating Results				$ 1,484,457	$ 747,026	$ 2,231,483

(a) includes Keno charity commissions

NOTE 13 COMMISSIONS AND FEDERAL PAYMENTS
(in thousands)

	2015			
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo (a)	Total
Commissions				
Operators	$ 181,217	$ 98,979	$ 1,630	$ 281,826
Charities	175,039	-	1,690	176,729
Federal Tax Expense (b)	11,006	5,781	159	16,946
	$ 367,262	$ 104,760	$ 3,479	$ 475,501

	2014			
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo (a)	Total
Commissions				
Operators	$ 179,145	$ 91,720	$ 1,701	$ 272,566
Charities	173,032	-	1,764	174,796
Federal Tax Expense (b)	11,125	5,560	174	16,859
	$ 363,302	$ 97,280	$ 3,639	$ 464,221

(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)

	2015	2014
Salaries and benefits	$ 92,539	$ 88,047
Amortization	51,518	59,851
Leased gaming terminals	30,336	31,142
Equipment and vehicles	11,067	10,146
Fees and services	7,113	5,656
Data communications	6,990	7,578
Data processing	6,236	5,576
Property	2,921	3,063
Travel and training	2,786	3,142
Net interest in net defined benefit pension liability (note 11)	2,529	1,774
Freight and ticket product delivery	1,934	1,917
Stationery and supplies	1,932	1,876
Insurance and bank charges	1,188	1,303
Retailer relations	910	1,723
Miscellaneous	909	858
Liquor product expense	135	126
	$ 221,043	$ 223,778

NOTE 15 OTHER REVENUE
(in thousands)

	2015	2014
Licences	$ 6,299	$ 6,259
Miscellaneous	2,089	3,187
Premises rental revenue	2,841	2,841
Liquor levies	2,105	2,240
Gain on disposal of property, plant, and equipment	1,704	1,150
Interest revenue	1,624	2,082
Retailer service fees	644	749
Administrative sanctions	527	570
	$ 17,833	$ 19,078

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.

	2015	2014
Balance Sheet (WCLC)		
Current Assets	$ 89,444	$ 83,226
Capital and Intangible Assets	17,339	21,194
	$ 106,783	$ 104,420
Current Liabilities	$ 70,598	$ 71,666
Due to Provincial Governments or Appointed Organizations	51,483	45,790
Equity	(15,298)	(13,036)
	$ 106,783	$ 104,420
Statement of Operations (Alberta Only)		
Ticket Lottery Revenue (a)	$ 810,208	$ 857,695
Ticket Lottery Prizes (a)	(413,562)	(444,549)
Gaming Revenue	396,646	413,146
Commissions (a)	(56,976)	(61,627)
Federal Tax Expense (a)	(4,382)	(4,637)
Payment to Federal Government (b)	(8,817)	(8,506)
	326,471	338,376
Operating Expenses	(41,149)	(40,250)
Net Operating Results	$ 285,322	$ 298,126

NOTE 16 INVESTMENT IN WESTERN CANADA LOTTERY CORPORATION (WCLC) (Cont'd)

(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

	2015	2014
Investment in WCLC, beginning of year	$ 31,074	$ 32,104
Net Operating Results recorded by AGLC	$ 285,322	$ 298,126
Interest Revenue recorded by Alberta Lottery Fund	1,552	1,075
WCLC Net Income Allocated to Alberta	$ 286,874	$ 299,201
Advances received from WCLC	(282,744)	(300,231)
Investment in WCLC, end of year	$ 35,204	$ 31,074

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.

	2015	2014
Obligations under operating leases and contracts		
Premise Leases and other contracts	$ 3,490	$ 4,456
Former Retail Liquor Stores	1,044	1,105
Video Lottery Terminals - Network Services	7,000	10,500
Investment Property – Land Purchase	-	16,200
Development of Investment Property	7,396	-
	$ 18,930	$ 32,261

NOTE 17 COMMITMENTS (Cont'd)
(in thousands)

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

2015-16	$	11,945
2016-17		4,280
2017-18		489
2018-19		379
2019-20		374
Thereafter		1,463
	$	18,930

The Commission has lease obligations for former retail liquor stores, which have been subleased to third parties. Provision for loss on leased properties of $225 (2014 - $236) 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 next five years and thereafter are as follows:

2015-16	$	50
2016-17		50
2017-18		50
2018-19		50
2019-20		50
Thereafter		618
	$	868

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, 2015, 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 October 7, 2014. Under the terms of the amended agreement, the Commission has agreed to assume certain third party premise leases for the remainder of the lease term if a significant change in the terms of the tenant's appointment occurs before January 31, 2018. As of March 31, 2015, the Commission's potential liability is $20.7 million (2014 - $19.2 million).

NOTE 18 CONTINGENT LIABILITIES AND PROVISIONS (Cont'd)
(in thousands)

Provisions are recognized as liabilities because they are present obligations and it is probable that an outflow of resources will be required to settle the obligation.

A provision for loss on leased properties has been recorded on onerous lease contracts on former retail liquor store operations that could not be terminated by the Commission at the time of liquor privatization in 1993. The provision is determined based on the difference between the aggregate estimated sublease revenue and the total lease obligations. As at March 31, 2015, there were 2 leases (2014 – 2 leases) that make up the provision.

	Lease Provision
As at March 31, 2014	$ 236
Amounts used against the provision	(11)
As at March 31, 2015	$ 225
Expected Outflow of Resources	
Within one year	$ 10
After one year but not more than five years	42
After five years	173
	$ 225

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.

	2015	2014
Charitable Proceeds	$ 19,045	$ 16,316
Held Charitable Proceeds	2	85
	$ 19,047	$ 16,401

NOTE 20 SALARIES AND BENEFITS
(in thousands)

The Commission is an agent of the Government of Alberta and as such, is required to disclose certain information in accordance with the *Fiscal Management Act.*

		2015				2014
		Base Salary *note a*	Other Cash Benefits *note b*	Other Non-cash Benefits *note c*	Total	Total
Board						
Chairperson	*note d*	$ 123	$ -	$ -	$ 123	$ 102
Board Members		213	-	-	213	260
Chief Executive						
President and Chief Executive Officer	*note e*	280	2	52	334	353
Executive Management						
Chief Financial Officer and Senior Vice President	*note f*	214	50	51	315	260
Vice President, Compliance and Social Responsibility		195	3	48	246	240
Chief Information Officer and Vice President, Innovation and Technology	*note g*	194	368	48	610	253
Vice President, Liquor Services		180	3	46	229	127
Vice President, Human Resources and Learning & Development		180	3	45	228	211
Vice President, Lottery and Gaming Services		177	3	43	223	567
Vice President, Strategy, Transformation and Ethics	*note h*	-	-	-	-	527

(a) Base salary includes regular base pay and acting pay.

(b) Other cash benefits include vacation payouts, lump sum payouts, wellness spending account reimbursements and severance. There were no bonuses paid in fiscal 2014-15.

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

(d) The position was occupied by two individuals during the year.

(e) Automobile provided; taxable benefit amount of $8 (2014 - $10) is not included in other non-cash benefits.

(f) Effective March 25, 2015, the position of Chief Financial Officer and Senior Vice President was separated into two positions.

(g) The position was occupied by two individuals during the year.

(h) The incumbent resigned effective November 1, 2013 and the duties were reassigned to other Vice Presidents.

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 $397 (2014 - $362) to Risk Management and Insurance. Transactions with the Alberta Lottery Fund are disclosed in Note 9 and transactions with the General Revenue Fund are disclosed in Note 10.

The Western Canada Lottery Corporation (WCLC), an associated entity as disclosed in Note 3, is also a deemed related party to the Commission. Details of transactions with WCLC are disclosed in Note 16. In addition, the Commission received $644 (2014 - $749) 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.

		2015
Liquor Revenue	$	2,393,572
Liquor Cost of Sales		(1,628,572)
		765,000
Gaming Revenue		1,906,234
		2,671,234
Commissions and Federal Payments (a)		(493,195)
Operating Expenses		(266,139)
PROFIT FROM OPERATIONS FOR THE YEAR		1,911,900
Other Revenue		15,995
Income from Western Canada Lottery Corporation		299,904
NET OPERATING RESULTS	$	2,227,799
OTHER COMPREHENSIVE INCOME (LOSS)		
Loss on Pension Liability		(8,850)
TOTAL COMPREHENSIVE INCOME	$	2,218,949

(a) includes Keno charity commissions

ATB FINANCIAL

Consolidated Financial Statements

Year Ended March 31, 2015

These ATB Financial Consolidated Financial Statements are a copy from the ATB Financial 2015 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, 2015, 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, 2015, 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, 2015
Edmonton, Alberta

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at March 31 *($ in thousands)*	Note	2015	2014 restated (*note 28*)
Assets			
Cash resources	6		
Cash		$ 383,791	$ 438,917
Interest-bearing deposits with financial institutions		812,253	1,143,128
		1,196,044	1,582,045
Securities	7		
Securities measured at fair value through net income		2,134,900	921,955
Securities available for sale		272	374
		2,135,172	922,329
Securities purchased under reverse repurchase agreements		500,094	-
Loans	8		
Business		17,530,954	15,167,687
Residential mortgages		12,947,624	12,012,454
Personal		6,700,854	6,184,463
Credit card		673,857	651,931
		37,853,289	34,016,535
Allowance for credit losses	9	(168,397)	(131,391)
		37,684,892	33,885,144
Other assets			
Derivative financial instruments	10	684,694	429,777
Property and equipment	11	369,351	359,900
Software and other intangibles	12	280,424	266,101
Other assets	13	224,252	259,179
		1,558,721	1,314,957
Total assets		$ 43,074,923	$ 37,704,475
Liabilities and equity			
Liabilities			
Deposits	14		
Personal		$ 12,645,311	$ 11,840,449
Business and other		17,944,044	15,475,989
		30,589,355	27,316,438
Other liabilities			
Wholesale borrowings	22	3,044,130	2,694,161
Collateralized borrowings	15	4,274,180	3,411,352
Derivative financial instruments	10	488,867	361,911
Other liabilities	16	1,358,865	857,396
		9,166,042	7,324,820
Capital investment notes	17	-	250,508
Subordinated debentures	18	311,339	228,775
Total liabilities		40,066,736	35,120,541
Equity			
Retained earnings		2,920,375	2,591,694
Accumulated other comprehensive income (loss)		87,812	(7,760)
Total equity		3,008,187	2,583,934
Total liabilities and equity		$ 43,074,923	$ 37,704,475

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

Approved by the board:

[Original signed by]

Brian Hesje
Chair of the Board

[Original signed by]

Barry James
Chair of the Audit Committee

CONSOLIDATED STATEMENT OF INCOME

For the year ended March 31 ($ in thousands)	Note	2015	2014
Interest income			
Loans		$ 1,471,639	$ 1,355,872
Interest-bearing deposits with financial institutions		10,521	8,962
Securities measured at fair value through net income		23,758	19,105
		1,505,918	1,383,939
Interest expense			
Deposits		325,010	267,638
Wholesale borrowings		46,599	49,318
Collateralized borrowings		89,702	83,170
Capital investment notes		4,565	10,525
Subordinated debentures		9,610	7,276
		475,486	417,927
Net interest income		1,030,432	966,012
Other income			
Investor Services		125,970	97,373
Service charges		67,715	67,273
Card fees		68,239	58,892
Credit fees		45,138	42,343
Insurance		17,948	13,195
Foreign exchange		14,965	9,879
Net gains on derivative financial instruments		14,989	20,367
Net gains on financial instruments at fair value through net income		79,596	70,718
Sundry		3,796	4,407
		438,356	384,447
Operating revenue		1,468,788	1,350,459
Provision for credit losses	9	72,584	42,395
Non-interest expenses			
Salaries and employee benefits	19, 20	494,880	481,458
Data processing		101,249	108,577
Premises and occupancy, including depreciation		87,025	85,797
Professional and consulting costs		51,284	50,427
Deposit guarantee fee	14	42,784	37,592
Equipment, including depreciation		23,283	21,355
Software and other intangibles amortization	12	39,383	37,625
General and administrative		78,835	78,788
ATB agencies		9,972	9,470
Other		40,651	38,002
		969,346	949,091
Net income before payment in lieu of tax		426,858	358,973
Payment in lieu of tax	21	98,177	82,564
Net income		$ 328,681	$ 276,409

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)	2015	2014
Net income	$ 328,681	$ 276,409
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Unrealized net gains on available-for-sale financial assets:		
Unrealized net gains arising during the period	57	63
Net gains reclassified to net income	(38)	(42)
Unrealized net gains on derivative financial instruments designated as cash flow hedges:		
Unrealized net gains arising during the period	171,070	26,979
Net gains reclassified to net income	(56,444)	(36,427)
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit plan liabilities	(19,073)	61,491
Other comprehensive income	95,572	52,064
Comprehensive income	$ 424,253	$ 328,473

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)	2015	2014
Retained earnings		
Balance at beginning of the year	$ 2,591,694	$ 2,315,285
Net income	328,681	276,409
Balance at end of the year	2,920,375	2,591,694
Accumulated other comprehensive income (loss)		
Available-for-sale financial assets		
Balance at beginning of the year	(152)	(173)
Other comprehensive income	19	21
Balance at end of the year	(133)	(152)
Derivative financial instruments designated as cash flow hedges		
Balance at beginning of the year	46,457	55,905
Other comprehensive income (loss)	114,626	(9,448)
Balance at end of the year	161,083	46,457
Defined benefit plan liabilities		
Balance at beginning of the year	(54,065)	(115,556)
Other comprehensive (loss) income	(19,073)	61,491
Balance at end of the year	(73,138)	(54,065)
Accumulated other comprehensive income (loss)	87,812	(7,760)
Equity	$ 3,008,187	$ 2,583,934

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)*	2015	2014 restated
Cash flows from operating activities:		
Net income	$ 328,681	$ 276,409
Adjustments for non-cash items and others:		
Provision for credit losses	72,584	42,395
Depreciation and amortization	95,742	83,121
Net gains on financial instruments at fair value through net income	(79,596)	(70,718)
Adjustments for net changes in operating assets and liabilities:		
Loans	(3,682,809)	(4,177,677)
Deposits	3,278,984	3,591,032
Derivative financial instruments	(13,334)	1,609
Prepayments and other receivables	872	(49,380)
Due to clients, brokers, and dealers	11,390	(4,716)
Deposit guarantee fee payable	5,193	8,555
Accounts payable and accrued liabilities	446,199	100,061
Liability for payment in lieu of tax	15,614	9,441
Net interest receivable and payable	26,911	55,848
Change in accrued pension-benefit liability	21,653	(72,764)
Others, net	(129,239)	25,802
Net cash provided by (used in) operating activities	398,845	(180,982)
Cash flows from investing activities:		
Change in securities measured at fair value through net income	(1,210,089)	(40,007)
Change in securities purchased under reverse repurchase agreements	(500,094)	100,007
Change in interest-bearing deposits with financial institutions	330,875	(340,043)
Purchases and disposal of property and equipment, software, and other intangibles	(119,516)	(133,742)
Net cash used in investing activities	(1,498,824)	(413,785)
Cash flows from financing activities:		
Change in wholesale borrowings	349,969	98,450
Change in capital investment notes	(250,508)	(2,351)
Change in collateralized borrowings	862,828	307,860
Issuance of subordinated debentures	82,564	73,122
Net cash provided by financing activities	1,044,853	477,081
Net decrease in cash	(55,126)	(117,686)
Cash at beginning of period	438,917	556,603
Cash at end of period	$ 383,791	$ 438,917
Net cash (used in) provided by operating activities includes:		
Interest paid	$ (474,066)	$ (387,313)
Interest received	$ 1,531,409	$ 1,400,930

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2015 ($ in thousands)

1. Nature of Operations

Alberta Treasury Branches (ATB) is an agent of the Crown in right of Alberta and operates under the authority of the *Alberta Treasury Branches Act* (the *ATB Act*), Revised Statutes of Alberta, 2000, chapter A-37. Under the *ATB Act*, ATB was established as a provincial Crown corporation governed by a board of directors appointed by the Lieutenant Governor in Council. The address of the head office is 2100, 10020-100 Street, Edmonton, Alberta, Canada.

ATB is exempt from Canadian federal and Alberta provincial income taxes but pays an amount to the provincial government designed to be in lieu of such a charge. (Refer to note 21.) ATB is an Alberta-based financial services provider engaged in retail and commercial banking, credit card services, wealth management, and investment management services.

2. Significant Accounting Policies

a. General Information

Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the accounting requirements of the Alberta Superintendent of Financial Institutions (ASFI). These consolidated financial statements were approved by the board of directors on May 28, 2015.

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through profit or loss, and liabilities for cash-settled share-based payments, which have been measured at fair value.

The consolidated financial statements are presented in Canadian dollars, and all values are rounded to the nearest thousand dollars, except when otherwise indicated.

Consolidation – Subsidiaries

Subsidiaries are entities controlled by ATB. Control exists when ATB is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. The financial statements of the subsidiaries have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

These consolidated financial statements include the assets, liabilities, and results of operations and cash flows of ATB and its subsidiaries. All intercompany transactions and balances have been eliminated from the consolidated results.

The following wholly owned subsidiaries, created for the purpose of offering investor services, were established by Order in Council and incorporated under the *Business Corporations Act* (Alberta):

- ATB Investment Management Inc., incorporated August 21, 2002
- ATB Securities Inc., incorporated February 6, 2003
- ATB Insurance Advisors Inc., incorporated July 21, 2006

Significant Accounting Judgments, Estimates, and Assumptions

In the process of applying ATB's accounting policies, management has exercised judgment and has made estimates in determining amounts recognized in the consolidated financial statements. The most significant judgments and estimates made include the allowance for credit losses, the fair value of financial instruments, and assumptions underlying the accounting for employee benefit obligations. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The consolidated financial statements for the year ended March 31, 2015, provide additional information in the following notes:

- Note 2(c): Financial instruments – fair value
- Note 2(d): Impairment of financial assets – for the establishment of allowance for credit losses
- Note 7: Securities – for establishing fair value of asset-backed commercial paper notes
- Note 20: Employee benefits – description of assumptions used

Translation of Foreign Currencies

Financial assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect as at the balance sheet date. Operating revenues and expenses related to foreign-currency transactions are translated using the exchange rate at the date of the transaction. Realized and unrealized gains and losses arising from these translations are included in foreign exchange in the Consolidated Statement of Income.

b. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition. ATB classifies financial assets as either financial assets at fair value through net income, loans and receivables, or held-to-maturity or available-for-sale financial assets. Financial liabilities are classified as either financial liabilities at fair value through net income or financial liabilities at amortized cost.

All financial assets and liabilities are initially recognized on the trade date. This is the date that ATB becomes a party to the contractual provisions of the instrument.

ATB derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. For funding transactions, all financial assets that cannot be derecognized continue to be held on ATB's Consolidated Statement of Financial Position, and a secured liability is recognized for the proceeds received. ATB derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial Assets

Financial Assets at Fair Value Through Net Income

This category comprises two subcategories: financial assets held for trading and financial assets designated by ATB at fair value through net income upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are classified as financial assets held for trading unless they are designated and effective as hedging instruments. Gains and losses arising from changes in fair value are included directly in the Consolidated Statement of Income and are reported as net gains on derivative financial instruments.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to the Consolidated Statement of Income. Gains and losses arising from changes in fair value are included directly in the Consolidated Statement of Income and are reported as net gains on financial instruments at fair value through net income. Interest income and expense on financial assets held for trading are included in net interest income. Interest accruals are recorded separately from fair value measurements. Changes in fair value are determined on a clean-price basis.

ATB designates certain financial assets upon initial recognition as financial assets at fair value through net income (fair value option). This designation cannot subsequently be changed. The fair value option is only applied when one of the following conditions is met:

- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.
- The financial assets are part of a portfolio of financial instruments that is risk managed and reported to senior management on a fair value basis.
- The financial asset contains one or more embedded derivatives that must be separated.

The fair value option is applied to certain interest-bearing deposits and securities that are part of a portfolio managed on a fair value basis. The fair value option is also applied to structured instruments that include embedded derivatives. Fair value changes relating to financial assets designated at fair value through net income are recognized in net gains on financial instruments at fair value through net income.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that ATB intends to sell immediately or in the short term, classifies as held for trading, or upon initial recognition designates as fair value through net income or available for sale
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration

Loans and receivables are initially recognized at fair value—which is the cash consideration to originate or purchase the loan including any transaction costs—and measured subsequently at amortized cost using the effective interest rate method. Loans and receivables are reported in the Consolidated Statement of Financial Position as securities purchased under reverse repurchase agreements or loans. Interest on items classified as loans and receivables is included in the Consolidated Statement of Income and is reported as part of net interest income. Loan impairments are reported as a deduction from the carrying value of the loan and recognized in the Consolidated Statement of Income as provision for credit losses.

Available-for-Sale Financial Assets

Available-for-sale financial assets are financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices, or that are not classified as loans and receivables, held-to-maturity investments, or financial assets at fair value through net income.

Available-for-sale financial assets are initially recognized at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognized in other comprehensive income, except for impairment losses and foreign-exchange gains and losses, until the financial asset is derecognized.

If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is recognized in the Consolidated Statement of Income. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the Consolidated Statement of Income.

Available-for-sale financial assets are reported in the Consolidated Statement of Financial Position as securities available for sale.

Held-to-Maturity Financial Assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that ATB's management has the intention and ability to hold to maturity.

These are initially recognized at fair value including direct and incremental transaction costs and measured subsequently at amortized cost, using the effective interest method. Interest on held-to-maturity investments is included in the Consolidated Statement of Income as net interest income. In the case of an impairment, the impairment loss would be reported as a deduction from the carrying value of the investment and recognized in the Consolidated Statement of Income. ATB did not hold any instrument in this category at the reporting date.

Financial Liabilities

Financial Liabilities at Fair Value Through Net Income

This category comprises two subcategories: financial liabilities held for trading and financial liabilities designated by ATB as fair value through net income upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. These instruments are included in derivative financial instruments in the Consolidated Statement of Financial Position. Gains and losses arising from changes in fair value are included directly in the Consolidated Statement of Income and are reported as net gains on derivative financial instruments.

Financial liabilities classified as designated as fair value through net income have been designated as such by ATB upon initial recognition, on an instrument-by-instrument basis. Management may designate a financial instrument as fair value through net income upon initial recognition when one of the following conditions is met:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency.
- The liabilities are part of a group of financial liabilities or financial assets and liabilities that is managed and whose performance is evaluated on a fair value basis.
- The financial instrument contains one or more embedded derivatives that significantly modify the cash flows and that would otherwise be separated from their host contract.

Gains and losses arising from changes in the fair value of financial liabilities classified as fair value through net income are included in the Consolidated Statement of Income and are reported as net gains on financial instruments at fair value through net income. Interest expenses on financial liabilities held for trading are included in net interest income. As at March 31, 2015, ATB has no financial liabilities classified as fair value through net income.

Other Liabilities Measured at Amortized Cost

Financial liabilities not classified as fair value through net income fall into this category and are measured at amortized cost. Interest expense is recognized using the effective interest method in net interest expense. Financial liabilities measured at amortized cost include deposits, capital investment notes, wholesale borrowings, subordinated debentures, collateralized borrowings, and other liabilities.

c. Financial Instruments – Fair Value

Financial assets and financial liabilities can be measured at fair value or amortized cost, depending on their classification.

Estimated Fair Value

The fair value of a financial instrument is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

When financial instruments are subsequently remeasured, quoted market prices in an active market provide the best evidence of fair value, and when such prices are available, ATB uses them to measure financial instruments. A financial instrument is considered to be quoted in an active market when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, or pricing service and those prices reflect actual and regularly occurring market transactions on an arm's-length basis. The fair value of a financial asset traded in an active market generally reflects the bid price, and that of a financial liability traded in an active market generally reflects the ask price. If the market for a financial instrument is not active, ATB establishes fair value using a valuation technique that primarily makes use of observable market inputs. Such valuation techniques include the use of available information concerning recent market transactions, reference to the current fair value of a comparable financial instrument, discounted cash flow analysis, option pricing models, and all other valuation techniques commonly used by market participants that provide reliable estimates.

In cases where the fair value is established using valuation models, ATB makes assumptions about the amount, the timing of estimated future cash flows, and the discount rates used. These assumptions are based primarily on observable market inputs such as interest rate yield curves, foreign-exchange rates, credit curves, and price and rate volatility factors. When one or more significant inputs are not observable in the markets, fair value is established primarily on the basis of internal estimates and data, taking into account the valuation policies in effect at ATB, the economic environment, the specific characteristics of the financial asset or liability, and other relevant factors.

The fair values are estimated at the balance sheet date using the valuation methods and assumptions described below.

Financial Instruments Whose Carrying Value Equals Fair Value

The estimated fair value of items that are short term in nature is considered to be equal to their carrying value. These items include cash, securities purchased under reverse repurchase agreements, other assets, and other liabilities.

Securities and Interest-Bearing Deposits With Financial Institutions

The fair values of securities and interest-bearing deposits with financial institutions are based on quoted market prices, if available. Where an active market does not exist, the fair value is estimated using a valuation technique that makes maximum use of observable market data.

Derivative Instruments

Fair value of over-the-counter and embedded derivative financial instruments is estimated using pricing models that take into account current market and contractual prices of the underlying instruments, and time value and yield curve or volatility factors underlying the positions.

Loans and Deposits

For floating-rate financial instruments, fair value is equal to carrying value as the interest rates reprice to market when market rates change. For fixed-rate loans, fair value is estimated by discounting the expected future cash flows at market rates. For fixed-rate deposits, fair value is estimated by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms. Due to the use of subjective assumptions and measurement uncertainty, the fair value amounts should not be interpreted as being realizable in an immediate settlement of these instruments.

Wholesale Borrowings, Collateralized Borrowings, Subordinated Debentures, and Capital Investment Notes

The fair values of wholesale borrowings, collateralized borrowings, subordinated debentures, and capital investment notes are estimated by discounting contractual cash flows using market reference rates currently offered for debt instruments with similar terms and credit risk ratings.

d. Impairment of Financial Assets

Financial Assets Carried at Amortized Cost

ATB assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events (a loss event) that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that ATB uses to determine that there is objective evidence of an impairment loss include:

a. Significant financial difficulty of the issuer or obligor
b. A breach of contract, such as a default or significant delinquency in interest or principal payments

c. The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider
d. An assessed probability that the borrower will enter bankruptcy or other financial reorganization
e. The disappearance of an active market for that financial asset because of financial difficulties
f. Observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
   i. Adverse changes in the payment status of borrowers in the portfolio
   ii. National or local economic conditions that correlate with defaults on the assets in the portfolio

For purposes of impairment assessments, two groups of assets are formed: individually significant and individually insignificant. For individually significant assets, ATB determines whether objective evidence of impairment exists, and if the asset is found to be impaired, an individual assessment of impairment loss is made. For all other assets, a collective assessment of impairment loss is made, which includes individually significant assets that are not impaired as well as all individually insignificant assets, whether impaired or not. As soon as objective evidence of impairment loss becomes available for individually significant assets, those assets are removed from the collective assessment group.

For loans and receivables, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognized using an allowance account, and the amount of the loss is included in the Consolidated Statement of Income as a provision for credit losses. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For a collective evaluation of impairment (including individually significant assets for which no objective evidence of impairment exists, and individually insignificant assets), financial assets are grouped by similar risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by indicating the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated by the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted by current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognized using the original effective rate of interest used to discount the future cash flows for measuring the impairment loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the Consolidated Statement of Income.

When a loan has been subjected to an individually assessed provision and there is no likelihood of recovery, the loan is written off against the related allowance. Subsequent recoveries of written-off amounts are recorded in the Consolidated Statement of Income as a reduction to the provision.

Assets Classified as Available for Sale

ATB assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If such evidence exists for available-for-sale financial assets, the cumulative loss—the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss—is removed from equity and recognized in the Consolidated Statement of Income. If the fair value of a debt instrument classified as available for sale subsequently increases, and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the Consolidated Statement of Income.

e. Securities Purchased Under Reverse Repurchase Agreements and Securities Sold Under Repurchase Agreements

Securities purchased under reverse repurchase agreements represent a purchase of Government of Canada securities by ATB with a simultaneous agreement to sell them back at a specified price on a future date. The difference between the cost of the purchase and the predetermined proceeds to be received based on the repurchase agreement is recorded as securities interest income. Securities purchased under reverse repurchase agreements are fully collateralized, minimizing credit risk, and have been classified and measured at amortized cost.

Securities sold under repurchase agreements represent a sale of Government of Canada securities by ATB with a simultaneous agreement to buy them back at a specified price on a future date. The difference between the proceeds of the sale and the predetermined cost to be paid based on the repurchase agreement is recorded as deposit interest expense. No securities sold under repurchase agreements exist at the reporting date.

f. Derivative Financial Instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying reference rate such as an interest rate, a currency exchange rate, the price of an equity or debt security, or an equity or commodity index.

ATB enters into various over-the-counter and exchange-traded derivatives in the normal course of business, including interest rate swaps, options and futures, equity and commodity options, and foreign-exchange and commodity forwards and futures. ATB uses such instruments for two purposes: for its risk management program and to meet the needs of ATB customers.

ATB's corporate derivative portfolio is not intended for speculative income generation but for asset/liability management purposes—that is, to manage ATB's interest-rate, foreign-exchange, and equity- and commodity-related exposures arising from its portfolio of investments and loan assets and deposit obligations.

ATB's client derivative portfolio is not used to generate trading income through active assumption of market risk, but rather is used to meet the risk management requirements of ATB customers. ATB accepts no net exposure to such derivative contracts (except for credit risk), as it either enters into offsetting contracts with other financial institution counterparties or incorporates them into its own risk management programs.

All derivative financial instruments, including embedded derivatives, are classified as held for trading and measured at fair value in the Consolidated Statement of Financial Position. Derivatives with positive fair value are presented as derivative assets, and those with negative fair value are presented as derivative liabilities. Changes in the fair value of derivative financial instruments are recorded in net income, unless the derivative qualifies for hedge accounting as a cash flow hedge, in which case the changes in fair value are reflected in other comprehensive income (OCI).

Hedge Accounting

For a derivative instrument to qualify for hedge accounting, the hedging relationship between the derivative (hedging) instrument and the hedged item(s) must be designated and formally documented at inception. ATB must also document an assessment of the effectiveness of the derivative instrument in offsetting changes in cash flows or fair value of the hedged item, both at inception of the hedging relationship and on an ongoing basis. When ATB designates a derivative as a hedge, it is classified as either a cash flow hedge or a fair value hedge.

ATB discontinues hedge accounting when one of the following occurs:

- It is determined that a derivative is not, or has ceased to be, highly effective as a hedge.
- The derivative expires, or is sold, terminated, or exercised.
- The hedged item matures or is sold or repaid.
- A forecast transaction is no longer deemed highly probable.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the hedged item is ultimately recognized in the Consolidated Statement of Income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss recognized in equity is immediately transferred to the Consolidated Statement of Income.

Cash Flow Hedge

ATB's derivative instruments in cash flow hedges are intended to generate cash flows that offset the variability in expected and/or anticipated cash flows from the hedged item. ATB uses various interest rate derivatives to manage risk relating to the variability of cash flows from certain loans and deposits. In a qualifying cash flow hedge relationship, the effective portion of the change in fair value of the hedging derivative instrument is recognized in OCI, and the ineffective portion in net income. Any such amounts recognized in OCI are reclassified from OCI into net income in the same period that the underlying hedged item affects net income.

Fair Value Hedge

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the Consolidated Statement of Income, together with changes in the fair value of the hedged asset or liability attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, it is discontinued. For fair value hedges of interest rate risk, the fair value adjustment to the hedged item is amortized to the Consolidated Statement of Income over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortized fair value adjustment is recognized immediately in the Consolidated Statement of Income. No fair value hedges exist at the reporting date.

Embedded Derivatives

Embedded derivatives are components within a financial instrument or other contract with features similar to a derivative. Embedded derivatives with economic characteristics and risks considered not closely related to the characteristics and risks of the host contract may need to be accounted for separately if a separate instrument with the same terms would qualify as a derivative and if the host contract is not already measured at fair value. ATB has identified embedded derivatives within certain extendible loan contracts and within all equity-linked and commodity-linked deposit contracts. Any such embedded derivatives are not considered closely related to the host contract and have been accounted for separately as derivative assets or liabilities.

g. Property and Equipment

Property and equipment are carried at cost less accumulated depreciation, except for land, which is carried at cost. Buildings, computer equipment, other equipment, and leasehold improvements are depreciated on a straight-line basis over their estimated useful lives. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of the assets' useful economic life. Property and equipment acquired under a finance lease are capitalized, and the depreciation period for a finance lease corresponds to the lesser of the useful life or lease term plus the first renewal option, if applicable. No depreciation is calculated on property and equipment under construction or development until the assets are available for use. The estimated useful life for each asset class is as follows:

- Buildings – Up to 20 years
- Buildings under finance lease – Up to 15 years

- Computer equipment – Up to 4 years
- Other equipment – 5 years
- Leasehold improvements – Lease term plus first renewal period, if applicable

Depreciation rates, methods, and the residual values underlying the calculation of depreciation of items of property and equipment are kept under review to account for any change in circumstances. Gains and losses on the disposal of property and equipment are recorded in the Consolidated Statement of Income in the year of disposal.

h. Software and Other Intangibles

Software and other intangibles are carried at cost less accumulated amortization and are amortized on a straight-line basis over their estimated useful lives. No amortization is calculated on software under construction or development until the assets are available for use. The estimated useful life for software and other intangibles is 3 to 5 years, with certain software having a useful life of 15 years.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefits will flow to ATB and that the cost can be measured reliably. Eligible costs include external direct costs for materials and services, as well as payroll and payroll-related costs for employees directly associated with an internally developed software project.

i. Impairment of Property and Equipment and Software and Other Intangibles

The carrying amount of non-financial assets, which include property and equipment and software and other intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Software under development is tested annually for impairment. For the purposes of assessing impairment, assets are grouped at the lowest level where there are separately identifiable cash inflows (cash-generating units).

If there is any indication of impairment, the asset's recoverable amount is estimated. The recoverable amount is the greater of an asset's fair value less cost to sell and its value in use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Impairment losses are recognized in the Consolidated Statement of Income.

Impairment losses may be reversed if the circumstances leading to impairment are no longer present. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount net of depreciation or amortization that would have been determined if no impairment loss had been recognized. Impairment loss reversals are recognized in the Consolidated Statement of Income.

j. Finance and Operating Leases

Leases of assets where ATB has substantially all the risks and rewards incidental to ownership are classified as finance leases. Assets held under finance leases are initially recognized in the Consolidated Statement of Financial Position at an amount equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding liability to the lessor is included in other liabilities in the Consolidated Statement of Financial Position. The discount rate used in calculating the present value of the minimum lease payments is either the interest rate implicit in the lease, if it is practicable to determine, or the incremental borrowing rate. Contingent rentals are recognized as an expense in the periods in which they are incurred.

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Operating lease rentals payable are recognized as an expense on a straight-line basis over the lease term, which commences when the lessee controls the physical use of the property. Lease incentives are treated as a reduction of rental expense and are also recognized over the lease term on a straight-line basis. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

k. Employee Benefits

ATB provides benefits to current and past employees through a combination of defined benefit (DB) and defined contribution (DC) plans.

ATB's current non-management employees participate in the Public Service Pension Plan (PSPP) with other Alberta public-sector employees. The PSPP is a DB pension plan that provides benefits based on members' years of service and earnings. ATB provides its management employees with a registered pension plan (the ATB Plan) with either DB or DC provisions. ATB also provides a non-registered DB supplemental retirement plan (SRP) and other post-employment benefits (OPEB) for designated management employees.

All expenses related to employee benefits are recorded in the Consolidated Statement of Income as salaries and employee benefits in non-interest expenses.

The cost of the DB plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates, and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Accounting for Defined Benefit Plans – Registered, Supplemental, and Other

The PSPP and the DB portion of the ATB Plan, SRP, and OPEB obligations provide employee benefits based on members' years of service and highest average salary. The liability recognized in the Consolidated Statement of Financial Position in respect of DB pension plans is the present value of the DB obligation at the date of the Consolidated Statement of Financial Position less the fair value of plan assets. The DB obligation is calculated

annually by independent actuaries using the projected unit credit method. The present value of the DB obligation is determined by discounting the estimated future cash outflows. Actuarial gains and losses are recognized in OCI. Past-service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees' remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

Accounting for Defined Contribution Plans

Contributions are expensed as they become due and are recorded in salaries and employee benefits in the Consolidated Statement of Income.

Plan Valuations, Asset Allocation, and Funding

ATB annually measures its accrued benefit obligations and the fair values of plan assets for accounting purposes on March 31 for the PSPP, ATB Plan, SRP, and OPEB obligations. ATB makes regular funding contributions to the DB plan according to the most recent valuation for funding purposes. The SRP and OPEB obligations are not pre-funded, and such benefits are paid from ATB's assets as they become due. The most recent actuarial valuation of the DB provisions of the ATB Plan was performed on December 31, 2013. The DB plan's investment policy sets targets for an acceptable range for the allocation of plan assets between equity, debt, and other assets. (Refer to note 20.)

l. Provisions

Provisions are recognized when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events and for which a reliable estimate can be made of the amount of the obligation.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of ATB, or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed unless the probability of settlement is remote.

m. Financial Guarantees

Liabilities under financial guarantee contracts are initially recorded at their fair value, which is generally the fee received or receivable. Subsequently, the financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortization, and the best estimate of the expenditure required to settle the obligations.

n. Securitization

Securitization of residential mortgage loans guaranteed by the Canada Mortgage and Housing Corporation through the Canada Mortgage Bond program and securitization of credit card receivables provide ATB with additional sources of liquidity. As ATB retains substantially all the risks and rewards related to the assets, the credit card receivables and mortgage loans are not derecognized and remain in the Consolidated Statement of Financial Position, and are carried at amortized cost. The risks associated with credit card receivables and residential mortgage loans are credit and interest rate risks, with prepayment risks also impacting residential mortgage loans. ATB recognizes a liability for cash proceeds received from securitization. This liability is presented under collateralized borrowings in the Consolidated Statement of Financial Position.

o. Segmented Information

A segment is a distinguishable component of ATB engaged in providing products or services (business segment) that is subject to risks and returns that are different from those of other business segments. The Corporate Management Committee regularly reviews operating activity by business segments. All transactions between business segments are conducted on an arm's-length basis, with intra-segment revenue and costs being eliminated in strategic service units. Income and expenses directly associated with each segment are included in determining business segment performance.

p. Revenue Recognition

Interest Income and Expenses

Interest income and expenses for all interest-bearing financial instruments are recognized in the Consolidated Statement of Income using the effective interest method. The effective interest method calculates the amortized cost of a financial asset or a financial liability and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, ATB estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees and Commission Income and Expenses

Fees and commission income and expense integral to the effective interest rate on a financial asset or liability are included when calculating the effective interest rate. Other fees and commission income, including account servicing fees, investment management fees, card fees, commitment fees, and placement fees, are recognized as the related services are performed. Where ATB is the lead in a syndication, loan syndication fees are recognized in fees and commission income, unless the yield on any loans retained is less than that of the other lenders involved in the financing, in which case an appropriate portion of the syndication fee is recorded as interest income over the term of the loan. Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

3. Summary of Accounting Policy Changes

Changes in Accounting Policies and Disclosures

IAS 32 *Offsetting Financial Assets and Financial Liabilities*

On April 1, 2014, ATB adopted the amendment to IAS 32 *Financial Instruments: Presentations*. The amendments clarify the criteria for offsetting a financial asset and a financial liability. They clarify that the right of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and bankruptcy or insolvency of all the counterparties to the contract, including the reporting entity itself, and that the right of set-off must not be contingent on a future event. There was no impact on ATB's financial results.

IAS 36 *Impairment of Assets*

On April 1, 2014, ATB adopted the amendments to IAS 36 *Impairment of Financial Assets*. The amendments clarify the disclosure requirements of the recoverable amount of an asset or cash-generating unit when the recoverable amount is based on fair value less costs of disposal. There was no impact on ATB's financial results.

IAS 39 *Financial Instruments: Recognition and Measurement*

On April 1, 2014, ATB adopted the amendments to IAS 39 *Financial Instruments: Recognition and Measurement*. According to these amendments, hedge accounting should be continued when a derivative financial instrument designated as a hedging instrument is novated from one counterparty to a central counterparty or an entity acting in that capacity and certain conditions are met. There was no impact on ATB's financial results.

Future Accounting Policy Changes

IAS 19 *Employee Benefits*

On November 21, 2013, the IASB published *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19 Employee Benefits)*. The amendments clarify the accounting requirements that relate to how contributions from employees (or third parties) that are linked to service should be attributed to periods of service.

ATB is currently assessing the impact of the amendments, which must be applied retrospectively for annual periods beginning on or after July 1, 2014.

IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization*

On May 12, 2014, the IASB issued amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The amendments provide additional guidance on how the depreciation or amortization of property, plant, and intangible assets should be calculated.

ATB is currently assessing the impact of the amendments, which must be applied prospectively for annual periods beginning on or after January 1, 2016.

IFRS 15 *Revenue From Contracts With Customers*

In May 2014, the IASB issued IFRS 15 *Revenue From Contracts With Customers*, which replaces all existing IFRS revenue requirements. The standard clarifies the principles for recognizing revenue and cash flows arising from contracts with customers.

ATB is currently assessing the impact of the amendments, which must be applied retrospectively for annual periods beginning on or after January 1, 2017.

IFRS 9 *Financial Instruments*

On July 24, 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*, which replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. The final version includes guidance on the classification and measurement of financial assets and liabilities, impairment, and hedge accounting.

The standard uses a single business model approach to determine whether a financial asset is measured at amortized cost or fair value. Financial assets will be measured at fair value through profit or loss unless certain conditions are met for measurement at amortized cost or at fair value through other comprehensive income. The classification and measurement of liabilities remain mostly unchanged from IAS 39.

A new single impairment model is introduced on all financial instruments subject to impairment accounting. The expected credit loss model replaces the current "incurred" loss model and is based on a forward-looking approach. The model first requires the recognition of credit losses based on a 12-month time horizon where there has not been a significant increase in credit risk since initial recognition. It also requires an amount equal to the lifetime expected losses where there has been a significant increase in credit risk since initial recognition.

IFRS 9 also introduces a new hedge accounting model that expands on the scope of hedge and hedging items to which hedge accounting can be applied. The new model changes the effectiveness testing requirements and does not allow for voluntarily hedge de-designation.

ATB is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2018.

IAS 1 *Presentation of Financial Statements*

On December 18, 2014, the IASB published the *Disclosure Initiative* (Amendments to IAS 1). The amendments ensure that entities use judgment when presenting their financial reports by clarifying the materiality guidance for the Statement of Financial Position and Profit or Loss and Other Comprehensive Income, and the notes to the financial statements.

ATB is currently assessing the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

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, 2015
($ 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	$ -	$ -	$ -	$ 383,791	$ -	$ -	$ 383,791[1]
Interest-bearing deposits with financial institutions	-	812,253	-	-	-	-	812,253[1]
Securities	-	2,134,900	272	-	-	-	2,135,172[1]
Securities purchased under reverse repurchase agreements	-	-	-	500,094	-	-	500,094[1]
Loans							
Business	-	-	-	17,530,954	-	-	17,530,954
Residential mortgages	-	-	-	12,947,624	-	-	12,947,624
Personal	-	-	-	6,700,854	-	-	6,700,854
Credit card	-	-	-	673,857	-	-	673,857
Allowance for credit losses	-	-	-	(168,397)	-	-	(168,397)
	-	-	-	37,684,892	-	-	37,684,892[2]
Other							
Derivative financial instruments	474,568	-	-	-	-	210,126	684,694
Other assets	-	-	-	88,232	-	-	88,232
	474,568	-	-	88,232	-	210,126	772,926[1]
Financial liabilities							
Deposits							
Personal	-	-	-	-	12,645,311	-	12,645,311
Business and other	-	-	-	-	17,944,044	-	17,944,044
	-	-	-	-	30,589,355	-	30,589,355[3]
Other							
Wholesale borrowings	-	-	-	-	3,044,130	-	3,044,130[4]
Collateralized borrowings	-	-	-	-	4,274,180	-	4,274,180[5]
Derivative financial instruments	457,583	-	-	-	-	31,284	488,867[1]
Other liabilities	-	-	-	-	1,238,232	-	1,238,232[1]
	457,583	-	-	-	8,556,542	31,284	9,045,409
Capital investment notes	-	-	-	-	-	-	-
Subordinated debentures	-	-	-	-	311,339	-	311,339[6]

[1] Fair value estimated to equal carrying value.
[2] Fair value of loans estimated to be $39,544,112.
[3] Fair value of deposits estimated to be $30,582,731.
[4] Fair value of wholesale borrowings estimated to be $3,094,929.
[5] Fair value of collateralized borrowings estimated to be $4,441,804.
[6] Fair value of subordinated debentures estimated to be $332,216.

As at March 31, 2014
($ in thousands)

	Carrying value						
	Held-for-trading assets and liabilities measured at fair value	Designated at fair value through net income	Available-for-sale instruments measured at fair value	Loans and receivables measured at amortized cost	Financial liabilities measured at amortized cost	Derivatives designated for hedge accounting	Total carrying value
Financial assets							
Cash	$ -	$ -	$ -	$ 438,917	$ -	$ -	$ 438,917[1]
Interest-bearing deposits with financial institutions	-	1,143,128	-	-	-	-	1,143,128[1]
Securities	-	921,955	374	-	-	-	922,329[1]
Securities purchased under reverse repurchase agreements	-	-	-	-	-	-	-[1]
Loans							
Business	-	-	-	15,167,687	-	-	15,167,687
Residential mortgages	-	-	-	12,012,454	-	-	12,012,454
Personal	-	-	-	6,184,463	-	-	6,184,463
Credit card	-	-	-	651,931	-	-	651,931
Allowance for credit losses	-	-	-	(131,391)	-	-	(131,391)
	-	-	-	33,885,144	-	-	33,885,144[2]
Other							
Derivative financial instruments[8]	367,279	-	-	-	-	62,498	429,777
Other assets	-	-	-	122,076	-	-	122,076
	367,279	-	-	122,076	-	62,498	551,853[1]
Financial liabilities							
Deposits							
Personal	-	-	-	-	11,840,449	-	11,840,449
Business and other	-	-	-	-	15,475,989	-	15,475,989
	-	-	-	-	27,316,438	-	27,316,438[3]
Other							
Wholesale borrowings	-	-	-	-	2,694,161	-	2,694,161[4]
Collateralized borrowings	-	-	-	-	3,411,352	-	3,411,352[5]
Derivative financial instruments[8]	361,748	-	-	-	-	163	361,911[1]
Other liabilities	-	-	-	-	759,892	-	759,892[1]
	361,748	-	-	-	6,865,405	163	7,227,316
Capital investment notes	-	-	-	-	250,508	-	250,508[6]
Subordinated debentures	-	-	-	-	228,775	-	228,775[7]

[1] Fair value estimated to equal carrying value.
[2] Fair value of loans estimated to be $35,108,338.
[3] Fair value of deposits estimated to be $27,187,021.
[4] Fair value of wholesale borrowings estimated to be $2,704,044.
[5] Fair value of collateralized borrowings estimated to be $3,464,854.
[6] Fair value of capital investment notes estimated to be $254,136.
[7] Fair value of subordinated debentures estimated to be $241,111.
[8] Amounts restated. See Note 28.

Fair Value Hierarchy

Financial instruments recorded at fair value in the Consolidated Statement of Financial Position are classified using a fair value hierarchy based on the quality and reliability of the information used to estimate the fair value. The fair value hierarchy has the following levels:

- Level 1 – Fair value based on quoted prices in active markets
- Level 2 – Fair value estimated using valuation techniques that use market-observable inputs other than quoted market prices
- Level 3 – Fair value estimated using inputs not based on observable market data

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified at the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The categories of financial instruments whose fair values are classified at Level 3 consist of the following:

- Securities designated at fair value through net income—investments in asset-backed commercial paper (ABCP). Valuation techniques are disclosed in note 7.
- Securities available for sale—investments in ABCP. Valuation techniques are disclosed in note 7.
- Embedded derivatives relating to interest rate options on certain residential mortgages. Valuation techniques are disclosed in note 2(c).

The following tables present the level within the fair value hierarchy of ATB's financial assets and liabilities measured at fair value:

As at March 31, 2015 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Designated at fair value through net income	$ -	$ 812,253	$ -	$ 812,253
Securities				
Designated at fair value through net income	1,394,998	-	739,902	2,134,900
Available for sale	-	-	272	272
Other assets				
Derivative financial instruments	-	684,694	-	684,694
Total financial assets	$ 1,394,998	$ 1,496,947	$ 740,174	$ 3,632,119
Financial liabilities				
Other liabilities				
Derivative financial instruments	-	488,867	-	488,867
Total financial liabilities	$ -	$ 488,867	$ -	$ 488,867

As at March 31, 2014 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Designated at fair value through net income	$ -	$ 1,143,128	$ -	$ 1,143,128
Securities				
Designated at fair value through net income	193,871	-	728,084	921,955
Available for sale	-	-	374	374
Other assets				
Derivative financial instruments[1]	-	429,777	-	429,777
Total financial assets	$ 193,871	$ 1,572,905	$ 728,458	$ 2,495,234
Financial liabilities				
Other liabilities				
Derivative financial instruments[1]	143	361,768	-	361,911
Total financial liabilities	$ 143	$ 361,768	$ -	$ 361,911

[1] Amounts restated. See Note 28.

ATB performs a sensitivity analysis for fair value measurements classified at Level 3, substituting one or more reasonably possible alternative assumptions for the unobservable inputs. These sensitivity analyses are detailed in note 7 for the ABCP investments designated at fair value through net income. The sensitivity analysis for the available-for-sale ABCP resulted in an insignificant change in fair value.

The following tables present the changes in fair value of Level 3 financial instruments:

($ in thousands)	Securities available for sale	Securities designated at fair value through net income
Fair value as at March 31, 2014	$ 374	$ 728,084
Total realized and unrealized gains included in net income	38	80,181
Total realized and unrealized gains included in other comprehensive income	(19)	-
Sales and settlements[1]	(121)	(68,363)
Fair value as at March 31, 2015	$ 272	$ 739,902
Change in unrealized gains included in income with respect to financial instruments held as at March 31, 2015	$ -	$ 76,364

($ in thousands)	Securities available for sale	Securities designated at fair value through net income
Fair value as at March 31, 2013	$ 469	$ 773,050
Total realized and unrealized gains included in net income	42	73,514
Total realized and unrealized gains included in other comprehensive income	(21)	-
Sales and settlements[1]	(116)	(118,480)
Fair value as at March 31, 2014	$ 374	$ 728,084
Change in unrealized gains included in income with respect to financial instruments held as at March 31, 2014	$ -	$ 57,632

[1] There were no purchases or issuances made during the year.

The Consolidated Statement of Income line item for net gains on financial instruments at fair value through net income includes realized and unrealized fair value movements on all financial instruments designated at fair value and realized gains on securities available for sale.

Offsetting Financial Assets and Financial Liabilities

A financial asset or liability must be offset in the Consolidated Statement of Financial Position when, and only when, there is a legally enforceable right to set off the amounts and an intention to settle on a net basis or realize the asset and settle the liability simultaneously. A legally enforceable right exists when the right is enforceable in the normal course of business or in the event of default, insolvency, or bankruptcy.

Related amounts not offset in the Consolidated Statement of Financial Position include transactions where the following conditions apply:

- The counterparty has an offsetting exposure with ATB and a master netting or similar arrangement in place.
- Financial collateral has been received or pledged against the transactions described below.

Securities purchased under reverse repurchase agreements subject to master netting arrangements or similar arrangements and derivative assets and liabilities subject to the master netting agreements of the International

Swaps and Derivatives Association (ISDA) do not meet the criteria for offsetting in the Consolidated Statement of Financial Position as the ability to offset is only enforceable in the event of default, insolvency, or bankruptcy.

ATB receives and pledges collateral in the form of cash and marketable securities relating to its derivative assets and liabilities to manage credit risk in accordance with the terms and conditions of the ISDA credit support annex.

The following tables present information about financial assets and liabilities that are set off and not set off in the Consolidated Statement of Financial Position and are subject to a master netting agreement or similar arrangement:

As at March 31, 2015 ($ in thousands)	Gross recognized amounts	Set-off amounts	Net amounts recognized in the Consolidated Statement of Financial Position	Related amounts not offset in the Consolidated Statement of Financial Position: Financial instruments[1]	Related amounts not offset in the Consolidated Statement of Financial Position: Financial collateral received/pledged	Net amount
Financial assets						
Securities borrowed or purchased under reverse purchase agreements	$ 500,094	$ -	$ 500,094	$ -	$ -	$ 500,094
Derivative financial instruments	684,694	-	684,694	183,023	446,587	55,084
Amounts receivable from clients and financial institutions	107,000	-	107,000	74,751	-	32,249
	$ 1,291,788	$ -	$ 1,291,788	$ 257,774	$ 446,587	$ 587,427
Financial liabilities						
Derivative financial instruments	$ 488,867	$ -	$ 488,867	$ 183,023	$ -	$ 305,844
Amounts payable to clients and financial institutions	104,153	-	104,153	74,751	-	29,402
	$ 593,020	$ -	$ 593,020	$ 257,774	$ -	$ 335,246

As at March 31, 2014 ($ in thousands)	Gross recognized amounts	Set-off amounts	Net amounts recognized in the Consolidated Statement of Financial Position	Related amounts not offset in the Consolidated Statement of Financial Position: Financial instruments[1]	Related amounts not offset in the Consolidated Statement of Financial Position: Financial collateral received/pledged	Net amount
Financial assets						
Securities borrowed or purchased under reverse purchase agreements	$ -	$ -	$ -	$ -	$ -	$ -
Derivative financial instruments[2]	429,777	-	429,777	81,123	-	348,654
Amounts receivable from clients and financial institutions	487,888	-	487,888	487,888	-	-
	$ 917,665	$ -	$ 917,665	$ 569,011	$ -	$ 348,654
Financial liabilities						
Derivative financial instruments[2]	$ 361,911	$ -	$ 361,911	$ 81,123	$ 128,300	$ 152,488
Amounts payable to clients and financial institutions	487,888	-	487,888	487,888	-	-
	$ 849,799	$ -	$ 849,799	$ 569,011	$ 128,300	$ 152,488

[1] Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar arrangement but do not meet the offsetting criteria.
[2] Amounts restated. See Note 28.

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 2015 consolidated financial statements.

6. Cash Resources

Cash consists of cash on hand, bank notes and coins, non-interest-bearing deposits, and cash held at the Bank of Canada through the large value transfer system. Interest-bearing deposits with other financial institutions have been classified as designated at fair value through net income, and are recorded at fair value. Interest income on interest-bearing deposits is recorded on an accrual basis. Cash has been classified as loans and receivables for financial instruments purposes.

The carrying value as at March 31, 2015, of interest-bearing deposits with financial institutions consists of $812,253 (2014: $1,143,128) classified as designated at fair value through net income.

ATB has restricted cash that represents deposits held in trust in connection with ATB's securitization activities. These deposits include cash accounts that hold principal and interest payments collected from mortgages securitized through the mortgage-backed security program awaiting payment to their respective investors and deposits held in interest reinvestment accounts in connection with ATB's participation in the Canada Mortgage Bond program. The amount of restricted cash as at March 31, 2015, is $89,471 (2014: $64,021).

7. Securities

The carrying value of securities by remaining term to maturity and net of valuation provisions is as follows:

As at March 31, 2015 *($ in thousands)*	Within 1 year	1–5 years	Over 5 years	Total carrying value
Securities available for sale				
Commercial paper				
Third-party-sponsored ABCP	$ -	$ 272	$ -	$ 272
Total securities available for sale	-	272	-	272
Securities measured at fair value through net income				
Issued or guaranteed by the Canadian federal or provincial governments	280,794	1,114,204	-	1,394,998
Commercial paper				
Third-party-sponsored ABCP	-	703,861	-	703,861
Bank-sponsored ABCP	-	36,041	-	36,041
Total securities measured at fair value through net income	280,794	1,854,106	-	2,134,900
Total securities	$ 280,794	$ 1,854,378	$ -	$ 2,135,172

As at March 31, 2014 *($ in thousands)*	Within 1 year	1–5 years	Over 5 years	Total carrying value
Securities available for sale				
Commercial paper				
Third-party-sponsored ABCP	$ -	$ 374	$ -	$ 374
Total securities available for sale	-	374	-	374
Securities measured at fair value through net income				
Issued or guaranteed by the Canadian federal or provincial governments	193,871	-	-	193,871
Commercial paper				
Third-party-sponsored ABCP	-	694,119	-	694,119
Bank-sponsored ABCP	-	33,965	-	33,965
Total securities measured at fair value through net income	193,871	728,084	-	921,955
Total securities	$ 193,871	$ 728,458	$ -	$ 922,329

The total carrying value of securities in the preceding schedule includes securities denominated in U.S. funds totalling $23,578 as at March 31, 2015 (2014: $23,824).

Gross unrealized gains (losses) on securities available for sale are presented in the following table:

As at March 31, 2015 ($ in thousands)	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Securities available for sale				
Third-party-sponsored ABCP	$ 406	$ -	$ (133)	$ 272
Total securities available for sale	$ 406	$ -	$ (133)	$ 272

As at March 31, 2014 ($ in thousands)	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Securities available for sale				
Third-party-sponsored ABCP	$ 526	$ -	$ (152)	$ 374
Total securities available for sale	$ 526	$ -	$ (152)	$ 374

Asset-Backed Commercial Paper (ABCP)

As at March 31, 2015, ATB held ABCP with a total face value of $815,268 (2014: $880,526). ABCP is considered an unconsolidated structured entity. During the year, ATB received principal payments of $68,484 (2014: $118,596) and interest payments of $11,984 (2014: $13,243) on these investments.

ATB's holdings can be divided into three general types:

- Third-party ABCP restructured under the Montreal Accord (Master Asset Vehicle notes, or MAV notes)
- Third-party ABCP restructured outside of the Montreal Accord
- Bank-sponsored ABCP restructured under separate agreements

All are debt instruments with underlying exposure to a range of financial instruments, including residential mortgages, commercial loans, and credit default swaps.

These investments were short term when first purchased by ATB, but as a result of the general credit crisis that occurred in fiscal 2007–08, they were restructured into longer-term floating-rate notes with maturity dates that more closely match the maturities of the underlying assets, as detailed in the following table:

As at March 31, 2015 ($ in thousands)	Cost	Coupon	Expected principal repayment	Credit rating
Third-party ABCP				
MAV 1				
Class A-1	$ 263,771	0.30%[1]	Dec 2016	AA (low)
Class A-2	384,920	0.30%[1]	Dec 2016	A
Class B	65,624	0.30%[1]	Dec 2016	BBB (low)
Class C	26,967	20.0%[1]	Dec 2016	None
Total MAV 1	**741,282**			
MAV 3				
Tracking notes for traditional assets	405	Floating[2]	Sept 2016	None
Total MAV 3	**405**			
Other	**34,770**	1.55%[1]	Dec 2016	BBB (high)
Total third-party ABCP	**776,457**			
Bank-sponsored ABCP	**38,811**	0%–0.35%[1]	Sept 2016	BBB–AA (low)
Total ABCP	**$ 815,268**			

[1] Spread over bankers' acceptance rate.
[2] Coupon rate floats based on the yield of the underlying assets.

All the ABCP investments have been designated as fair value through net income, except for the MAV 3 notes, which have been classified as securities available for sale.

MAV Notes

The MAV 1 notes are supported in whole or in part by the originally pledged collateral and synthetic (or derivative-type) assets. These notes are subject to risk of loss and potential additional collateral calls relative to the leveraged super-senior trades included in the synthetic assets. The notes have different levels of subordination relative to potential losses and principal and interest payments. Specifically, C notes absorb the first realized losses, followed by B notes, A-2 notes, and A-1 notes. In addition, interest on C notes is cumulative and payable only when the principal and interest for the A-1, A-2, and B notes is settled in full. Interest on B notes is cumulative and payable only when the principal and interest for the A-1 and A-2 notes is settled in full. The structure is designed to ensure that the lowest-ranking notes, C and B, absorb the first losses, thereby reducing the risk of loss on the A-1 and A-2 notes.

MAV 1 note holders are required to provide a margin-funding facility (MFF) to cover possible collateral calls on the leveraged super-senior trades underlying the A-1, A-2, B, and C notes. Advances under this facility are expected to bear interest at a rate based on the bankers' acceptance rate. If ATB fails to fund any collateral under this facility, the notes held by ATB could be terminated or exchanged for subordinated notes. In order to continue to participate in MAV 1 and self-fund the MFF, ATB will have to maintain a credit rating equivalent to AA (high) with at least two of four credit-rating agencies. If ATB does not maintain the required credit rating, it will be required to provide collateral or obtain the required commitment through another entity with a sufficiently high credit rating. ATB's share of the MFF credit commitment is $551,500, for which ATB will not receive a fee. To recognize the fair value of this commitment, $7,748 (2014: $12,188) has been recorded in other liabilities. As at March 31, 2015, 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.

During the year, certain MAV 1 notes were terminated, but not yet repaid. These trades, while terminated, are still held by ATB at March 31, 2015.

Other Third-Party ABCP

ATB holds one non-MAV third-party note, White Knight, with exposure to leveraged super-senior trades. There are no potential collateral calls relative to this note, although if losses were to occur, the result would be significant based on the amount of leverage on the underlying exposure.

Bank-Sponsored ABCP

ATB holds two bank-sponsored notes: one issued by Apex Trust and one issued by Superior Trust. These notes have exposure to a combination of commercial mortgages and leveraged super-senior trades.

Establishing Fair Value

As at March 31, 2015, 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, 2015 and 2014:

($ in thousands)	2014 cost	2014 estimated fair value	Note redemptions	Foreign-exchange impact[1]	2015 cost	2015 estimated fair value
MAV 1	$ 806,055	$ 666,096	$ (67,999)	$ 3,226	**$ 741,282**	**$ 673,255**
MAV 3	526	374	(121)	-	**405**	**272**
Other third-party-sponsored ABCP	34,770	28,023	-	-	**34,770**	**30,606**
Bank-sponsored ABCP	39,175	33,965	(364)	-	**38,811**	**36,041**
Total ABCP	$ 880,526	$ 728,458	$ (68,484)	$ 3,226	**$ 815,268**	**$ 740,174**

[1] MAV 1 includes securities with a carrying value of $23,578 (2014: $23,824) denominated in U.S. funds.

MAV Notes – Fair Value

ATB has estimated the fair value of the MAV 1 A-1, A-2, B, and C notes using a discounted cash flow model. The key assumption in this model is the market discount rate. The market discount rate is based on the CDX.IG index tranches adjusted by a 2.70% premium, where an increase in this premium would result in a decrease in fair value on certain notes held, to reflect the lack of liquidity inherent in these notes. The coupon rates, term to maturity, and anticipated cash flows have been based on the expected terms of each note.

The value of the MAV 1 tracking notes for ineligible assets and the MAV 3 tracking notes for traditional assets has been estimated based on a review of the underlying assets.

ATB has recognized a $71,932 increase in fair value on the MAV 1 notes and a $19 increase in the value of the MAV 3 notes this year (2014: MAV 1 $64,697, MAV 3 $21).

Other Third-Party ABCP

ATB holds an investment of $34,770 in third-party-sponsored ABCP restructured outside the Montreal Accord. DBRS currently rates this investment as BBB (high). This is an increase from the prior year, when the investment was rated as BBB (low). 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 $2,583 (2014: $1,848). This valuation was based on a review of the underlying assets in the trust.

Bank-Sponsored ABCP

ATB also holds investments in certain bank-sponsored commercial paper that were restructured similarly to the Montreal Accord notes. The valuation of these notes was based on a review of the underlying assets in each of the

trusts. The estimated fair value of these notes increased by $2,440 (2014: $4,799) during the year. This increase in value during the year was due to an improvement in the credit quality of the notes.

During the year, the DBRS increased the rating on the Superior Trust Series G investment to AA (low). This is an increase from the prior year, when the investment was assigned an A rating.

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 $11,984 (2014: $13,243) in interest income recognized on its ABCP during the year, ATB also recognized $4,440 (2014: $4,440) in other income, representing the accretion of the MFF deferral. ATB recorded an $80,218 adjustment to the fair value of the ABCP portfolio, compared to the $73,556 recognized in 2014.

Measurement Uncertainty

Uncertainty remains regarding the amount and timing of cash flows and the value of the assets that underlie ATB's ABCP. Consequently, the ultimate fair value of these assets may vary significantly from current estimates, and the magnitude of any such difference could be material to ATB's financial results. The most significant input into the estimate of value is the market discount rate. A 1% increase in the discount rate will decrease the value of ATB's ABCP notes by approximately $12,147 (2014: $19,457).

8. Loans

Credit Quality

Loans consist of the following:

As at March 31, 2015 ($ in thousands)	Gross loans	Allowances assessed Individually	Allowances assessed Collectively	Net carrying value
Business	$ 17,530,954	$ 68,741	$ 36,593	$ 17,425,620
Residential mortgages	12,947,624	2,870	5,494	12,939,260
Personal	6,700,854	18,957	19,455	6,662,442
Credit card	673,857	-	16,287	657,570
Total	**$ 37,853,289**	**$ 90,568**	**$ 77,829**	**$ 37,684,892**

As at March 31, 2014 ($ in thousands)	Gross loans	Allowances assessed Individually	Allowances assessed Collectively	Net carrying value
Business	$ 15,167,687	$ 39,291	$ 35,125	$ 15,093,271
Residential mortgages	12,012,454	4,580	12,104	11,995,770
Personal	6,184,463	14,055	14,829	6,155,579
Credit card	651,931	-	11,407	640,524
Total	$ 34,016,535	$ 57,926	$ 73,465	$ 33,885,144

The total net carrying value of the above loans includes loans denominated in U.S. funds, totalling $772,807 as at March 31, 2015 (2014: $783,050). The amount of foreclosed assets held for resale as at March 31, 2015, is $8,234 (2014: $6,054).

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, 2015 ($ in thousands)	Residential mortgages	Business	Personal	Credit card[1]	Total
Up to 1 month	$ 91,480	$ 40,398	$ 43,349	$ 26,467	$ 201,694
Over 1 month up to 2 months	37,287	121,410	32,551	7,137	198,385
Over 2 months up to 3 months	6,388	7,898	5,199	2,935	22,420
Over 3 months	296	4,454	288	4,451	9,489
Total past due but not impaired	**$ 135,451**	**$ 174,160**	**$ 81,387**	**$ 40,990**	**$ 431,988**

As at March 31, 2014 ($ in thousands)	Residential mortgages	Business	Personal	Credit card[1]	Total
Up to 1 month	$ 97,139	$ 40,853	$ 42,816	$ 28,687	$ 209,495
Over 1 month up to 2 months	24,902	33,567	16,251	6,190	80,910
Over 2 months up to 3 months	8,357	4,068	3,450	2,440	18,315
Over 3 months	1,242	6,919	2,481	3,339	13,981
Total past due but not impaired	$ 131,640	$ 85,407	$ 64,998	$ 40,656	$ 322,701

[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, 2015 ($ in thousands)	Gross impaired loans	Allowances individually assessed	Net carrying value
Business	$ 148,635	$ 68,741	$ 79,894
Residential mortgages	46,793	2,870	43,923
Personal	52,199	18,957	33,242
Total	**$ 247,627**	**$ 90,568**	**$ 157,059**

As at March 31, 2014 ($ in thousands)	Gross impaired loans	Allowances individually assessed	Net carrying value
Business	$ 64,307	$ 39,291	$ 25,016
Residential mortgages	63,255	4,580	58,675
Personal	36,478	14,055	22,423
Total	$ 164,040	$ 57,926	$ 106,114

Industry Concentration

ATB is inherently exposed to significant concentrations of credit risk as its customers all participate in the Alberta economy, which in the past has shown strong growth and occasional sharp declines. ATB manages its credit risk by diversifying its credit portfolio, limiting concentrations in single borrowers, industries, and geographic regions of Alberta. As at March 31, 2015, no single industry segment represents more than 23.1% (2014: 23.2%) of total gross business loans, and no single borrower represents more than 0.22% (2014: 0.43%) of the total gross loan portfolio.

9. Allowance for Credit Losses

The allowance for credit losses is maintained at a level management considers adequate to absorb credit-related losses for all items in its credit portfolio.

The continuity of the allowance for credit losses is as follows:

As at March 31 ($ in thousands)	2015	2014
Collectively assessed		
Balance at beginning of the year	$ 73,465	$ 69,200
Provision for credit losses	4,364	4,265
Balance at end of the year	77,829	73,465
Individually assessed		
Balance at beginning of the year	$ 57,926	$ 53,689
Writeoffs and recoveries	(35,578)	(33,893)
Provision for credit losses	68,220	38,130
Balance at end of the year	90,568	57,926
Total	$ 168,397	$ 131,391

10. Derivative Financial Instruments

The majority of ATB's derivative contracts are over-the-counter (OTC) transactions that are privately negotiated between ATB and the counterparty to the contract. The remainder are exchange-traded contracts transacted through organized and regulated exchanges and consist primarily of options and futures. ATB uses the following derivative financial instruments:

Swaps

Swaps are transactions in which two parties agree to exchange defined cash flows. ATB uses the following types of swap contracts:

- Interest rate swaps are OTC contracts in which ATB exchanges fixed- and floating-rate interest payments with a counterparty based on an agreed notional principal amount denominated in a single currency. These are used in the corporate and client derivative portfolio to manage exposure to interest rate fluctuations, primarily arising from the investment, loan, and deposit portfolios.
- Cross-currency swaps are foreign-exchange transactions in which ATB exchanges interest and principal payments in different currencies. These are used in the corporate and client portfolio to manage ATB's foreign-exchange risk.

Options

Options are OTC contractual agreements in which the party that writes an option contract charges the buyer a premium in exchange for the right, but not the obligation, to either buy or sell a specified amount of currency or financial instruments at a specified price on a future date or within a specified time period. ATB buys specialized forms of option contracts, such as interest rate caps, collars, and swap options, as well as equity- and commodity-linked options direct from counterparties in the OTC market (i.e., not purchased on market exchanges). These are used in the corporate derivative portfolio to manage exposure to interest rate and equity and commodity market

fluctuations, primarily arising from the loan and deposit portfolios. ATB also buys and sells (or writes) similar option contracts relating to energy commodities in the client derivative portfolio.

Forwards and Futures

Foreign-exchange or commodity forwards are OTC transactions in which two parties agree to either buy or sell a specified amount of a currency or security at a specific price or within a specified time period. ATB uses foreign-exchange forward contracts in both its corporate and client derivative portfolios to manage currency exposure, either arising from its own foreign-currency-denominated loans and deposits, or for its customers. Commodity forward contracts are used only in the client derivative portfolio.

Futures are contractual obligations to buy or sell an interest-rate-sensitive financial instrument on a predetermined future date at a specified price. Futures contracts are transacted in standardized amounts on regulated exchanges that are subject to daily cash margining used only in the corporate derivative portfolio.

The fair value of derivative financial instruments, segregated between contracts in a favourable position (i.e., having positive fair value) and contracts in an unfavourable position (i.e., having negative fair value) consists of the following:

	2015		2014	
As at March 31 ($ in thousands)	**Favourable position**	**Unfavourable position**	Favourable position	Unfavourable position
Contracts ineligible for hedge accounting				
Interest rate contracts				
Swaps	**$ 58,687**	**$ (71,713)**	$ 5,433	$ (9,925)
Futures	**-**	**-**	-	(143)
Other	**35,791**	**(28,946)**	18,813	(18,830)
	94,478	**(100,659)**	24,246	(28,898)
Embedded derivatives				
Equity- and commodity-linked deposits	**-**	**(10,728)**	-	(38,220)
	-	**(10,728)**	-	(38,220)
Foreign-exchange contracts				
Forwards	**31,691**	**(29,594)**	5,855	(6,598)
Cross-currency swaps	**24,976**	**(23,871)**	12,701	(11,380)
Equity contracts				
Options[1]	**22,060**	**(11,386)**	75,274	(37,246)
Forward contracts				
Commodities	**301,363**	**(281,345)**	249,203	(239,406)
Total fair value ineligible contracts	**380,090**	**(346,196)**	343,033	(294,630)
Contracts eligible for hedge accounting				
Interest rate contracts				
Swaps	**210,126**	**(31,284)**	62,498	(163)
Total fair value eligible contracts	**210,126**	**(31,284)**	62,498	(163)
Total fair value	**$ 684,694**	**$ (488,867)**	$ 429,777	$ (361,911)
Less impact of master netting agreements[1]	**(183,023)**	**183,023**	(81,123)	81,123
Less impact of financial institution counterparty collateral held/posted	**(446,587)**	**-**	-	128,300
Residual credit exposure on derivatives to ATB	**$ 55,084**	**$ (305,844)**	$ 348,654	$ (152,488)

[1] Amounts restated. See note 28.

The residual credit exposure presented above includes contracts with financial institution and client counterparties. For the residual amounts above, $55,084 (2014: $256,661) of the derivative asset and $276,576 (2014: $97,424) of the derivative liability exposure relates to client counterparties.

The amount of other comprehensive income expected to be reclassified to the Consolidated Statement of Income over the next 12 months on de-designated hedges is $465 (2014: $179). ATB has recognized in profit and loss during the year $3,633 (2014: $802) 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)	2015	2014 restated
Within 1 year	$ 192,810	$ 127,361
1–2 years	163,693	112,395
2–3 years	129,245	101,796
3–4 years	101,209	88,064
4–5 years	76,542	37,237
Over 5 years	191,967	83,771
Total	$ 855,466	$ 550,624

The non-trading interest rate risk, which is hedged with interest rate swaps, has a maximum maturity of 10 years as at March 31, 2015 (2014: 10 years).

Term to Maturity

The notional amounts of derivative instruments represent the underlying principal amount to which the specified rate or price is applied in order to calculate the amount of cash flows to be exchanged, and have varying maturity dates. Notional amounts do not represent assets or liabilities and are not recorded in the Consolidated Statement of Financial Position. The remaining contractual terms to maturity for the notional amounts of all derivative instruments are as follows:

			Residual term of contract				
As at March 31, 2015 ($ in thousands)	Ineligible for hedge accounting	Eligible for hedge accounting	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Over-the-counter contracts							
Interest rate contracts							
Swaps	$ 10,475,866	$ 7,801,000	$ 1,879,000	$ 4,085,000	$ 10,127,456	$ 2,185,410	$ 18,276,866
Other	814,414	-	260,574	38,177	298,442	217,221	814,414
Embedded derivatives							
Equity- and commodity-linked deposits	54,345	-	6,916	47,429	-	-	54,345
Foreign-exchange contracts							
Forwards	2,656,527	-	1,631,047	747,204	278,276	-	2,656,527
Cross-currency swaps	240,872	-	-	-	85,010	155,862	240,872
Equity contracts							
Options	188,009	-	42,875	145,134	-	-	188,009
Forward contracts							
Commodities	3,220,685	-	187,667	1,769,070	1,214,623	49,325	3,220,685
Exchange-traded contracts							
Interest rate contracts							
Futures	-	-	-	-	-	-	-
Total	$ 17,650,718	$ 7,801,000	$ 4,008,079	$ 6,832,014	$ 12,003,807	$ 2,607,818	$ 25,451,718

As at March 31, 2014 ($ in thousands)	Ineligible for hedge accounting	Eligible for hedge accounting	Residual term of contract: Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Over-the-counter contracts							
Interest rate contracts							
Swaps	$ 7,562,635	$ 4,496,000	$ 425,000	$ 2,430,603	$ 8,324,975	$ 878,057	$ 12,058,635
Other	967,120	-	15,293	115,064	633,946	202,817	967,120
Embedded derivatives							
Equity- and commodity-linked deposits	182,339	-	23,250	104,744	54,345	-	182,339
Foreign-exchange contracts							
Forwards	1,703,345	-	1,267,495	391,403	44,447	-	1,703,345
Cross-currency swaps	338,200	-	-	-	290,172	48,028	338,200
Equity contracts							
Options[1]	611,237	-	74,402	348,826	188,009	-	611,237
Forward contracts							
Commodities	4,442,903	-	188,278	2,545,798	1,708,827	-	4,442,903
Exchange-traded contracts							
Interest rate contracts							
Futures	84,900	-	84,900	-	-	-	84,900
Total	$ 15,892,679	$ 4,496,000	$ 2,078,618	$ 5,936,438	$ 11,244,721	$ 1,128,902	$ 20,388,679

[1] Amounts restated. See note 28.

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 $28,662 as at March 31, 2015 (2014: $444,720).

Derivative-Related Credit Risk

Derivative financial instruments traded in the OTC market are subject to credit risk of a financial loss occurring if a counterparty defaults on its contractual obligation. ATB's maximum credit risk in respect of such derivatives is the fair value of all derivatives where ATB is in a favourable position. ATB endeavours to limit its credit risk by dealing only with counterparties believed to be creditworthy and manages the credit risk for derivatives using the same credit risk process applied to loans and other credit assets. Financial institution counterparties must have a minimum long-term public credit rating of A (low)/A3/A– or better. The exposure to credit risk on derivatives is also reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce ATB's net exposure in respect of favourable contracts with the same counterparty.

The current replacement cost represents the cost of replacing, at current markets rates, all contracts with a positive fair value to ATB. The credit equivalent amount is the sum of the current replacement cost and the potential future exposure, which is defined in a guideline authorized by the President of Treasury Board and Minister of Finance (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:

	2015			2014		
As at March 31 ($ in thousands)	**Replacement cost**	**Credit equivalent amount**	**Risk-adjusted balance**	Replacement cost	Credit equivalent amount	Risk-adjusted balance
Contracts ineligible for hedge accounting						
Interest rate contracts						
Swaps	**$ 58,687**	**$ 92,265**	**$ 18,453**	$ 5,433	$ 36,014	$ 7,203
Other	**35,791**	**40,540**	**19,675**	18,813	29,801	12,091
Foreign-exchange contracts						
Forwards	**31,691**	**69,387**	**21,396**	5,855	24,666	7,132
Cross-currency swaps	**24,976**	**32,171**	**10,355**	12,701	21,405	6,264
Equity contracts						
Options[1]	**22,060**	**29,320**	**5,864**	75,274	101,470	20,294
Forward contracts						
Commodities	**301,363**	**650,191**	**184,925**	249,203	727,669	286,176
Contracts eligible for hedge accounting						
Interest rate contracts						
Swaps	**210,126**	**259,967**	**51,993**	62,498	86,716	17,343
Total	**$ 684,694**	**$ 1,173,841**	**$ 312,661**	$ 429,777	$ 1,027,741	$ 356,503

[1] Amounts restated. See note 28.

11. Property and Equipment

($ in thousands)	Leasehold improvements	Computer equipment	Buildings	Other equipment	Leasehold improvements under construction	Computer equipment under development	Buildings under finance lease	Land	Total
Cost									
Balance as at April 1, 2013	$ 200,029	$ 95,236	$ 94,579	$ 59,261	$ 11,001	$ 15,701	$ 156,529	$ 7,380	$ 639,716
Acquisitions	6,949	14,059	3,841	7,366	26,902	30,284	48,951	-	138,352
Disposals	(9,208)	(54)	(441)	(4,627)	(6,726)	(15,053)	(3,447)	(8)	(39,564)
Balance as at March 31, 2014	$ 197,770	$ 109,241	$ 97,979	$ 62,000	$ 31,177	$ 30,932	$ 202,033	$ 7,372	$ 738,504
Balance as at April 1, 2014	**$ 197,770**	**$ 109,241**	**$ 97,979**	**$ 62,000**	**$ 31,177**	**$ 30,932**	**$ 202,033**	**$ 7,372**	**$ 738,504**
Acquisitions	**33,083**	**29,679**	**3,339**	**18,498**	**16,252**	**18,828**	**2,026**	**-**	**121,705**
Disposals	**(964)**	**(77,139)**	**(312)**	**(4,069)**	**(31,083)**	**(25,460)**	**(4,491)**	**-**	**(143,518)**
Balance as at March 31, 2015	**$ 229,889**	**$ 61,781**	**$ 101,006**	**$ 76,429**	**$ 16,346**	**$ 24,300**	**$ 199,568**	**$ 7,372**	**$ 716,691**
Depreciation									
Balance as at April 1, 2013	$ 121,498	$ 76,618	$ 65,106	$ 41,666	$ -	$ -	$ 44,033	$ -	$ 348,921
Depreciation for the period	11,816	12,814	2,314	6,693	-	-	11,859	-	45,496
Disposals	(8,673)	(54)	(225)	(3,831)	-	-	(3,030)	-	(15,813)
Balance as at March 31, 2014	$ 124,641	$ 89,378	$ 67,195	$ 44,528	$ -	$ -	$ 52,862	$ -	$ 378,604
Balance as at April 1, 2014	**$ 124,641**	**$ 89,378**	**$ 67,195**	**$ 44,528**	**$ -**	**$ -**	**$ 52,862**	**$ -**	**$ 378,604**
Depreciation for the period	**11,996**	**16,810**	**2,056**	**8,365**	**-**	**-**	**11,176**	**-**	**50,403**
Disposals	**(953)**	**(76,444)**	**(301)**	**(3,969)**	**-**	**-**	**-**	**-**	**(81,667)**
Balance as at March 31, 2015	**$ 135,684**	**$ 29,744**	**$ 68,950**	**$ 48,924**	**$ -**	**$ -**	**$ 64,038**	**$ -**	**$ 347,340**
Carrying amounts									
Balance as at March 31, 2014	$ 73,129	$ 19,863	$ 30,784	$ 17,472	$ 31,177	$ 30,932	$ 149,171	$ 7,372	$ 359,900
Balance as at March 31, 2015	**$ 94,205**	**$ 32,037**	**$ 32,056**	**$ 27,505**	**$ 16,346**	**$ 24,300**	**$ 135,530**	**$ 7,372**	**$ 369,351**

Depreciation expense charged to the Consolidated Statement of Income for the year ended March 31, 2015, for premises and equipment was $50,403 (2014: $45,496). There were no (2014: $1,555) impairment write-downs recognized during the year ended March 31, 2015. A loss of $62 (2014: $1,010) was recognized during the year for the disposal of capital assets.

12. Software and Other Intangibles

($ in thousands)	Purchased software	Software under development	Other intangibles	Total
Cost				
Balance as at April 1, 2013	$ 394,316	$ 13,629	$ 2,125	$ 410,070
Acquisitions	16,443	14,697	-	31,140
Disposals	(684)	(11,999)	-	(12,683)
Balance as at March 31, 2014	$ 410,075	$ 16,327	$ 2,125	$ 428,527
Balance as at April 1, 2014	**$ 410,075**	**$ 16,327**	**$ 2,125**	**$ 428,527**
Acquisitions	**43,115**	**39,589**	**-**	**82,704**
Disposals	**(79,291)**	**(14,230)**	**-**	**(93,521)**
Balance as at March 31, 2015	**$ 373,899**	**$ 41,686**	**$ 2,125**	**$ 417,710**
Amortization				
Balance as at April 1, 2013	$ 123,450	$ -	$ 2,035	$ 125,485
Amortization for the period	37,535	-	90	37,625
Disposals	(684)	-	-	(684)
Balance as at March 31, 2014	$ 160,301	$ -	$ 2,125	$ 162,426
Balance as at April 1, 2014	**$ 160,301**	**$ -**	**$ 2,125**	**$ 162,426**
Amortization for the period	**45,339**	**-**	**-**	**45,339**
Disposals	**(70,479)**	**-**	**-**	**(70,479)**
Balance as at March 31, 2015	**$ 135,161**	**$ -**	**$ 2,125**	**$ 137,286**
Carrying amounts				
Balance as at March 31, 2014	$ 249,774	$ 16,327	$ -	$ 266,101
Balance as at March 31, 2015	**$ 238,738**	**$ 41,686**	**$ -**	**$ 280,424**

Amortization expense charged to the Consolidated Statement of Income for the year ended March 31, 2015, for software and intangibles was $$39,383 (2014: $37,625). There were no (2014: nil) impairment write-downs recognized during the year ended March 31, 2015.

13. Other Assets

Other assets consist of the following:

As at March 31 *($ in thousands)*	2015	2014
Accrued interest receivable	**$ 71,966**	$ 97,457
Prepaid expenses and other receivables	**135,276**	136,148
Other	**17,010**	25,574
Total	**$ 224,252**	$ 259,179

14. Deposits

Deposit balances consist of the following:

As at March 31, 2015 ($ in thousands)	Payable on demand	Payable on a fixed date					Total
		Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	
Personal	$ 7,718,957	$ 2,334,300	$ 2,139,689	$ 167,394	$ 163,070	$ 121,901	$ 12,645,311
Business and other	10,781,754	6,663,000	396,849	45,675	30,901	25,865	17,944,044
Total	**$ 18,500,711**	**$ 8,997,300**	**$ 2,536,538**	**$ 213,069**	**$ 193,971**	**$ 147,766**	**$ 30,589,355**

As at March 31, 2014 ($ in thousands)	Payable on demand	Payable on a fixed date					Total
		Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	
Personal	$ 7,035,138	$ 2,544,982	$ 1,005,619	$ 1,012,673	$ 89,679	$ 152,358	$ 11,840,449
Business and other	9,472,974	5,597,985	135,626	229,336	17,493	22,575	15,475,989
Total	$ 16,508,112	$ 8,142,967	$ 1,141,245	$ 1,242,009	$ 107,172	$ 174,933	$ 27,316,438

The total deposits presented above include $740,397 (2014: $756,120) denominated in U.S. funds.

As at March 31, 2015, deposits by various departments and agencies of the Government of Alberta included in the preceding schedule total $228,904 (2014: $261,381).

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, 2015, the fee was $42,784 (2014: $37,592).

15. Collateralized Borrowings

Canada Mortgage Bond (CMB) Program

ATB periodically securitizes insured residential mortgage loans by participating in the CMB program. Through the program, ATB bundles residential mortgage loans guaranteed by the Canada Mortgage and Housing Corporation (CMHC) into mortgage-backed securities (MBSs) and transfers them to the Canada Housing Trust (CHT). CHT uses the proceeds of its bond issuance to finance the purchase of MBSs issued by ATB. As an issuer of the MBSs, ATB is responsible for advancing all scheduled principal and interest payments to CMHC, irrespective of whether or not the amounts have been collected on the underlying transferred mortgages. Amounts advanced but not recovered are ultimately recovered from the insurer. The sale of mortgage pools that comprise the MBSs does not qualify for derecognition as ATB retains the prepayment, credit, and interest rate risks associated with the mortgages, which represent substantially all of the risks and rewards. Also included in the collateralized borrowing liabilities are accrued interest, deferred transaction costs, and premium and discounts, representing the difference between cash proceeds and the notional amount of the liability issued. Accrued interest on the collateralized borrowing liability is based on the CMB coupon for each respective series. At the time of the CMB coupon settlement, any excess or shortfall between the CMB coupon payment and interest accumulated with swap counterparties is received or paid by ATB.

There are no expected credit losses on the securitized mortgage assets, as the mortgages are insured against default. Further, the investors and CMHC have no recourse to other assets of ATB in the event of failure of debtors to pay when due.

As part of a CMB transaction, ATB must enter into a total return swap with highly rated counterparties, exchanging cash flows of the CMB for those of the MBSs transferred to CHT. Any excess or shortfall in these cash flows is absorbed by ATB. These swaps are not recognized on ATB's Consolidated Statement of Financial Position, as the underlying cash flows of these derivatives are captured through the continued recognition of the mortgages and their associated CMB collateralized borrowing liabilities. Accordingly, these swaps are recognized on an accrual basis and are not fair valued through ATB's Consolidated Statement of Income. The notional amount of these swaps as at March 31, 2015, is $3,593,381 (2014: $2,963,946).

Collateralized borrowing liabilities are non-amortizing liabilities with fixed maturity dates. Principal payments collected from the mortgages underlying the MBSs sold to the CHT are transferred to the CHT monthly, where they are either reinvested in new MBSs or invested in eligible investments. To the extent that these eligible investments are not ATB's own issued MBSs, the investments are recorded on ATB's Consolidated Statement of Financial Position as securities measured at fair value through net income. The amount of investments as at March 31, 2015, is nil (2014: nil).

Credit Card Securitization

ATB entered into a program with another financial institution to securitize credit card receivables to obtain additional funding. This program allows ATB to borrow up to 85% of the amount of credit card receivables pledged. The secured credit card receivables remain on ATB's Consolidated Statement of Financial Position and have not been transferred as they do not qualify for derecognition. Should the amount securitized not adequately support the program, ATB will be responsible for funding this shortfall.

The following table presents the carrying amount of ATB's residential mortgage loans, credit card receivables, and assets pledged as collateral for the associated liability recognized in the Consolidated Statement of Financial Position:

As at March 31 *($ in thousands)*		2015		2014
Principal value of mortgages pledged as collateral	$	3,538,324	$	2,399,767
ATB mortgage-backed securities pledged as collateral through repurchase agreements		245,237		562,092
Principal value of credit card receivables pledged as collateral		573,027		537,858
Total	$	4,356,588	$	3,499,717
Associated liabilities	$	4,274,180	$	3,411,352

16. Other Liabilities

Other liabilities consist of the following:

As at March 31 ($ in thousands)	Note	2015	2014
Accounts payable and accrued liabilities		$ 949,917	$ 513,278
Accrued interest payable		99,932	98,512
Payment in lieu of tax payable	21	98,177	82,564
Deposit guarantee fee payable		42,784	37,592
Due to clients, brokers, and dealers		34,096	22,706
Achievement Notes	25	47,028	37,466
Accrued pension-benefit liability	20	86,931	65,278
Total		$ 1,358,865	$ 857,396

17. Capital Investment Notes

Capital investment notes are five-year non-redeemable guaranteed notes issued to the general public that qualify under ATB's capital requirements as Tier 2 capital to a maximum of $500,000. As at March 31, 2015, no notes (March 31, 2014: $250,508) are outstanding as the notes matured in September 2014.

18. Subordinated Debentures

ATB privately places debentures with the Crown in right of Alberta. These debentures are subordinated to deposits and other liabilities and are unsecured, non-convertible, non-redeemable, and non-transferable. They bear a fixed rate of interest payable semi-annually. The outstanding subordinated debentures were issued with an original term of five years.

As detailed in note 21, since March 31, 2011, ATB has issued subordinated debentures annually to settle the outstanding liability for ATB's payment in lieu of tax for each fiscal year.

Subordinated debentures consist of the following:

As at March 31 ($ in thousands) Maturity date	Interest rate	2015	2014
June 30, 2015	3.6%	$ 38,075	$ 38,075
June 30, 2016	3.6%	59,298	59,298
June 30, 2017	3.3%	58,280	58,280
June 30, 2018	3.4%	73,122	73,122
June 30, 2019	2.8%	82,564	-
Total		$ 311,339	$ 228,775

19. Salaries and Benefits

The following table discloses the amounts earned by board members and key senior executives in the year ended March 31, 2015:

	2015								2014
		Incentive plan					Retirement and other post-employment benefits[6]		
($ in thousands)	Base salary[1]	Short-term[2]	Long-term[3]	Other cash benefits[4]	Other non-cash benefits[5]	Subtotal		Total	Total
Chair of the board	$ 55	$ -	$ -	$ -	$ -	$ 55	$ -	$ 55	$ 67
Board members[7]	340	-	-	-	-	340	-	340	385
President and chief executive officer[8]	504	792	1,065	22	11	2,394	744	3,138	2,743
Chief people officer	287	172	382	33	14	888	30	918	873
Senior vice-president, Reputation and Brand	267	160	316	10	8	761	27	788	735
Chief strategy and operations officer	317	312	542	58	6	1,235	30	1,265	1,190
Chief risk officer	285	170	354	14	16	839	132	971	859
Chief financial officer	285	170	306	11	13	785	116	901	845
Executive vice-president, Retail Financial Services	257	242	257	43	12	811	29	840	736
Executive vice-president, Corporate Financial Services	318	197	435	13	14	977	122	1,099	1,172
Executive vice-president, Business & Agriculture	287	334	336	42	16	1,015	30	1,045	991
President, Investor Services[9]	9	7	4	-	1	21	1	22	-
President, Investor Services[10]	180	135	-	1,770	4	2,089	74	2,163	1,492

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 retainers, honoraria, lump-sum payments, perquisite allowances, severance, and other direct cash remuneration.
5 Other non-cash benefits consist of ATB's share of all employee benefits and contributions or payments made on behalf of employees, including statutory contributions, health care, parking, group life insurance, accidental disability and dismemberment insurance, and long-term disability plans.
6 The retirement and other post-employment benefits are largely unfunded obligations and are paid from operating revenues as they come due. None of these 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, 2015, to provide annual pension income over an actuarially determined post-employment period.
7 The board consists of 11 members plus the chair, whose remuneration is disclosed separately.
8 The incumbent does not participate in either the registered pension plan or the supplemental retirement plan, but does receive other post-employment benefits.
9 Two incumbents occupied this position during fiscal 2014–15. Amounts presented relate to the current incumbent.
10 Two incumbents occupied this position during fiscal 2014–15. Amounts presented relate to the previous incumbent.

Retirement and Other Post-Employment Benefits

Retirement and other post-employment benefits presented in the Salaries and Benefits table reflect the period expense for pension and other post-employment benefit (OPEB) rights to future compensation. Executive officers may receive such benefits through participation in either the defined benefit (DB) or defined contribution provisions of ATB's registered pension plan (the ATB Plan) together with participation in the non-registered DB supplemental retirement plan (SRP), or through other supplemental post-retirement benefit arrangements. (Refer to note 20.)

	2015				2014
($ 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]	$ -	$ 563	$ 181	$ 744	$ 710
Chief people officer	30	-	-	30	25
Senior vice-president, Reputation and Brand	27	-	-	27	25
Chief strategy and operations officer	30	-	-	30	25
Chief risk officer	17	67	48	132	117
Chief financial officer	17	66	33	116	103
Executive vice-president, Retail Financial Services	29	-	-	29	25
Executive vice-president, Corporate Financial Services	18	66	38	122	108
Executive vice-president, Business and Agriculture	30	-	-	30	25
President, Investor Services[3]	1	-	-	1	-
President, Investor Services[4]	2	42	30	74	100

[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, 2015, to provide annual pension income over an actuarially determined post-employment period.
[2] The incumbent does not participate in either the ATB Plan or the SRP, but does receive OPEB.
[3] Two incumbents occupied this position during fiscal 2014–15. Amounts presented relate to the current incumbent.
[4] Two incumbents occupied this position during fiscal 2014–15. Amounts presented relate to the previous incumbent.

The accrued SRP and OPEB obligation for each executive is as follows:[1]

($ in thousands)	Accrued obligation March 31, 2014	Change in accrued obligation	Accrued obligation March 31, 2015[2]
President and chief executive officer[3]	$ 3,456	$ 1,092	$ 4,548
Chief risk officer	1,009	231	1,240
Chief financial officer	665	182	847
Executive vice-president, Corporate Financial Services	788	203	991
President, Investor Services[4]	808	(37)	771

[1] The chief people officer, the senior vice-president of Reputation and Brand, the chief strategy and operations officer, and the executive vice-presidents of Business and Agriculture and Retail Financial Services 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 decreased from 4.5% on March 31, 2014, to 3.7% on March 31, 2015, because of changes in market interest rates. Consequently, there was an increase in the accrued obligation on March 31, 2015.
[3] The incumbent does not participate in either the ATB Plan or the SRP, but does receive OPEB.
[4] Two incumbents occupied this position during fiscal 2014–15. Amounts presented relate to the previous incumbent.

20. Employee Benefits

Public Service Pension Plan (PSPP)

The PSPP is a multi-employer pension plan for eligible employees of the Province of Alberta, approved provincial agencies, and public bodies. The Minister is the legal trustee for the plan, and accordingly, Alberta Treasury Board and Finance is the manager of the plan. The plan is governed by the Public Service Pension Board.

The plan provides a pension of 1.4% for each year of pensionable service based on average salary of the highest five consecutive years up to the year's maximum pensionable earnings and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the *Income Tax Act*.

As a participant in this plan, ATB and its participating employees are responsible for making current service contributions sufficient to provide for the accruing service of members and the amortization of any unfunded liability. ATB's share of the current service contributions (employer and employee) is based on the current pensionable earnings of active ATB participants (prorated against the total current pensionable earnings of all active PSPP members). The employer and employee share the required contributions 50/50.

Although the PSPP pools all assets and liabilities of participating employers and there is no allocation of assets and liabilities to participating employers, in order to recognize an estimate of its current liability under this plan, ATB has applied defined benefit (DB) accounting. ATB has estimated its share of the fair value of assets, the DB obligation, and the net pension liability as at March 31, 2015, based on its pro rata share of contributions into the plan, adjusted for its pro rata contribution rate (split 50/50 between employer and employee). ATB reassesses and discloses the estimated value of this liability annually.

Registered Pension Plan – DB Provisions

ATB provides its management employees with a registered pension plan (the ATB Plan) with either DB or defined contribution (DC) provisions. The DB component provides benefits based on members' years of service and earnings. The DC component provides annual contributions based on members' earnings.

ATB has amended the ATB Plan to change the annual contributions in the DC component effective January 1, 2015, and to close the DB component to future service accruals effective July 1, 2016. Current members in the DB component will continue to accrue earnings for their highest average earnings calculations and service for early retirement subsidies, but effective July 1, 2016, will accrue future benefits under the DC component. Effective July 1, 2014, all new entrants into the ATB Plan will automatically go into the DC component.

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.

Effective July 1, 2014, the agreement between ATB and the Government of Alberta was terminated, and there will be no transfers in respect of promotions on and after this date. The final transfer of obligations and assets is reflected in the current-year net pension expense.

Non-Registered Plans

ATB also provides a non-registered DB supplemental retirement plan (SRP) and other post-employment benefits (OPEB) for designated management employees. The SRP provides benefits based on members' years of service and earnings in excess of the Canada Revenue Agency maximum pension limits.

Plan Risks

The DB plans expose ATB to actuarial risks such as longevity risk, currency risk, interest rate risk, and market risk. ATB, in conjunction with the Human Resources Committee and Retirement Committee, manages risk through the plan's Statement of Investment Policies and Procedures and Pension Investment Risk Management Policy, which:

- Establishes allowable and prohibited investment types
- Sets diversification requirements
- Limits portfolio mismatch risk through an asset allocation policy
- Limits market risks associated with the underlying fund assets

Breakdown of Defined Benefit Obligation

The breakdown of the DB obligations for each plan is as follows:

As at March 31	2015		
($ in thousands)	**Registered plan**	**Supplemental and other**	**ATB's share of PSPP**
Active	**$ 236,241**	**$ 11,042**	**$ 147,769**
Deferred	**21,147**	**1,813**	**39,566**
Pensioners and beneficiaries	**149,155**	**3,735**	**121,020**
Total defined benefit obligation	**$ 406,543**	**$ 16,590**	**$ 308,355**

As at March 31	2014		
($ in thousands)	Registered plan	Supplemental and other	ATB's share of PSPP
Active	$ 208,023	$ 10,089	$ 126,930
Deferred	24,661	920	31,774
Pensioners and beneficiaries	112,309	3,102	95,708
Total defined benefit obligation	$ 344,993	$ 14,111	$ 254,412

Breakdown of Plan Assets

A breakdown of plan assets for the ATB Plan is as follows:

As at March 31 ($ in thousands)	2015 Non-quoted on an active market	2015 Quoted on an active market	2014 Non-quoted on an active market	2014 Quoted on an active market
Bonds				
Provinces, municipal corporations, and other public administrations	$ -	$ 101	$ -	$ 126
Other issuers	-	253,315	-	217,485
Shares	-	160,660	-	140,072
Cash and money market securities	-	899	-	936
Total fair value of plan assets	$ -	$ 414,975	$ -	$ 358,619

Asset/Liability Matching Strategy

The investment policy is reviewed each year. The current policy is to match those assets in respect of inactive members with a matching fixed-income portfolio. For active members with liabilities that have other variables such as salary growth, assets are not matched but an equity-centric portfolio is held (70% benchmark in equities). A more in-depth asset/liability study is conducted every three to five years, whereby the investment policy is reviewed in more detail.

Cash Payments

Total cash paid or payable for employee benefits for the year ended March 31, 2015—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 $40,938 (2014: $57,900).

Contributions expected during the upcoming year are $15,438 (2014: $15,957) for the DB portion of the ATB plan, $215 (2014: $201) for the unfunded SRP and CPS, and $13,275 (2014: $13,972) for the PSPP.

Pension Plan Obligation Maturity Profile

For 2015, the weighted-average financial duration of the main group plans was approximately 17 years (2014: 17 years).

Net Accrued Benefit Liability

The funded status and net accrued pension-benefit liability for the DB provisions of the ATB Plan and the other pension obligations, which include the PSPP, SRP, obligations recognized in respect of the CPS benefit obligation to inactive plan members, and OPEB, consist of the following:

As at March 31 ($ in thousands)	2015	2014
Registered plan		
Fair value of plan assets	$ 414,975	$ 358,619
Projected benefit obligation	(406,543)	(344,993)
Net pension-benefit asset[1]	$ 8,432	$ 13,626
Supplemental and other		
Unfunded projected benefit obligation, representing the plan funding deficit	(16,590)	(14,111)
Net pension-benefit liability[1]	$ (16,590)	$ (14,111)
ATB's share of PSPP		
Fair value of plan assets	$ 229,582	$ 189,619
Projected benefit obligation	(308,355)	(254,412)
Net pension-benefit liability[1]	$ (78,773)	$ (64,793)
Total net pension-benefit liability[1], [2]	$ (86,931)	$ (65,278)

[1] Effect of asset limitation and IAS minimum funding requirements is nil.
[2] There are no unrecognized actuarial gains/losses and past-service costs.

The net accrued benefit liability is included in other liabilities in the Consolidated Statement of Financial Position as appropriate. (Refer to note 16.)

Other Comprehensive Income

	Registered plan		Supplemental and other		ATB's share of PSPP	
As at March 31 ($ in thousands)	2015	2014	2015	2014	2015	2014
Actuarial (gain) loss on plan assets	$ (44,884)	$ (22,452)	$ -	$ -	$ (27,106)	$ 2,268
Effect of changes in demographic assumptions	-	20,801	-	504	-	-
Effect of changes in financial assumptions	45,178	(19,438)	1,728	(593)	30,086	(9,150)
Experience loss (gain) on plan liabilities	3,896	-	(63)	(1,347)	10,238	(32,084)
Amount recognized in other comprehensive income	$ 4,190	$ (21,089)	$ 1,665	$ (1,436)	$ 13,218	$ (38,966)
Beginning balance, accumulated other comprehensive loss (income)	56,838	77,927	2,681	4,117	(5,454)	33,512
Ending balance, accumulated other comprehensive loss (income)	$ 61,028	$ 56,838	$ 4,346	$ 2,681	$ 7,764	$ (5,454)

Change in Plan Assets and Benefit Obligations

Changes in the estimated financial position of the DB provisions of the ATB Plan, the PSPP, and the SRP and OPEB obligations are as follows:

	Registered plan		Supplemental and other		ATB's share of PSPP	
As at March 31 ($ in thousands)	**2015**	2014	**2015**	2014	**2015**	2014
Change in fair value of plan assets						
Fair value of plan assets at beginning of the year	**$ 358,619**	$ 302,580	**$ -**	$ -	**$ 189,619**	$ 180,468
Contributions from ATB	**4,571**	25,660	**924**	621	**13,275**	13,664
Contributions from employees	**1,067**	1,188	**-**	-	**-**	-
Interest income	**16,095**	13,034	**-**	-	**8,647**	7,851
Actuarial gain (loss) on plan assets	**44,884**	22,452	**-**	-	**27,106**	(2,268)
Benefits paid	**(10,913)**	(8,651)	**(924)**	(621)	**(9,088)**	(10,096)
Net transfer in – PSPP	**2,068**	4,749	**-**	-	**-**	-
Actual plan expenses	**(1,416)**	(2,393)	**-**	-	**23**	-
Fair value of plan assets at end of the year	**$ 414,975**	$ 358,619	**$ -**	$ -	**$ 229,582**	$ 189,619
Change in defined benefit obligation						
Projected benefit obligation at beginning of the year	**$ 344,993**	$ 324,802	**$ 14,111**	$ 14,499	**$ 254,412**	$ 281,812
Effect of changes in demographic assumptions	**-**	20,801	**-**	504	**-**	-
Effect of changes in financial assumptions	**45,178**	(19,438)	**1,728**	(593)	**30,086**	(9,150)
Experience loss (gain) on plan liabilities	**3,896**	-	**(63)**	(1,347)	**10,238**	(32,084)
Current-service cost	**3,743**	4,234	**1,117**	1,123	**10,654**	12,032
Expenses paid	**-**	-	**-**	-	**-**	-
Contributions from employees	**1,067**	1,188	**-**	-	**-**	-
Past-service costs	**1,181**	3,863	**-**	-	**-**	-
Net transfer in – PSPP	**2,068**	4,749	**-**	-	**-**	-
Interest expense	**15,330**	13,445	**621**	546	**11,246**	11,898
Benefits paid	**(10,913)**	(8,651)	**(924)**	(621)	**(8,281)**	(10,096)
Defined benefit obligation at end of the year	**$ 406,543**	$ 344,993	**$ 16,590**	$ 14,111	**$ 308,355**	$ 254,412
Net pension-benefit asset (liability)	**$ 8,432**	$ 13,626	**$ (16,590)**	$ (14,111)	**$ (78,773)**	$ (64,793)

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)	**2015**	2014	**2015**	2014	**2015**	2014
Current-service cost	**$ 3,743**	$ 4,234	**$ 1,117**	$ 1,123	**$ 10,654**	$ 12,032
Past-service costs	**1,181**	3,863	**-**	-	**-**	-
Interest expense	**15,330**	13,445	**621**	546	**11,246**	11,898
Interest income	**(16,095)**	(13,034)	**-**	-	**(8,647)**	(7,851)
Administrative expenses and taxes	**2,200**	1,022	**-**	-	**-**	-
Net pension-benefit expense recognized	**$ 6,359**	$ 9,530	**$ 1,738**	$ 1,669	**$ 13,253**	$ 16,079

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	
	2015	2014	**2015**	2014	**2015**	2014
Accrued benefit obligation as at March 31						
Discount rate at end of the year	**3.7%**	4.5%	**3.7%**	4.5%	**3.7%**	4.5%
Rate of compensation increase[1]	**2.5%**	3.5%	**2.5%**	3.5%	**3.5%**	3.5%
Defined benefit expense for the year ended March 31						
Discount rate at beginning of the year	**4.5%**	4.2%	**4.5%**	4.2%	**4.5%**	4.3%
Rate of compensation increase[1]	**2.5%**	3.5%	**2.5%**	3.5%	**3.5%**	3.8%
ATB's share of PSPP contributions	**-**	-	**-**	-	**4.3%**	4.2%

[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, 2015, and the related expense for the year then ended:

	Registered plan		Supplemental and other		ATB's share of PSPP	
As at March 31, 2015 ($ in thousands)	**Benefit obligation**	**Benefit expense**	**Benefit obligation**	**Benefit expense**	**Benefit obligation**	**Benefit expense**
Discount rate						
Impact of: 1.0% increase	**$ (61,157)**	**$ (4,265)**	**$ (1,619)**	**$ (10)**	**$ (44,520)**	**$ (3,178)**
1.0% decrease	**80,002**	**4,186**	**2,010**	**9**	**44,520**	**2,444**
Inflation rate						
Impact of: 1.0% increase	**34,497**	**2,251**	**160**	**24**	**19,269**	**1,144**
1.0% decrease	**(30,510)**	**(1,973)**	**(162)**	**(25)**	**(19,269)**	**(1,144)**
Rate of compensation increase						
Impact of: 0.25% increase	**2,810**	**200**	**1**	**-**	**10,031**	**1,001**
0.25% decrease	**(2,735)**	**(196)**	**(1)**	**-**	**(10,031)**	**(1,001)**
Expected long-term rate of return on plan assets						
Impact of: 1.0% increase	**(6,798)**	**(260)**	**(174)**	**(13)**	**N/A[1]**	**N/A[1]**
1.0% decrease	**7,442**	**288**	**185**	**12**	**N/A[1]**	**N/A[1]**

[1] Mortality sensitivity information for the PSPP is not available.

This sensitivity analysis should be used with caution as it is hypothetical and the effect of changes in each significant assumption may not be linear. Also, the sensitivities in each key variable have been calculated independently of changes in other key variables, and actual experience may result in simultaneous changes to a number of key assumptions. Changes in one factor could result in changes to another that may serve to amplify or reduce certain sensitivities.

21. Payment in Lieu of Tax

Pursuant to the *ATB Act*, the Government of Alberta may assess a charge to ATB as prescribed by the *ATB Regulation*. The *ATB Regulation* defines the charge to be an amount equal to 23% of ATB's consolidated net income as reported in its audited annual financial statements. The payment in lieu of tax is calculated as 23% of net income reported under IFRS.

As at March 31, 2015, ATB accrued a total of $98,177 (2014: $82,564) for payment in lieu of tax. The amount outstanding as at March 31, 2014, was settled on June 30, 2014, with ATB issuing a subordinated debenture to the Government of Alberta. (Refer to note 18.) The payment in lieu of tax will continue to be settled by issuing subordinated debentures until ATB's Tier 2 notional capital is eliminated. (Refer to note 26.)

22. Related-Party Transactions

In the ordinary course of business, ATB provides normal banking services to various departments and agencies of the Government of Alberta on terms similar to those offered to non-related parties. (Refer to note 14.) During the year, ATB leased certain premises from the Government of Alberta. For the year ended March 31, 2015, the total of these payments was $283 (2014: $283). ATB recognized a deposit guarantee fee payable to the Crown in right of Alberta in return for a guarantee on all customer deposits and a payment in lieu of tax. (Refer to notes 14 and 21.) ATB also has subordinated debt outstanding with the Crown in right of Alberta. (Refer to note 18.)

ATB entered into a wholesale borrowing agreement with the Minister on November 24, 2003 (amended November 9, 2007). Under this agreement, the Minister acts as fiscal agent of ATB under the *Financial Administration Act* and is involved in raising wholesale deposits in the marketplace. As at March 31, 2015, wholesale borrowings include $3.0 billion (2014: $2.7 billion) payable to the Minister.

Key management personnel are defined as those personnel having authority and responsibility for planning, directing, and controlling the activities of ATB, and are considered related parties. ATB provides loans to key management personnel, their close family members, and their related entities on market conditions, with the exception of banking products and services for key management personnel, which are subject to approved guidelines that govern all employees. As at March 31, 2015, there was $3,391 (2014: $4,666) in loans outstanding. Key management personnel have deposits provided at standard market rates. As at March 31, 2015, there was $448 (2014: $482) in deposits outstanding. Key management personnel compensation is disclosed in note 19. No impairment losses were recorded against balances outstanding from key management personnel, and no specific allowances for impairment were recognized on balances with key management personnel and their close family members.

Key management personnel may also purchase Achievement Notes based on their role within ATB. As at March 31, 2015, there was $2,167 (2014: $5,337) in Achievement Notes outstanding to this group. There was $2,697 (2014: nil) in payments at termination made to key management personnel during the year.

23. Commitments, Guarantees, and Contingent Liabilities

Credit Instruments

In the normal course of business, ATB enters into various off-balance-sheet commitments to provide customers with sources of credit. These may include letters of credit, letters of guarantee and loan guarantees, and commitments to extend credit.

All of these credit arrangements are subject to ATB's normal credit standards, and collateral may be obtained where appropriate. The contract amounts represent the maximum credit risk exposure to ATB should the contracts be fully drawn and any collateral held prove to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements.

Letters of Credit

Standby letters of credit represent an irrevocable obligation to make payments to a third party if the customer cannot meet its financial or performance contractual obligations. In the event of a call on such commitments, ATB has recourse against the customer.

Documentary and commercial letters of credit require ATB to honour drafts presented by third parties upon completion of specific activities.

Guarantees

Guarantees also represent an irrevocable obligation to make payments to a third party in certain situations. Guarantees include contracts or indemnities that contingently require ATB to make payments (either in the form of some asset or in the form of services) to another party based on changes in an asset, liability, or equity the other party holds; failure of a third party to perform under an obligating agreement; or failure of a third party to pay its indebtedness when due. The term of these guarantees varies according to the contracts and normally does not exceed one year. In the event of a call on such commitments, ATB has recourse against the customer.

Commitments to Extend Credit

Commitments to extend credit represent undertakings by ATB to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions, and include recently authorized credit not yet drawn down and credit facilities available on a revolving basis.

The amounts presented in the current and comparative year for commitments to extend credit include demand facilities of $16,131,922 (2014: $13,434,068). For demand facilities, ATB considers the undrawn portion to represent a commitment to the 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)		2015		2014
Loan guarantees and standby letters of credit	$	523,742	$	550,659
Commitments to extend credit		17,854,377		13,869,959
Total	$	18,378,119	$	14,420,618

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)	2015	2014
Assets pledged to:		
Bank of Canada[1]	$ 399,521	$ 401,274
Clearing and Depository Services Inc.	16,000	14,000
Total	**$ 415,521**	$ 415,274

[1] Assets pledged to the Bank of Canada include encumbered amounts of $80,208 (2014: $101,406).

In addition to the amounts above, ATB has pledged assets relating to certain derivative contracts and collateralized borrowing. (Refer to notes 10 and 15.)

Indemnification Agreements

In the normal course of operations, ATB enters into various agreements that provide general indemnification to the other party. Examples of such agreements include service agreements, leasing agreements, clearing arrangements, and service contracts. These indemnifications may require ATB, in certain circumstances, to compensate the other party for costs incurred as a result of various contingencies. ATB also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their services to the company. The terms of these indemnifications vary based on the contract, the nature of which prevents ATB from making a reasonable estimate of the maximum potential amount it could be required to pay to other parties. Historically, any such amounts have not been significant. No amount has been accrued in the Consolidated Statement of Financial Position in respect of such indemnifications.

Contingent Liabilities

Various actions and legal proceedings arising from the normal course of business are pending against ATB. Management does not consider the aggregate liability, if any, of these actions and proceedings to be material.

Margin-Funding Facility

As a participant of MAV 1 under the Montreal Accord, ATB must provide a margin-funding facility (MFF) to cover any potential collateral calls associated with the leveraged super-senior trades underlying the Montreal Accord notes. ATB has the same rank as the other participants in the MFF. This credit commitment totals $551,500 and matures in July 2017. ATB does not receive any fee for providing this commitment. The advances that could be made under the MFF are expected to bear interest at the bankers' acceptance rate. All amounts advanced under the MFF will take precedence over amounts payable on the notes issued under MAV 1.

Contractual Obligations

ATB has various obligations under long-term non-cancellable contracts, which include service contracts and operating leases for buildings and equipment. The expected payments for such obligations for each of the next five fiscal years and thereafter are outlined as follows:

As at March 31 ($ in thousands)	2015	2014
2015	$ -	$ 132,623
2016	52,367	37,968
2017	29,980	13,603
2018	21,248	8,803
2019	5,227	3,096
2020	1,972	7,020
Thereafter	5,411	-
Total	$ 116,205	$ 203,113

The total expense for premises and equipment operating leases charged to the Consolidated Statement of Income for the year ended March 31, 2015, is $6,356 (2014: $3,961).

Finance Lease Commitments

The future minimum lease payments required under ATB's finance leases were as follows:

As at March 31 ($ in thousands)	2015	2014
Future minimum lease payments:		
Not later than 1 year	$ 22,460	$ 26,011
Later than 1 year but not later than 5 years	116,072	99,214
Later than 5 years	222,933	183,186
Total future minimum lease payments	361,465	308,411
Less: finance charges not yet due	148,465	126,541
Present value of finance lease commitments	$ 213,000	$ 181,870

24. Interest Rate Risk

Interest Rate Gap Analysis

Gap analysis involves the allocation of interest-rate-sensitive assets and interest-rate-sensitive liabilities into categories according to their maturity or repricing date. Gaps can change significantly within a short period of time. The impact of changes in interest rates on net interest income will depend upon the size and rate of change in interest rates, the size and maturity of the total gap position, and management of these positions over time. ATB actively manages its interest rate gap position to protect net interest income while minimizing risk. The following table shows ATB's interest rate gap position as at March 31:

($ in thousands)	Term to maturity/repricing								
	Fixed-rate within 3 months	Floating-rate within 3 months	Within 3 months	3–12 months	Total within 1 year	1–5 years	Over 5 years	Non-interest-rate-sensitive	Total
As at March 31, 2015									
Assets									
Cash resources and securities	$ 79,000	$ 3,602,907	$ 3,681,907	$ 78,363	$ 3,760,270	$ -	$ -	$ 71,040	$ 3,831,310
Loans	5,741,969	16,620,765	22,362,734	3,246,383	25,609,117	11,049,949	765,452	260,374	37,684,892
Other assets	-	-	-	-	-	-	-	1,558,721	1,558,721
Derivative financial instruments[1]	-	-	1,192,363	635,000	1,827,363	5,225,000	956,000	-	8,008,363
Total	5,820,969	20,223,672	27,237,004	3,959,746	31,196,750	16,274,949	1,721,452	1,890,135	51,083,286
Liabilities and equity									
Deposits	14,002,637	365,264	14,367,901	4,557,601	18,925,502	4,813,964	10,029	6,839,860	30,589,355
Wholesale borrowings	250,000	400,000	650,000	-	650,000	2,200,000	200,000	(5,870)	3,044,130
Collateralized borrowings	307,656	639,504	947,160	-	947,160	2,226,831	1,092,695	7,494	4,274,180
Other liabilities	473,849	-	473,849	-	473,849	-	-	1,373,883	1,847,732
Capital investment notes	-	-	-	-	-	-	-	-	-
Subordinated debentures	38,075	-	38,075	-	38,075	273,264	-	-	311,339
Equity	-	-	-	-	-	-	-	3,008,187	3,008,187
Derivative financial instruments[1]	-	-	7,285,000	78,363	7,363,363	30,000	615,000	-	8,008,363
Total	15,072,217	1,404,768	23,761,985	4,635,964	28,397,949	9,544,059	1,917,724	11,223,554	51,083,286
Interest-rate-sensitive gap	$ (9,251,248)	$ 18,818,904	$ 3,475,019	$ (676,218)	$ 2,798,801	$ 6,730,890	$ (196,272)	$ (9,333,419)	
As percentage of assets	(18.1%)	36.8%	6.8%	(1.3%)	5.5%	13.2%	(0.4%)	(18.3%)	

($ in thousands)	Term to maturity/repricing								
	Fixed-rate within 3 months	Floating-rate within 3 months	Within 3 months	3–12 months	Total within 1 year	1–5 years	Over 5 years	Non-interest-rate-sensitive	Total
As at March 31, 2014									
Assets									
Cash resources and securities	$ 279,314	$ 1,823,208	$ 2,102,522	$ 7,071	$ 2,109,593	$ 339,018	$ -	$ 55,763	$ 2,504,374
Loans	5,100,814	14,905,332	20,006,146	3,313,597	23,319,743	9,932,200	303,792	329,409	33,885,144
Other assets	-	-	-	-	-	-	-	1,277,711	1,277,711
Derivative financial instruments[1]	-	-	4,250,881	975,000	5,225,881	5,292,780	430,884	-	10,949,545
Total	5,380,128	16,728,540	26,359,549	4,295,668	30,655,217	15,563,998	734,676	1,662,883	48,616,774
Liabilities and equity									
Deposits	13,690,131	354,188	14,044,319	3,236,483	17,280,802	3,573,596	304	6,461,736	27,316,438
Wholesale borrowings	119,466	669,006	788,472	-	788,472	1,911,445	-	(5,756)	2,694,161
Collateralized borrowings	297,636	447,374	745,010	869,135	1,614,145	1,493,806	304,840	(1,439)	3,411,352
Other liabilities	34,225	-	34,225	-	34,225	-	-	1,147,836	1,182,061
Capital investment notes	-	-	-	250,498	250,498	-	-	10	250,508
Subordinated debentures	-	-	-	-	-	228,775	-	-	228,775
Equity	-	-	-	-	-	-	-	2,583,934	2,583,934
Derivative financial instruments[1]	-	-	7,123,665	750,000	7,873,665	2,883,824	192,056	-	10,949,545
Total	14,141,458	1,470,568	22,735,691	5,106,116	27,841,807	10,091,446	497,200	10,186,321	48,616,774
Interest-rate-sensitive gap	$ (8,761,330)	$ 15,257,972	$ 3,623,858	$ (810,448)	$ 2,813,410	$ 5,472,552	$ 237,476	$ (8,523,438)	
As percentage of assets	(18.0%)	31.4%	7.5%	(1.7%)	5.8%	11.3%	0.5%	(17.5%)	

[1] Derivative financial instruments are included in these tables 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, 2015						
Total assets	3.1%	3.4%	3.2%	3.1%	3.6%	3.2%
Total liabilities and equity	0.9%	1.2%	0.9%	1.3%	2.3%	1.1%
Interest-rate-sensitive gap	2.2%	2.2%	2.3%	1.8%	1.3%	2.1%

(%)	Within 3 months	3–12 months	Total within 1 year	1–5 years	Over 5 years	Total
As at March 31, 2014						
Total assets	3.1%	3.4%	3.2%	3.1%	3.6%	3.2%
Total liabilities and equity	1.0%	1.5%	1.1%	1.3%	2.9%	1.2%
Interest-rate-sensitive gap	2.1%	1.9%	2.1%	1.8%	0.7%	2.0%

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)	2015	2014[1]
Impact on net earnings in succeeding year from:		
Increase in interest rates of:		
100 basis points	$ 45,785	$ 30,946
200 basis points	89,685	60,075
Decrease in interest rates of:		
100 basis points	(48,145)	(50,284)
200 basis points	(59,911)	(62,636)

[1] Comparative amounts have been restated based on the current-year methodology for measuring interest rate sensitivity, which now includes ATB's short-term investments.

25. Achievement Notes

ATB sold Principal at Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB Financial that provide, or will in the future provide, services under the ATB Investor Services brand name. Under this plan, eligible employees could purchase a 25-year note with a rate of return linked to the value of certain ATB subsidiaries. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

Each note holder is entitled to:

- A cash payment at maturity, representing the original invested amount adjusted for a proportionate share in the change in fair value of certain ATB subsidiaries
- Cash distributions, if any, based on the net positive dividends paid by certain ATB subsidiaries to ATB

There is no public market for these notes; thus the valuation is based on a model prepared by an external consultant using market data where available. This valuation model was used to establish the initial purchase price of the notes and the changes in fair value period to period until the notes mature.

The notes are not redeemable at the option of the note holder, or ATB, prior to maturity, subject to the occurrence of an extraordinary event for ATB (i.e., winding up, dissolution, or liquidation of ATB) or a catastrophic event for the note holder. The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the valuation of the ATB subsidiaries reduces, that the note holder will lose some or all of the original investment.

During the year, ATB issued $4,146 (2014: $2,298) of these notes, which are recorded in other liabilities in the Consolidated Statement of Financial Position. During the current year, $7,170 (2014: $798) of the notes have been redeemed. An expense of $6,653 (2014: $12,936) was recognized during the year to reflect the increase in the fair value of the notes based on their valuation as at March 31, 2015. As at March 31, 2015, the liability for these notes was $47,028 (2014: $37,466). During the year, $1,007 (2014: nil) in distribution payments were accrued for payment to Achievement Note holders.

26. Capital Management

ATB measures and reports capital adequacy to ensure it meets the minimum levels set out by its regulator, Alberta Treasury Board and Finance, while supporting the continued growth of its business.

As a Crown corporation, ATB and its subsidiaries operate under a regulatory framework established pursuant to the *Alberta Treasury Branches Act* and associated regulations and guidelines. The capital adequacy requirements for ATB are defined in a guideline authorized by the President of Treasury Board and Minister of Finance (the Minister), which was modelled after guidelines governing other Canadian deposit-taking institutions. ATB's minimum Tier 1 capital requirement is 7%, and the total capital requirement is the greater of 10% of risk-weighted assets or 5% of total assets. Risk weights are established for various on-balance-sheet and off-balance-sheet assets according to the degree of credit risk. Tier 1 capital consists of retained earnings, and Tier 2 capital consists of notional capital and eligible portions of the collective allowance for credit losses, subordinated debentures, and capital investment notes (to a maximum of $500,000). Effective March 30, 2009, $600,000 of notional (or deemed) capital was made available to ATB. This amount reduces by 25% of net income each quarter.

As at March 31, 2015, 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)	2015	2014 restated (*note 28*)
Tier 1 capital		
Retained earnings	$ 2,920,375	$ 2,591,694
Tier 2 capital		
Eligible portions of:		
Subordinated debentures	145,096	124,800
Collective allowance for credit losses	77,829	73,465
Notional capital	282,344	364,515
Total Tier 2 capital	505,269	562,780
Total regulatory capital	$ 3,425,644	$ 3,154,474
Total risk-weighted assets	$ 31,349,283	$ 27,367,116
Risk-weighted capital ratios:		
Tier 1 capital ratio	9.3%	9.5%
Total regulatory capital ratio	10.9%	11.5%

27. Segmented Information

ATB has organized its operations and activities around the following four business segments or areas of expertise:

- **Retail Financial Services** comprises the branch, agency, and ABM networks and provides financial services to individuals.
- **Business and Agriculture** provides financial services to independent business and agricultural customers.
- **Corporate Financial Services** provides financial services to mid-sized and large corporate borrowers.
- **Investor Services** provides wealth management solutions, including retail brokerage, mutual funds, portfolio management, and investment advice.

The four identified segments differ in products and services offered, but are all within the same geographic region, as virtually all of ATB's operations are limited to customers in the Province of Alberta.

Basis of Presentation

Results presented in the following schedule are based on ATB's internal financial reporting systems. The accounting policies used in preparing the schedules are consistent with those followed in preparing the consolidated financial statements, as is disclosed in the notes to the statements. Since these areas of expertise are based on ATB's internal management structure, they may not be directly comparable to those of other financial institutions.

Net interest income is attributed to each area of expertise according to ATB's internal funds transfer pricing (FTP) system, whereby assets earn net interest income to the extent that external revenues exceed internal FTP expense, and liabilities earn net interest income to the extent that internal FTP revenues exceed external interest expense. Individually assessed provisions for credit losses are allocated based on the individual underlying impaired loan balances, and collectively assessed provisions are allocated pro rata based on total performing loan balances.

Direct expenses are attributed between areas of expertise as incurred. Certain indirect expenses are allocated between Investor Services and the other areas on the basis of interline service agreements. Certain other costs are allocated between the reporting segments using refined allocation methods incorporating activity-based estimates of indirect cost allocation. Indirect expenses that are not allocated and direct expenses of a corporate or support nature are reported under strategic service units.

($ in thousands)	Retail Financial Services	Business and Agriculture	Corporate Financial Services	Investor Services	Strategic service units[1]	Total
March 31, 2015						
Net interest income	$ 417,797	$ 258,637	$ 279,103	$ 441	$ 74,454	$ 1,030,432
Other income	89,705	69,367	61,803	133,733	83,748	438,356
Total operating revenue	507,502	328,004	340,906	134,174	158,202	1,468,788
Provision for (recovery of) credit losses	25,129	16,484	31,921	-	(950)	72,584
Non-interest expenses	429,992	211,803	94,663	104,392	128,496	969,346
Income before payment in lieu of tax	52,381	99,717	214,322	29,782	30,656	426,858
Payment in lieu of tax[3]	-	-	-	6,850	91,327	98,177
Net income (loss)	$ 52,381	$ 99,717	$ 214,322	$ 22,932	$ (60,671)	$ 328,681
Total assets	$ 19,946,326	$ 6,686,117	$ 10,961,281	$ 149,115	$ 5,332,084	$ 43,074,923
Total liabilities	$ 12,004,052	$ 9,167,956	$ 8,704,341	$ 118,033	$ 10,072,354	$ 40,066,736
March 31, 2014[2]						
Net interest income	$ 374,782	$ 224,733	$ 260,536	$ 369	$ 105,592	$ 966,012
Other income	86,777	65,704	61,258	104,979	65,729	384,447
Total operating revenue	461,559	290,437	321,794	105,348	171,321	1,350,459
Provision for credit losses	12,662	8,454	20,423	-	856	42,395
Non-interest expenses	427,008	196,237	85,297	87,803	152,746	949,091
Income before payment in lieu of tax	21,889	85,746	216,074	17,545	17,719	358,973
Payment in lieu of tax	-	-	-	-	82,564	82,564
Net income (loss)	$ 21,889	$ 85,746	$ 216,074	$ 17,545	$ (64,845)	$ 276,409
Total assets	$ 18,483,339	$ 5,712,616	$ 9,735,770	$ 136,604	$ 3,636,146	$ 37,704,475
Total liabilities	$ 11,325,690	$ 8,005,506	$ 7,364,220	$ 97,454	$ 8,327,671	$ 35,120,541

[1] Composed of business units of a corporate nature, such as investment, risk management, asset/liability management, and treasury operations, as well as expenses, collective allowances, and recoveries for credit losses not expressly attributed to any area of expertise.
[2] Prior-period results have been restated based on a change in corporate allocation methodology and accounting policy.
[3] As of April 1, 2014, Investor Services is proportionally allocated its share of the payment in lieu of tax expense.

28. Comparative Amounts

Certain comparative amounts have been reclassified to conform to the current period's presentation.

In addition, ATB determined that certain derivative assets previously reported in its consolidated financial statements do not meet the offsetting criteria defined in IAS 32 *Financial Instruments: Presentations*. This resulted in an impact to the prior-year risk-weighted assets and comparative amounts reported in the Consolidated Statement of Financial Position. The risk-weighted assets increased from $27,355,286 to $27,367,116, with no impact to the Tier 1 and total capital ratios. The impact on the comparative amounts reported in the Consolidated Statement of Financial Position for the year ended March 31, 2014, is as follows:

As at March 31 *($ in thousands)*		2014
Derivative assets as previously reported	$	392,531
Restated amounts		37,246
Derivative assets as restated		429,777
Derivative liabilities previously reported		324,665
Restated amounts		37,246
Derivative liabilities as restated		361,911

ATB INSURANCE ADVISORS INC.

Financial Statements

Year Ended March 31, 2015

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, 2015, 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.

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, 2015, 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 4, 2015
Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

As at March 31, 2015 ($ thousands)

	March 31, 2015	March 31, 2014
ASSETS	$	$
Current assets		
Cash	1,321	84
Accounts receivable	22	15
Due from affiliates (*note 5*)	33	1,085
	1,376	1,184
LIABILITIES		
Current liabilities		
Accrued liabilities	13	73
Unearned revenue	29	35
Incentive compensation payable (*note 11*)	12	40
Due to ATB (*note 6(i)*)	6,554	6,353
	6,608	6,501
Long-term liabilities		
Long-term accrued liabilities	-	10
Long-term incentive compensation payable (note 11)	3	3
Long-term unearned revenue	10	10
	6,621	6,524
SHAREHOLDER'S EQUITY		
Share capital (*note 7*)	5	5
Deficit	(5,250)	(5,345)
	(5,245)	(5,340)
	1,376	1,184

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

Approved by the Board of Directors

[Original signed by]

Director

[Original signed by]

Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2015 ($ thousands, except for shares)

	Class A Common Shares #	Share Capital $	Deficit $	Shareholder's Equity $
Balance at March 31, 2013	100	5	(5,563)	(5,558)
Share based payment (*note 6(ii)*)	-	-	226	226
Net loss and comprehensive loss	-	-	(8)	(8)
Balance at March 31, 2014	100	5	(5,345)	(5,340)
Balance at March 31, 2014	100	5	(5,345)	(5,340)
Net income and comprehensive income	-	-	95	95
Balance at March 31, 2015	100	5	(5,250)	(5,245)

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

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended March 31, 2015 ($ thousands)

	March 31, 2015 $	March 31, 2014 $
Revenue		
Insurance commissions	**656**	764
	656	764
Administration and Selling expenses (*note 10*)		
Banking and interest charges	**174**	173
Referral fees paid to affiliates	**101**	54
Salaries and employee benefits (*note 11*)	**84**	166
General and administrative expenses	**84**	143
Incentive compensation expenses (*note 11*)	**11**	86
Commission expenses	**3**	7
IT infrastructure and services	**-**	5
Professional fees (recovery)	**(26)**	138
	431	772
Other expenses		
Intercorporate management fees (*note 9*)	**102**	-
Net income (loss) before payment in lieu of tax	**123**	(8)
PILOT - Payment in lieu of taxes (*note 6(iii)*)	**28**	-
Net income (loss) and comprehensive income (loss)	**95**	(8)

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

STATEMENT OF CASH FLOWS

For the year ended March 31, 2015 ($ thousands)

	March 31, 2015	March 31, 2014
Cash provided from (used in)	$	$
Operating activities		
Net income (loss)	95	(8)
Net change in non-cash working capital items		
Accounts receivable	(7)	(10)
Prepaid expenses	-	2
Accrued liabilities	(70)	38
Due from affiliates	1,051	393
Commissions payable	-	(4)
Incentive compensation payable	(29)	19
Unearned revenue	(6)	(20)
PILOT payable	28	-
	967	418
Net cash from operating activities	1,062	410
Financing activities		
Due to ATB	175	(410)
Net cash from (used in) financing activities	175	(410)
Net change in cash	1,237	-
Cash at beginning of period	84	84
Cash at end of period	1,321	84
Supplementary information		
Interest paid	174	173
PILOT paid	-	-

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2015 ($ 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") and is affiliated with ATB Investment Management Inc. ("ATBIM") and ATB Securities Inc. ("ATBSI"). ATBIA, ATBIM, and ATBSI operate under the trademark ATB Investor Services ("ATBIS"). ATBIA was 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 are dependent upon ATB's ongoing financial support.

The address of the Company's registered office is:
2100, 10020 – 100 Street
Edmonton, Alberta T5J 0N3

These financial statements have been approved by the Board of Directors on June 4, 2015.

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, 2015.

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 convention, except for the revaluation of certain assets and liabilities 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 ATBIA's critical accounting estimates under IFRS:

i Provision for Lapse of Insurance Policies

Insurance policies that have been in force for less than two years are typically subject to a chargeback by the insurer when a policy lapses. The provision for lapses is estimated using a combination of historical internal lapse rates and observable industry lapse rates. Management exercises its judgement in determining whether historical rates are effective predictors of future lapses and may substitute industry rates where appropriate.

During the year ended March 31, 2015, management provided an allowance for lapsed insurance policies of $39 (March 31, 2014 – $45) representing 1% to 5.71% (depending on the policy) of total insurance commissions earned during the year (March 31, 2014 – 1% to 5.89%). This provision was posted as a reduction to insurance commission revenue and is recorded as unearned revenue in the statement of financial position. The current portion of unearned revenue represents the provision for chargebacks expected to expire in the next fiscal year.

ii Estimates for Fair Valuing Certain Assets and Liabilities of ATBIA

ATBIA's long-term incentive compensation plan (LTIP) has maturity dates longer than one year and therefore is carried at fair value using an appropriate discount rate. The discount rate and calculations for fair value are reviewed on a regular basis however; actual fair values may differ from the Company's estimates.

c. Cash

Cash consists of cash on deposit held with ATB.

d. Provisions and Contingencies

Provisions are recognized when it is more likely than not that an outflow of economic resources will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of ATBIA; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed, where significant, unless the probability of settlement is remote.

e. Revenue Recognition

ATBIA earns insurance commissions from selling insurance products to customers. Insurance commissions are recorded as revenue at the time the customer enters into a policy contract with an insurance provider represented by ATBIA. Commission agreements with insurance providers may include a chargeback clause which provides a right for the insurance provider to chargeback a proportion of commission received by ATBIA if the policy lapses within a specified period. The chargeback period generally expires in two years. As such, a portion of insurance commission revenue is deferred until the chargeback period expires. The deferred amount

is estimated with reference to industry information available for similar contracts and will be revised over time to reflect ATBIA's actual lapsing experience. The provision for chargebacks is recorded as unearned revenue in the statement of financial position. The current portion of unearned revenue represents the provision for chargebacks expected to expire within 1 year.

f. Foreign Exchange

Transactions denominated in foreign currencies are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Financial assets and liabilities denominated in foreign currencies are translated into and presented in Canadian dollars at the rates in effect at the date of the statement of financial position. Revenues and expenses are translated at the rates prevailing at the respective transaction dates. Realized and unrealized gains and losses arising from these translations are included in the statement of operations and comprehensive 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. 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 the end of year 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 and are recorded in the statement of operations and comprehensive income as salaries and employee benefits. Short-term employee benefits payable at year end are recorded in accrued liabilities.

Certain employees of the Company are eligible to participate in variable compensation plans that allow 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. Variable compensation plan expenses are recorded in the statement of operations and comprehensive income as incentive compensation expenses. Variable compensation plan payable at year-end is recorded in incentive compensation payable.

iii Long-Term Employee Benefits (LTIP)

ATBIA has an executive long-term incentive plan for certain eligible employees of the Company. The plan provides an incentive for achieving success in execution of strategic objectives that create value and long-term sustainability of the Company. Certain employees of the Company receive LTIP grants approved by the Board of Directors. The amounts are subject to annual appreciation and depreciation factors and are payable

three years from the effective date of grant. Following the guidance in IAS 19 (revised) – Employee Benefits, the liability for LTIP (note 11) is recorded at the present value of the grants that have vested as of the year-end date less an allowance for early termination. The liability for LTIP vests over three years from the date of the grant. The liability for LTIP is included in incentive compensation payable, and the related expense is included in incentive compensation expenses.

h. Share-Based Payments

Certain eligible employees of the Company have the opportunity to participate in a share-based compensation plan of ATB. Under this plan, the Company receives services from employees as consideration for Achievement Notes issued by ATB (note 6(ii)). The obligation to settle the notes with employees is with ATB. This is a group plan where the awards are considered cash-settled by ATB and equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date. No compensation expense is recorded by the Company related to the awards when granted since the notes are issued to employees at fair value on the grant date.

Prior to December 31, 2013, the Company was charged by ATB for their share of subsequent changes in the fair value of the notes relating to employees providing a service to the Company as the awards vest to the employees. These charges were recorded as a payable to ATB (note 6(ii)) with a corresponding entry to retained deficit, similar to a distribution. By mutual agreement between the Company and ATB, effective December 31, 2013, the Company was absolved of this obligation and the unpaid liability accrued to that date was derecognized. This change was an operational decision, and not a change in accounting policy, and therefore enacted on a prospective basis. Any payments made up to December 31, 2013 were not reversed.

i. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition.

All financial assets and financial liabilities are initially recognized on the trade date. This is the date that ATBIA becomes a party to the contractual provisions of the instrument.

ATBIA derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. ATBIA derecognizes a financial liability when its contractual obligations are discharged or is cancelled or expires.

Classification

All financial instruments are initially recorded at fair value and are subsequently accounted for based on one of five classifications:

- financial assets at fair value through profit or loss;
- loans and receivables;

- held-to-maturity;
- investments and available for sale financial assets; and
- other financial liabilities.

Management determines the classification of financial assets and liabilities at initial recognition.

Financial Assets

i Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit and loss are financial assets held for trading.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to earnings. Gains and losses arising from changes in fair value are included directly in the statement of operations and are reported as other revenue or other expenses. Interest income and expense on financial assets held for trading are included in interest revenue or interest expense.

ATBIA has no financial instruments classified as held for trading at March 31, 2015.

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. Loans and receivables are initially measured at fair value and subsequently recorded at amortized cost using effective interest rate method. ATBIA has classified cash, accounts receivable and due from affiliates as loans and receivables.

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, 2015.

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 at each reporting date. 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, 2015.

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 initially at fair value and subsequently recorded at amortized cost using the effective rate method with any gains and losses in the realization of other financial liabilities included in income. Accrued liabilities, incentive compensation payable, and due to ATB are classified as other financial liabilities.

j. Financial Instruments – Estimated Fair Value

The fair value of a financial instrument is the the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

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, accounts receivable, due from affiliates, accrued liabilities, due to ATB, and certain incentive compensation payable amounts that are not carried at fair value.

Certain liabilities for incentive compensation are carried at fair value. See note 3 for an explanation of how these items are fair valued and where they lie in the fair value hierarchy.

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.

The fair value of the LTIP component of the incentive compensation payable amounting to $4 (March 31, 2014 –$4) is determined by discounting the expected future obligation of the grants (note 11) using an internal hurdle rate of 10% per annum. The LTIP obligation has been classified as level 2 under the fair value hierarchy.

There have been no transfers between levels during the year.

ii Financial Risk Management

ATBIA's financial instruments consist of cash, accounts receivable, due from affiliates, accrued liabilities, incentive compensation payable, and due to ATB.

ATBIA's financial instruments are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. ATBIA's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on ATBIA's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

Market Risk

Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. There are three types of market risk: currency risk, interest rate risk and price risk.

Currency Risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. Risk exists that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ATBIA does not hold significant financial instruments denominated in foreign currencies and therefore is not exposed to currency risk.

Interest Rate Risk

ATBIA is subject to interest rate cash flow risk as its amount due to ATB (note 6(i)) is subject to interest rate fluctuations and the degree of volatility in these rates. ATBIA is exposed to interest rate price risk as the fair value of LTIP will fluctuate as a result of changes in market interest 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, 2015, 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 $65 (March 31, 2014 – $64).

Price Risk

ATBIA is not exposed to financial market pricing risk as no financial instruments held by the Company will fluctuate as a result of changes in market prices.

Credit Risk

Credit risk is the risk that the counter party to a financial asset will default resulting in a financial loss to ATBIA. ATBIA is exposed to credit risk primarily through its cash, accounts receivable and due from affiliates balances.

Cash is on deposit with ATB, an Alberta Crown Agent from which management believes the risk of loss is remote.

Accounts receivable are primarily composed of insurance commissions receivable from large and reputable insurance companies from whom the risk of loss is deemed to be insignificant. Management has not provided an allowance for doubtful accounts on accounts receivable as the Company has historically no collection losses on amounts owing from insurance companies and believes collectability is reasonably assured.

The credit risk inherent in 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 $1,376 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, incentive compensation payable, and due to ATB.

4. Accounting Changes

New and Amended Accounting Standards Adopted by the Company

The following standards have been adopted by the Company effective April 1, 2014:

IAS 32 *Financial Instruments – Presentation*
IAS 36 *Impairment of Assets*
IFRS 13 *Fair Value Measurement*

The adoption of these new standards and amendments to existing standards did not impact the financial statements other than certain note disclosures.

New Accounting Standards and Interpretations not yet Adopted

IAS 1 *Presentation of Financial Statements*

On December 18, 2014 the IASB published the 'Disclosure Initiative (Amendments to IAS 1)'. The amendment ensures the use of judgment by an entity when presenting their financial reports by clarifying the materiality guidance for the Statement of Financial Position and Profit or Loss and Other Comprehensive Income, and the notes to the financial statements.

ATBIA is currently assessing the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization*

On May 12, 2014, IASB issued amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The amendments provide additional guidance on how the depreciation or amortization of property, plant and intangible assets should be calculated.

ATBIA is currently assessing the impact of the amendments, which must be applied prospectively for annual periods beginning on or after January 1, 2016.

IFRS 9, *Financial Instruments*

On July 24, 2014 the IASB issued the final version of IFRS 9 Financial Instruments, which replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement. The final version includes guidance on the classification and measurement of financial assets and liabilities, impairment, and hedge accounting.

Financial instruments amends the classification and measurement criteria for financial instruments included within the scope of IAS 39, Financial Instruments: Recognition and Measurements. For financial assets, IFRS 9 uses a single business model 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.

ATBIA is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces all existing IFRS revenue requirements. The standard clarifies the principles for recognizing revenue and cash flows arising from contracts with customers.

ATBIA is currently assessing the impact of the amendments, which must be applied retrospectively for annual periods beginning on or after January 1, 2017.

Annual Improvements

These amendments include changes from the 2010-12 cycle of the annual improvements project that affect the following standards:

IFRS 2 *Share-based payment*
IFRS 8 *Operating segments*
IAS 16 *Property, plant and equipment*
IAS 24 *Related party disclosures*
IAS 40 *Investment property*.

ATBIA has evaluated the aforementioned accounting standards which are effective for annual periods beginning on or after July 1, 2014 and with the exception of some minor changes to the Company's note disclosures there is no significant impact to the Company's financial statements.

5. Due from Affiliates

In the normal course of operations ATBIA pays referral fees to ATBSI. Alternatively, ATBIA may pay for certain expenses on behalf of 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, 2015 $	March 31, 2014 $
Due from ATBSI	**21**	818
Due from ATBIM	**12**	267
	33	1,085

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, 2015 $	March 31, 2014 $
Due to ATB	**6,554**	6,353

The net amount due to ATB, less PILOT (note 6(iii)), is subject to interest charges at ATB's prime lending rate. Interest is calculated in the following month based on all amounts owing at March 31, 2015. The prime lending rate at March 31, 2015 was 2.85% (March 31, 2014 – 3.00%).

ii Amounts Due to ATB Relating to Achievement Notes

ATB sells Principal at Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Investor Services brand name. Under this plan, eligible employees were provided an opportunity to purchase a 25-year note with a rate of return linked to the value of certain ATB subsidiaries, including 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 ATB Investor Services reduces, that the note holder will lose some or all of the original investment.

To the extent that notes were redeemed at fair market value, prior to December 31, 2013, the Company has reimbursed ATB, through equity distributions, for payments made to employees of the Company in excess of the original subscription amount. However, by mutual agreement between the Company and ATB, effective December 31, 2013, the Company is absolved of any future obligation to make equity distributions to ATB related to the achievement note program and as a result the liability was forgiven with a corresponding increase to the Company's equity.

A reconciliation of the amounts due to ATB arising from the issuance of the Achievement Notes are as follows:

	March 31, 2014 $
Opening	226
Reversal of achievement notes liability through equity	(226)
	-

As at March 31, 2015 the liability recorded by ATB with regards to ATBIA achievement notes is $700 (March 31, 2014 – $536). The $164 change in the liability from the prior year is due to appreciation of the achievement notes.

iii Payment in Lieu of Tax (PILOT)

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 (PILOT) is calculated as 23% of net income reported under IFRS.

Effective April 1, 2014, ATBIA began accruing for all amounts owing under the PILOT program as a result of its earnings in the current year. For the year ended March 31, 2015, ATBIA accrued a total of $28 for payment in lieu of tax. This amount is not subject to interest and will be paid to ATB no later than June 30, 2015.

7. Share Capital (shares not in thousands)

Authorized:

Unlimited number of Class A voting, common shares without nominal or par value

Unlimited number of Class B non-voting, common shares without nominal or par value

Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share

Issued and outstanding:

Class A common shares	March 31, 2015	March 31, 2014
Shares #	100	100
Amount	$5	$5

8. Capital Risk Management and Restrictions

ATBIA's objectives in managing its capital, which is defined as shareholder's equity, are:

- to safeguard ATBIA's ability to operate as a going concern; and
- to provide financial capacity and flexibility to meet its strategic objectives.

The capital structure of ATBIA is managed and adjusted to reflect changes in economic conditions. In order to maintain or adjust the capital structure, adjustments may be made to the number of new common shares issued. In support thereof, management reviews the financial position of ATBIA on a monthly and cumulative basis. ATBIA works towards managing its capital objectives to the extent possible while facing the challenges of market conditions. ATBIA's capital management objectives have not changed over the periods presented.

9. Management Fee Expense

As of April 1, 2014 ATBSI implemented a new fee structure to more appropriately distribute the costs of shared management, executive, strategic and supporting costs with ATBIM and ATBIA. The new management fee is calculated by determining the total amount of shared costs and charging them to each of ATBSI, ATBIM and ATBIA according to the proportion of total combined revenue that each company generates (net of eliminations) on a year-to-date basis. The management fee charged by ATBSI to ATBIM and ATBIA is subject to a 25% markup. This methodology is intended to better assign costs proportional to the benefit generated by the shared services.

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, 2015 $	March 31, 2014 $
	Administration and selling expenses			
ATBSI	Referral fees	Referral fees paid to affiliates	**101**	54
ATBSI	Management fees	Intercorporate management fees	**102**	-
ATB	Professional services	Professional fees	**-**	2
ATB	IT and rent	General and administrative expenses	**42**	141
			245	197
	Interest expense			
ATB	Interest expense	Banking and interest charges	**174**	173

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, 2015 $	March 31, 2014 $
Short term employee benefits	-	13
Deferred compensation	-	3
Retirement and post employment benefits	-	1
	-	17

11. Employee Future Benefits

ATBIA provides future benefits to current and past employees through defined contribution plans. Effective January 1, 2015, all defined contribution plan members were switched to a flexible pension plan which is a combination of retirement savings in a registered defined contribution pension plan with a wealth accumulation component. This additional component allows employees to allocate funds to their ATB defined contribution pension plan, RRSP, RESP, or ATB mortgage. For the purposes of reporting, all of the funding contributions are reflected as defined contribution pension plan expense and are expensed as they become due. For the year ended March 31, 2015, expenses related to the plan were $8 (March 31, 2014 – $15).

As at March 31, 2015, the total obligation for LTIP was $14 of which $7 has vested. The present value of the grants that have vested amounts to $4 of which $3 is recorded as a long-term liability and the remaining $1 is recorded as a current liability on the statement of financial position. Once the LTIP grants have fully vested, $1 will become payable in June 2014, $6 will become payable in June 2015, and the remaining $7 will become payable in June 2016. The related expense is recorded in incentive compensation expenses.

12. Restructuring

In May 2013, ATBIA entered into an agreement with PPI Partners and PPI Solutions Inc. (together as PPI) to provide sales management services. These services include but are not limited to: recruitment, handling insurance company queries, assisting with chargeback recovery, contract support, and reporting. Under this agreement, commissions generated will be split between the insurance advisor, PPI and ATBIA.

There were no direct costs associated with the aforementioned restructuring and there is no financial commitment owed to PPI as part of the arrangement.

13. Comparative Figures

Certain comparative figures have been reclassified to conform to current year's presentation as presented below:

Statement of Financial Position

	Current Year Presentation $	Prior Year Presentation $
Variable compensation payable	-	39
Long-term incentive plan	-	4
Incentive compensation payable	43	-

Statement of Operations and Comprehensive Income

	Current Year Presentation $	Prior Year Presentation $
Variable compensation expense	-	93
Office and administration	-	230
Salaries and employee benefits	166	172
General and administrative expenses	143	-
Professional fees	137	49
Incentive compensation expenses	86	-
Commission expenses	7	-
IT infrastructure and services	5	-

Statement of Cash Flows

	Current Year Presentation $	Prior Year Presentation $
Variable compensation payable	-	12
Long-term incentive plan	-	3
Incentive compensation payable	19	-
Commission payable	(4)	-

ATB INVESTMENT MANAGEMENT INC.

Financial Statements

Year Ended March 31, 2015

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 statements of financial position as at March 31, 2015 and 2014 and the statements of operations and comprehensive income, changes in equity and cash flows for the years ended March 31, 2015 and 2014, 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 paragraph 3.2(3)(a) 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(3)(a) of National Instrument 52-107, *Acceptable Accounting Principles and Auditing 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 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 audits 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, 2015 and 2014, and its financial performance and its cash flows for the years ended March 31, 2015 and 2014 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.

Basis of accounting and restriction on distribution and use

Without modifying our 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 ATB Investment Management Inc. or the Alberta Securities Commission.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 4, 2015
Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

As at March 31, 2015 ($ thousands)

	March 31, 2015	March 31, 2014
ASSETS	$	$
Current assets		
Cash	6,843	1,713
Accounts receivable	10,602	8,408
Client fees receivable	2,620	2,119
Prepaid expenses	312	285
	20,377	12,525
Non-current assets		
Software and computer equipment (*note 7*)	1,324	697
	21,701	13,222
LIABILITIES		
Current liabilities		
Accrued liabilities	6,169	4,052
Commissions payable	422	361
Incentive compensation payable (*note 12*)	747	1,043
Due to affiliates (*note 5*)	718	546
Due to ATB (*note 6(i)*)	5,346	1,726
	13,402	7,728
Long-term liabilities		
Long-term incentive compensation payable (*note 12*)	144	126
	13,546	7,854
SHAREHOLDER'S EQUITY		
Share capital (*note 8*)	5	5
Retained earnings	8,150	5,363
	8,155	5,368
	21,701	13,222

Capital restrictions (*note 9*)

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

Approved by the Board of Directors

[Original signed by]

Director

Original signed by]

Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2015 ($ thousands, except for shares)

	Class A Common Shares #	Share Capital $	Deficit $	Shareholder's Equity $
Balance at March 31, 2013	100	5	3,689	3,694
Share based payment (*note 6(ii)*)	-	-	2,445	2,445
Dividends		-	(18,000)	(18,000)
Net income and comprehensive income	-	-	17,229	17,229
Balance at March 31, 2014	100	5	5,363	5,368
Balance at March 31, 2014	100	5	5,363	5,368
Dividends	-	-	(13,000)	(13,000)
Net income and comprehensive income	-	-	15,787	15,787
Balance at March 31, 2015	100	5	8,150	8,155

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

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended March 31, 2015 ($ thousands)

	March 31, 2015 $	March 31, 2014 $
Revenue (*note 11*)		
Compass management fees	**95,828**	71,862
Fee based revenue	**10,711**	8,576
Securities commissions	**106**	89
Interest revenue	**84**	94
Other revenue	**53**	21
	106,782	80,642
Administration and Selling expenses (*note 11*)		
Trailing commissions expense	**49,731**	38,520
Third party fund manager fees	**16,223**	10,508
Salaries and employee benefits (*note 12*)	**3,701**	4,904
Professional fees	**2,772**	3,062
Commission expenses	**1,858**	1,667
Incentive compensation expenses (*note 12*)	**1,005**	1,456
General and administrative expenses	**933**	1,682
IT infrastructure and services	**512**	720
Amortization expense (*note 7*)	**493**	730
Clearing and processing	**180**	160
Banking and interest charges	**18**	4
	77,426	63,413
Other expenses		
Intercorporate management fees (*note 10*)	**8,853**	-
Net income before payment in lieu of tax	**20,503**	17,229
PILOT - Payment in lieu of taxes (*note 6(iii)*)	**4,716**	-
Net income and comprehensive income	**15,787**	17,229

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

STATEMENT OF CASH FLOWS

For the year ended March 31, 2015 ($ thousands)

	March 31, 2015	March 31, 2014
Cash provided from (used in)	**$**	$
Operating activities		
Net income	**15,787**	17,229
Items not affecting cash		
Amortization of software and computer equipment	**493**	730
	16,280	17,959
Net change in non-cash working capital items		
Accounts receivable	**(2,194)**	(2,486)
Client fees receivable	**(501)**	(410)
Prepaid expenses	**(27)**	(15)
Accrued liabilities	**2,117**	899
Commissions payable	**61**	82
Incentive compensation payable	**(278)**	435
Due to affiliates	**172**	(145)
PILOT payable	**4,716**	-
	4,066	(1,640)
Net cash from operating activities	**20,346**	16,319
Investing activities		
Purchase of software and computer equipment	**(1,120)**	(288)
Net cash (used in) investing activities	**(1,120)**	(288)
Financing activities		
Dividends	**(13,000)**	(18,000)
Due to ATB	**(1,096)**	(241)
Net cash (used in) financing activities	**(14,096)**	(18,241)
Net change in cash	**5,130**	(2,210)
Cash at beginning of period	**1,713**	3,923
Cash at end of period	**6,843**	1,713
Supplementary information		
Interest paid	**18**	4
Interest received	**84**	94
PILOT paid	**-**	-

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2015 ($ in thousands)

1. Nature of Operations

ATB Investment Management Inc. ("ATBIM" or the "Company") is a wholly owned subsidiary of ATB Financial ("ATB") and is affiliated with ATB Securities Inc. ("ATBSI") and ATB Insurance Advisors Inc. ("ATBIA"). ATBIM, ATBSI, and ATBIA operate under the trademark ATB Investor Services ("ATBIS"). ATBIM was established to facilitate managing a family of ATB ("Compass") mutual fund portfolios and providing portfolio management services to high net worth clientele. As a provincial Crown corporation, ATBIM is exempt from income tax. ATBIM is registered as a Portfolio Manager and Investment Fund Manager with the Alberta Securities Commission ("ASC").

The address of the Company's registered office is:
2100, 10020 – 100 Street
Edmonton, Alberta T5J 0N3

These financial statements have been approved by the Board of Directors on June 4, 2015.

2. Significant Accounting Policies

a. Basis of Preparation

These financial statements are prepared in accordance with the financial reporting framework specified in subsection 3.2(3)(a) of National Instrument 52-107, Acceptable Accounting Principles and Auditing Standards for financial statements delivered by registrants (the "Framework"). The Framework requires the financial statements to be prepared in accordance with Canadian generally accepted accounting principles applicable to publicly accountable enterprises, as set out in the CPA Canada Handbook, except that any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27.

Accordingly, readers are cautioned that these financial statements may not be appropriate for other purposes. In 2010, the CPA Canada Handbook was revised to incorporate International Financial Reporting Standards, and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011.

The Company has no investments in subsidiaries, jointly controlled entities, or associates as at March 31, 2015 or March 31, 2014.

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 convention, except for the revaluation of certain assets and liabilities 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 ATBIM's critical accounting estimates under the Framework:

i Depreciation and Amortization Methods

Computer equipment and software are depreciated and amortized over their estimated useful lives. Useful lives are determined based on current facts and past experience and take into consideration the anticipated physical life of the asset, existing long-term agreements and contracts, current and forecasted demand and the potential for technological obsolescence. While these useful life estimates are reviewed on a regular basis and depreciation calculations are revised accordingly, actual lives may differ from the estimates.

ii Estimates for Fair Valuing Certain Assets and Liabilities of ATBIM

ATBIM's long-term incentive compensation plan (LTIP) has maturity dates longer than one year and therefore is carried at fair value using an appropriate discount rate. The discount rate and calculations for fair value are reviewed on a regular basis however; actual fair values may differ from the Company's 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

Compass management fees are based on the net asset values of the Compass mutual fund portfolios and are recognized on an accrual basis. Fee based revenue includes fees earned from clients for management of their investment assets and is recorded on an accrual basis. Securities commissions are earned on fixed income trades and are recognized on a trade date basis. Interest and other revenue are 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 date of the statement of financial position. Revenues and expenses are translated at the rates prevailing at the respective transaction dates. Realized and unrealized gains and losses arising from these translations are included in the statement of operations and comprehensive income.

j. Employee Future Benefits

ATBIM provides future benefits to current and past employees through the following plans:

i Accounting for Defined Contribution Plans

ATBIM provides its management employees with a registered pension plan. Contributions to the plan are expensed as they become due and are recorded in salaries and employee benefits in the statement of operations and comprehensive income. Contributions payable at the end of year are recorded in accrued liabilities.

ii Short-Term Employee Benefits

Short-term employee benefits such as 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 and are recorded in the statement of operations and comprehensive income as salaries and employee benefits. Short-term employee benefits payable at year end are recorded in accrued liabilities.

Certain employees of the Company are eligible to participate in variable compensation plans that allow 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. Variable compensation plan expenses are recorded in the statement of operations and comprehensive income as incentive compensation expenses. Variable compensation plan payable at year-end is recorded in incentive compensation payable.

iii Long-Term Employee Benefits (LTIP)

ATBIM has an executive long-term incentive plan for certain eligible employees of the Company. The plan provides an incentive for achieving success in execution of strategic objectives that create value and long-term sustainability of the Company. Certain employees of the Company receive LTIP grants approved by the Board of Directors. The amounts are subject to annual appreciation and depreciation factors and are payable three years from the effective date of grant. Following the guidance in IAS 19 (revised) – Employee Benefits, the liability for LTIP (note 12) is recorded at the present value of the grants that have vested as of the year-end date less an allowance for early termination. The liability for LTIP vests over three years from the date of the grant. The liability for LTIP is included in incentive compensation payable, and the related expense is included in incentive compensation expenses.

k. Share-Based Payments

Certain eligible employees of the Company have the opportunity to participate in a share-based compensation plan of ATB. Under this plan, the Company receives services from employees as consideration for Achievement Notes issued by ATB (note 6(ii)). The obligation to settle the notes with employees is with ATB. This is a group plan where the awards are considered cash-settled by ATB and equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date. No compensation expense is recorded by the Company related to the awards when granted since the notes are issued to employees at fair value on the grant date.

Prior to December 31, 2013, the Company was charged by ATB for their share of subsequent changes in the fair value of the notes relating to employees providing a service to the Company as the awards vest to the employees. These charges were recorded as a payable to ATB (note 6(ii)) with a corresponding entry to retained earnings, similar to a distribution. By mutual agreement between the Company and ATB, effective December 31, 2013, the Company was absolved of this obligation and the unpaid liability accrued to that date was derecognized. This change was an operational decision, and not a change in accounting policy, and therefore enacted on a prospective basis. Any payments made up to December 31, 2013 were not reversed.

l. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition.

All financial assets and financial liabilities are initially recognized on the trade date. This is the date that ATBIM becomes a party to the contractual provisions of the instrument.

ATBIM derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

ATBIM derecognizes a financial liability when its contractual obligations are discharged or is cancelled or expires.

Classification

All financial instruments are initially recorded at fair value and are subsequently accounted for based on one of five classifications:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity;
- investments and available for sale financial assets; and
- other financial liabilities.

Management determines the classification of financial assets and liabilities at initial recognition.

Financial Assets

i Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit and loss are financial assets held for trading.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to earnings. Gains and losses arising from changes in fair value are included directly in the

statement of operations and are reported as other revenue or other expenses. Interest income and expense on financial assets held for trading are included in interest revenue or interest expense.

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. Loans and receivables are initially measured at fair value and subsequently recorded at amortized cost using effective interest rate method. ATBIM has classified cash, accounts receivable, and client fees receivable as loans and receivables.

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, 2015.

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 at each reporting date. 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, 2015.

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 initially at fair value and subsequently recorded at amortized cost using the effective rate method with any gains and losses in the realization of other financial liabilities included in income. Accrued liabilities, commissions payable, incentive compensation payable, due to affiliates, and due to ATB are classified as other financial liabilities.

m. Financial Instruments – Estimated Fair Value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

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, accounts receivable, client fees receivable, accrued liabilities, commissions payable, due to affiliates, due to ATB, and certain incentive compensation payable amounts that are not carried at fair value.

Certain liabilities for incentive compensation are carried at fair value. See note 3 for an explanation of how these items are fair valued and where they lie in the fair value hierarchy.

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.

The fair value of the LTIP component of the incentive compensation payable amounting to $226 (March 31, 2014 - $192) is determined by discounting the expected future obligation of the grants (note 12) using an internal hurdle rate of 10% per annum. The LTIP obligation has been classified as level 2 under the fair value hierarchy.

There have been no transfers between levels during the year.

ii Financial Risk Management

ATBIM's financial instruments consist of cash, accounts receivable, client fees receivable, accrued liabilities, commissions payable, incentive compensation payable, due to affiliates, and due to ATB.

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 is exposed to interest rate price risk as the fair value of LTIP will fluctuate as a result of changes in market interest 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, 2015, 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 $6 (March 31, 2014 – $17).

Price Risk

ATBIM is not exposed to financial market pricing risk since there are no financial instruments held by the Company, which will fluctuate as a result of changes in market prices.

Credit Risk

Credit risk is the risk that the counter party to a financial asset will default resulting in a financial loss to ATBIM. ATBIM is exposed to credit risk through its cash, accounts receivable, and client fees receivable balances.

The Company has deposited cash with its parent company, ATB, an Alberta Crown Agent, from which management believes the risk of loss is remote.

The Company's exposure to credit risk is limited to the Compass mutual fund portfolios and customer accounts. At March 31, 2015 ATBIM recorded $9,306 (March 31, 2014 – $7,516) receivable from the Compass mutual fund portfolios from which management believes the risk of loss to be insignificant.

The credit risk inherent in ATBIM's remaining accounts receivable and client fees receivable balances of $3,916 (March 31, 2014 – $3,011) are effectively mitigated by the Company's diverse customer base. Management

deems the risk from customer accounts to be insignificant as fees from clients are received directly from client portfolios and historically ATBIM has not had credit losses on these balances. Management has not provided an allowance for doubtful accounts on these balances as it believes collectability is reasonably assured.

The Company's maximum credit exposure is $20,065 as at March 31, 2015, which is the sum of its cash, accounts receivable and client fees 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, commissions payable, incentive compensation payable, due to affiliates, and due to ATB.

4. Accounting Changes

New and Amended Accounting Standards Adopted by the Company

The following standards have been adopted by the Company effective April 1, 2014:

IAS 32 *Financial Instruments – Presentation*
IAS 36 *Impairment of Assets*
IFRS 13 *Fair Value Measurement*

The adoption of these new standards and amendments to existing standards did not impact the financial statements other than certain note disclosures.

New Accounting Standards and Interpretations not yet Adopted

IAS 1 *Presentation of Financial Statements*

On December 18, 2014 the IASB published the 'Disclosure Initiative (Amendments to IAS 1)'. The amendment ensures the use of judgment by an entity when presenting their financial reports by clarifying the materiality guidance for the Statement of Financial Position and Profit or Loss and Other Comprehensive Income, and the notes to the financial statements.

ATBIA is currently assessing the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization*

On May 12, 2014, IASB issued amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The amendments provide additional guidance on how the depreciation or amortization of property, plant and intangible assets should be calculated.

ATBIM is currently assessing the impact of the amendments, which must be applied prospectively for annual periods beginning on or after January 1, 2016.

IFRS 9, *Financial Instruments*

On July 24, 2014 the IASB issued the final version of IFRS 9 *Financial Instruments*, which replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. The final version includes guidance on the classification and measurement of financial assets and liabilities, impairment, and hedge accounting.

Financial instruments amends the classification and measurement criteria for financial instruments included within the scope of IAS 39, *Financial Instruments: Recognition and Measurements*. For financial assets, IFRS 9 uses a single business model 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.

ATBIM is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, which replaces all existing IFRS revenue requirements. The standard clarifies the principles for recognizing revenue and cash flows arising from contracts with customers.

ATBIM is currently assessing the impact of the amendments, which must be applied retrospectively for annual periods beginning on or after January 1, 2017.

Annual Improvements

These amendments include changes from the 2010-12 cycle of the annual improvements project that affect the following standards:

IFRS 2 *Share-based payments*
IFRS 8 *Operating segments*
IAS 16 *Property, plant and equipment*
IAS 24 *Related party disclosures*
IAS 40 *Investment property*

ATBIM has evaluated the aforementioned accounting standards which are effective for annual periods beginning on or after July 1, 2014 and with the exception of some minor changes to the Company's note disclosures there is no significant impact to the Company's financial statements.

5. Due to Affiliates

In the normal course of operations, ATBIM pays trailing commissions to ATBSI. ATBSI collects client fees on behalf of ATBIM. ATBSI and 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, 2015 $	March 31, 2014 $
Due to ATBSI	**706**	279
Due to ATBIA	**12**	267
	718	546

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, 2015 $	March 31, 2014 $
Due to ATB	**5,346**	1,726

The net amount due to ATB, less PILOT (note 6(iii)), is subject to interest charges at ATB's prime lending rate. Interest is calculated in the following month based on all amounts owing at March 31, 2015. The prime lending rate at March 31, 2015 was 2.85% (March 31, 2014 – 3.00).

ii Amounts Due to ATB Relating to Achievement Notes

ATB sells Principal at Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Investor Services brand name. Under this plan, eligible employees were provided an opportunity to purchase a 25-year note with a rate of return linked to the value of certain ATB subsidiaries, including ATBIM. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

Each note holder is entitled to:

- A cash payment at maturity representing the original invested amount adjusted for a proportionate share in the change in fair value of ATB Investor Services.
- Cash distributions, if any, based on the net positive dividends paid by ATB Investor Services to ATB.

There is no public market for these notes; thus the valuation is based on a model prepared annually by an external consultant using market data where available. This valuation model was used to establish the initial purchase price of the notes and the changes in fair value period to period until the notes mature.

The notes are not redeemable at the option of the note holder, or ATB, prior to maturity, subject to the occurrence of an extraordinary event for ATB (i.e., winding up, dissolution, or liquidation of ATB) or a catastrophic event for the note holder. The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the valuation of ATB Investor Services reduces, that the note holder will lose some or all of the original investment.

To the extent that notes were redeemed at fair market value, prior to December 31, 2013, the Company has reimbursed ATB, through equity distributions, for payments made to employees of the Company in excess of the original subscription amount. However, by mutual agreement between the Company and ATB, effective December 31, 2013, the Company is absolved of any future obligation to make equity distributions to ATB related to the achievement note program and as a result the liability was forgiven with a corresponding increase to the Company's equity.

A reconciliation of the amounts due to ATB arising from the issuance of the Achievement Notes are as follows:

	2014 $
Opening	2,446
Redemption of achievement notes	(1)
Reversal of achievement notes liability through equity	(2,445)
	-

As at March 31, 2015 the liability recorded by ATB with regards to ATBIM achievement notes is $5,375 (March 31, 2014 – $6,225). The $850 change in the liability from the prior year is a result of $340 in new subscriptions, $2,821 in achievement notes redeemed during the year and a corresponding increase of $1,631 due to appreciation of the achievement notes.

iii Payment in Lieu of Tax (PILOT)

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 (PILOT) is calculated as 23% of net income reported under IFRS.

Effective April 1, 2014, ATBIM began accruing for all amounts owing under the PILOT program as a result of its earnings in the current year. For the year ended March 31, 2015, ATBIM accrued and incurred an expense of $4,716 for PILOT. The amount owing for PILOT is not subject to interest and will be paid to ATB no later than June 30, 2015.

7. Software and Computer Equipment

	Computer Equipment $	Software $	Software under development $	Total $
Cost				
Balance at March 31, 2013	27	3,906	243	4,176
Additions	-	463	288	751
Transfer to completed asset	-	-	(463)	(463)
Disposals	(27)	(135)	-	(162)
Balance at March 31, 2014	-	4,234	68	4,302
Balance at March 31, 2014	-	4,234	68	4,302
Additions	-	280	934	1,214
Transfer to completed asset	-	-	(94)	(94)
Balance at March 31, 2015	-	4,514	908	5,422
Depreciation				
Balance at March 31, 2013	27	3,010	-	3,037
Amortization for the year	-	730	-	730
Disposals	(27)	(135)	-	(162)
Balance at March 31, 2014	-	3,605	-	3,605
Balance at March 31, 2014	-	3,605	-	3,605
Amortization for the year	-	493	-	493
Balance at March 31, 2015	-	4,098	-	4,098
Carrying Amounts				
Balance at March 31, 2014	-	629	68	697
Balance at March 31, 2015	-	416	908	1,324

Amortization expense charged to the statement of operations and comprehensive income for the year ended March 31, 2015 was $493 (March 31, 2014 – $730). There were no impairments recognized during the year ended March 31, 2015 (March 31, 2014 – $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, 2015**	March 31, 2014
Shares issued and outstanding	**100**	100
Amount	**$5**	$5

9. Capital Risk Management and Restrictions

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 by maintaining adequate residual capital as prescribed by the ATB Investor Services Board of Directors from time to time;
- to provide financial capacity and flexibility to meet its strategic objectives; and
- to maintain at all times working capital sufficient in size to satisfy the ASC's minimum excess working capital requirements.

The Company has met the ASC's minimum excess working capital requirement of $100 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. Management Fee Expense

As of April 1, 2014 ATBSI implemented a new fee structure to more appropriately distribute the costs of shared management, executive, strategic and supporting costs with ATBIM and ATBIA. The new management fee is calculated by determining the total amount of shared costs and charging them to each of ATBSI, ATBIM and ATBIA according to the proportion of total combined revenue that each company generates (net of eliminations) on a year-to-date basis. The management fee charged by ATBSI to ATBIM and ATBIA is subject to a 25% markup. This methodology is intended to better assign costs proportional to the benefit generated by the shared services.

11. 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, 2015 $	March 31, 2014 $
	Revenue			
Compass	Investment management fees	Compass management fees	**92,076**	69,231
ATB	ATB GIC Referral fees	Other revenue	**5**	6
ATB	Interest income	Interest revenue	**84**	94
			92,165	69,331
	Administrative and selling expenses			
ATBSI	Trailer fees	Trailing commissions expense	**49,689**	38,493
ATBSI	Client referral fees	Professional fees	**2,078**	1,651
ATBSI	Management fees	Intercorporate management fees	**8,853**	-
ATB	IT and rent	General and administrative expenses	**308**	681
ATB	Professional services	Professional fees	**2**	128
ATB	Community sponsorships	General and administrative expenses	**-**	101
			60,930	41,054
	Interest Expense and Standby Fees			
ATB	Interest expense and standby fees	Banking and interest charges	**18**	4

The Compass management fees above do not include fees that are directly paid by clients.

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, 2015 $	March 31, 2014 $
Short term employee benefits	**922**	1,567
Deferred compensation	**100**	116
Retirement and post employment benefits	**92**	95
	1,114	1,778

12. Employee Future Benefits

ATBIM provides future benefits to current and past employees through defined contribution plans. Effective January 1, 2015, all defined contribution plan members were switched to a flexible pension plan which is a combination of retirement savings in a registered defined contribution pension plan with a wealth accumulation component. This additional component allows employees to allocate funds to their ATB defined contribution pension plan, RRSP, RESP, or ATB mortgage. For the purposes of reporting, all of the funding contributions are reflected as defined contribution pension plan expense and are expensed as they become due. For the year ended March 31, 2015, expenses related to the plan were $382 (March 31, 2014 – $566).

As at March 31, 2015, the total obligation for LTIP was $433 of which $257 has vested. The present value of the grants that have vested amounts to $226 of which $144 is recorded as a long-term liability and the remaining $82 is recorded as a current liability on the statement of financial position. Once the LTIP grants have fully vested, $82 will become payable in June 2015, $174 will become payable in June 2016, and the remaining $177 will become payable in June 2017. The related expense is recorded in incentive compensation expenses.

13. Credit Facility

Effective April 23, 2014, ATBIM has access to a $5,000 unsecured operating loan facility with ATB. Interest on the facility is calculated based on prime less 0.25%, which is 2.60% at March 31, 2015. No amounts have been drawn on the facility at March 31, 2015. A standby fee of $12 was paid during the year on the undrawn portion.

14. Comparative Figures

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

Statement of Financial Position

	Current Year Presentation $	Prior Year Presentation $
Accounts receivable	**8,408**	10,527
Client fees receivable	**2,119**	-
Variable compensation payable	**-**	1,338
Long-term incentive plan	**-**	192
Incentive compensation payable	**1,169**	-
Commissions payable	**361**	-

Statement of Operations and Comprehensive Income

	Current Year Presentation $	Prior Year Presentation $
Fund management and professional fees	-	13,678
Variable compensation expense	-	3,123
Other expenses	-	2,454
Third party fund manager fees	10,508	-
Professional fees	3,062	-
General and administrative expenses	1,682	-
Commission expenses	1,667	-
Incentive compensation expenses	1,456	-
IT infrastructure and services	720	-
Clearing and processing	160	

Statement of Cash Flows

	Current Year Presentation $	Prior Year Presentation $
Accounts receivable	(2,486)	(2,896)
Client fees receivable	(410)	-
Variable compensation payable	-	395
Long-term incentive plan	-	122
Incentive compensation payable	435	-
Commission payable	82	-

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ATB SECURITIES INC.

Financial Statements

Year Ended March 31, 2015

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, 2015, 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.

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, 2015, 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 4, 2015
Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

As at March 31, 2015 ($ thousands)

	March 31, 2015	March 31, 2014
ASSETS	$	$
Current assets		
Cash	3,773	5,506
Short-term investments	47,950	52,949
Clients' cash held in trust	26,367	22,652
Due from clients	20,175	11,493
Due from brokers and dealers	11,693	15,290
Client fees receivable	3,250	2,327
Trailer fees receivable	941	647
Due from affiliates (*note 5*)	706	279
Prepaid expenses	589	278
Loans to ATB advisors	208	170
Miscellaneous receivables	43	80
	115,695	111,671
Non-current assets		
Software and computer equipment (*note 7*)	9,827	10,555
Loans to ATB advisors	1,004	987
Deferred employee benefit expense	251	349
	11,082	11,891
	126,777	123,562
LIABILITIES		
Current liabilities		
Due to clients	41,680	44,842
Due to brokers and dealers	32,701	21,998
Accrued liabilities	5,592	4,770
Securities sold short	7	-
Commissions payable	5,860	4,297
Incentive compensation payable (*note 12*)	4,149	2,693
Due to affiliates (*note 5*)	21	818
Due to ATB (*note 6(i)*)	8,144	4,614
	98,154	84,032
Long-term liabilities		
Long-term incentive compensation payable (*note 12*)	451	409
	98,605	84,441
SHAREHOLDER'S EQUITY		
Share capital (*note 8*)	26,391	132,745
Retained earnings / (deficit)	1,781	(93,624)
	28,172	39,121
	126,777	123,562

Capital restrictions (*note 9*)

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

Approved by the Board of Directors

[Original signed by]

Director

[Original signed by]

Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2015 ($ and # in thousands)

	Class A Common Shares #	Share Capital $	Deficit $	Shareholder's Equity $
Balance at March 31, 2013	78,995	132,745	(100,128)	32,617
Share based payment (*note 6(ii)*)	-	-	6,180	6,180
Net income and comprehensive income	-	-	324	324
Balance at March 31, 2014	78,995	132,745	(93,624)	39,121
Balance at March 31, 2014	78,995	132,745	(93,624)	39,121
Capital reorganization (*note 8*)	-	(92,354)	92,354	-
Return of capital (*note 8*)	-	(14,000)	-	(14,000)
Dividends	-	-	(4,000)	(4,000)
Net income and comprehensive income	-	-	7,051	7,051
Balance at March 31, 2015	78,995	26,391	1,781	28,172

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

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended March 31, 2015 ($ thousands)

	March 31, 2015 $	March 31, 2014 $
Revenue (*note 11*)		
Mutual fund commissions	**57,576**	46,152
Fee based revenue	**11,889**	9,035
GIC commissions	**2,717**	3,261
Client account fees	**2,790**	2,615
Client referral fees	**2,179**	1,705
Securities commissions	**598**	511
Interest revenue	**357**	274
Other revenue	**498**	586
	78,604	64,139
Administration and Selling expenses (*note 11*)		
Commission expenses	**33,116**	24,991
Salaries and employee benefits (*note 12*)	**21,428**	17,904
General and administrative expenses	**7,685**	7,552
Professional fees	**3,269**	3,708
Incentive compensation expenses (*note 12*)	**4,904**	3,540
IT infrastructure and services	**3,308**	1,863
Amortization expense (*note 7*)	**2,299**	2,133
Clearing and processing	**2,337**	2,057
Banking and interest charges	**56**	67
	78,402	63,815
Other income		
Intercorporate management fees (*note 10*)	**8,955**	-
Net income before payment in lieu of tax	**9,157**	324
PILOT - Payment in lieu of taxes (*note 6(iii)*)	**2,106**	-
Net income and comprehensive income	**7,051**	324

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

STATEMENT OF CASH FLOWS

For the year ended March 31, 2015 ($ thousands)

	March 31, 2015	March 31, 2014
Cash provided from (used in)	$	$
Operating activities		
Net income	7,051	324
Items not affecting cash		
Amortization of software and computer equipment	2,299	2,133
	9,350	2,457
Net change in non-cash working capital items		
Cash (paid to) clients and brokers/dealers	(1,259)	(3,871)
Client fees receivable	(923)	(183)
Trailer fees receivable	(294)	390
Loans to ATB advisors	(306)	(52)
Miscellaneous receivables	37	(23)
Prepaid expenses	38	(427)
Due to/(from) affiliates	(1,224)	(249)
Accrued liabilities	822	974
Commissions payable	1,563	1,480
Incentive compensation payable	1,498	554
PILOT payable	2,106	-
	2,058	(1,407)
Net cash from operating activities	11,408	1,050
Investing activities		
Short-term investments	5,006	2,993
Purchase of software and computer equipment	(1,571)	(2,209)
Net cash from investing activities	3,435	784
Financing activities		
Return of capital	(14,000)	-
Equity settled share based payment	-	(96)
Dividends	(4,000)	-
Due to ATB	1,424	645
Net cash (used in) from financing activities	(16,576)	549
Net change in cash	(1,733)	2,383
Cash at beginning of period	5,506	3,123
Cash at end of period	3,773	5,506
Supplementary information		
Interest paid	56	67
Interest received	357	274
PILOT paid	-	-

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2015 ($ in thousands)

1. Nature of Operations

ATB Securities Inc. ("ATBSI" or the "Company") is a wholly owned subsidiary of ATB Financial ("ATB") and is affiliated with ATB Investment Management Inc. ("ATBIM") and ATB Insurance Advisors Inc. ("ATBIA"). ATBSI, ATBIM, and ATBIA operate under the trademark ATB Investor Services ("ATBIS"). ATBSI was established to provide client wealth management services. As a provincial Crown corporation, ATBSI is exempt from income tax. ATBSI is a full service broker dealer and is a member of the Investment Industry Regulatory Organization of Canada ("IIROC") and the Canadian Investors Protection Fund ("CIPF").

The address of the Company's registered office is:
2100, 10020 – 100 Street
Edmonton, Alberta T5J 0N3

These financial statements have been approved by the Board of Directors on June 4, 2015

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, 2015.

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 convention, except for the revaluation of certain assets at fair value through income.

b. Critical Accounting Judgements and Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of statement of financial position assets and liabilities and the disclosure of contingent assets and liabilities as at the statement of financial position date, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The following discussion outlines ATBSI's critical accounting estimates under IFRS:

i Depreciation and Amortization Methods

Computer equipment and software are depreciated and amortized over their estimated useful lives. Useful lives are determined based on current facts and past experience and take into consideration the anticipated physical life of the asset, existing long-term agreements and contracts, current and forecasted demand and the potential for technological obsolescence. While these useful life estimates are reviewed on a regular basis and depreciation calculations are revised accordingly, actual lives may differ from the estimates.

ii Estimates for Fair Valuing Certain Assets and Liabilities of ATBSI

ATBSI's loans to ATB Advisors and long-term incentive compensation plan (LTIP) have maturity dates longer than one year and therefore are carried at fair value using an appropriate discount rate. The discount rates and calculations for fair value are reviewed on a regular basis however; actual fair values may differ from the Company's 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 ("CWT"). Corresponding liabilities are included in due to clients. Client balances are reported on a trade date basis. Cash held in trust is restricted from use by ATBSI.

f. Computer Equipment

Computer equipment is carried at cost less accumulated depreciation and provision for impairment, if any, and is depreciated on a straight-line basis over its estimated useful life. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its useful economic life. No depreciation is calculated on assets under construction or development until the assets are available for use. The estimated useful life for computer equipment ranges from 3 to 5 years with certain equipment having a useful life of 10 years.

Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of computer equipment are kept under review to take account of any change in circumstances. Gains and losses on the disposal of computer equipment are recorded in the statement of operations and comprehensive income in the year of disposal.

g. Software

Software is carried at cost less accumulated amortization and provisions for impairment, if any, with cost amortized on a straight-line basis over their estimated useful lives. No amortization is calculated on software under construction or development until the assets are available for use. The estimated useful life for software is 3 to 5 years, with certain software having a useful life of 10 years.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefits will flow to ATBSI, and the cost can be measured reliably. Eligible costs include external direct costs for materials and services, as well as payroll and payroll related costs for employees directly associated with an internally developed software project.

h. Impairment of Computer Equipment and Software

Computer equipment and software in use are subject to impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Software not ready for use is tested for impairment annually. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

i. Due from (to) Clients and Due from (to) Brokers and Dealers

Due from clients are debit positions in client accounts. The majority of the amounts relate to margin balances and pending trades.

Due (to) clients represents credit positions in client accounts. These amounts are due on demand.

Due from (to) brokers and dealers represents amounts related to trades which have been initiated but not settled.

Due from (to) clients and due from (to) brokers and dealers amounts are both recorded on a trade date basis.

j. Provisions and Contingencies

Provisions are recognized when it is more likely than not that an outflow of economic resources will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of ATBSI; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed, where significant, unless the probability of settlement is remote.

k. Foreign Exchange

Transactions denominated in foreign currencies are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Financial assets and liabilities denominated in foreign currencies are translated into and presented in Canadian dollars at the rates in effect at the date of the statement of financial position. Revenues and expenses are translated at the rates prevailing at the respective transaction dates. Realized and unrealized gains and losses arising from these translations are included in the statement of operations and comprehensive income.

l. Revenue Recognition

ATBSI's operating revenues consist of mutual fund commissions, fee based revenue, Guaranteed Investment Certificate (GIC) commissions, client account fees, client referral fees, securities commissions, interest revenue, and other revenue.

Mutual fund commissions are earned from third party mutual funds and ATBIM for the sale of the ATB Compass mutual funds. Trailer fee revenue is recorded in mutual fund commissions and represents fees paid to the Company by the mutual funds for the on-going administration of the Company's client assets held with the mutual funds. Trailer fee revenues are recognized on an accrual basis as they are earned. Commission revenue earned on mutual fund sales is recognized on a trade-date basis.

Fee based revenues are earned on customer accounts that pay a contractual fee rate and is recognized on an accrual basis.

Commissions from GIC sales are earned through a referral fee that is paid by ATB. The referral fee is based on 25 basis points ("bps") of the average amount of GICs held by the Company's clients and is recognized on an accrual basis.

Client account fees include transfer fees, deregistration fees, incidental fees and administration fees from registered plans. Registered plans are established in accordance with the Income Tax Act and administration fees are collected annually from all registered account types. Transfer fees, deregistration fees, and incidental fees are recorded as revenue when charges for transfers, deregistrations, and other services occur. Administration fees are earned and recorded on an accrual basis.

Client referral fees are paid by ATBIM to ATBSI based on actual commissions paid to ATBSI sales staff. Management provides a 2% provision on the total client fees receivable at year-end with respect to an estimate for refunded or waived commissions. Client referral fees are recognized on an accrual basis.

Securities commissions are earned on equity trades and are recognized on a trade date basis.

Insurance referral fees are paid by ATBIA to ATBSI based on revenues generated by the insurance product sales. Revenues are recognized on an accrual basis.

Interest and other revenue are recorded on an accrual basis.

m. Employee Future Benefits

ATBSI provides future benefits to current and past employees through the following plans:

i Accounting for Defined Contribution Plans

ATBSI provides its management employees with a registered pension plan. Contributions to the plan are expensed as they become due and are recorded in salaries and employee benefits in the statement of operations and comprehensive income. Contributions payable at year-end are recorded in accrued liabilities.

ii Short-Term Employee Benefits

Short-term employee benefits such as 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 and are recorded in the statement of operations and comprehensive income as salaries and employee benefits. Short-term employee benefits payable at year end are recorded in accrued liabilities.

Certain employees of the Company are eligible to participate in variable compensation plans that allow 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. Variable compensation plan expenses are recorded in the statement of operations and comprehensive income as incentive compensation expenses. Variable compensation plan payable at year-end is recorded in incentive compensation payable.

iii Long-Term Employee Benefits (LTIP)

ATBSI has an executive long-term incentive plan for certain eligible employees of the Company. The plan provides an incentive for achieving success in execution of strategic objectives that create value and long-term sustainability of the Company. Certain employees of the Company receive LTIP grants approved by the Board of Directors. The amounts are subject to annual appreciation and depreciation factors and are payable three years from the effective date of grant. Following the guidance in IAS 19 (revised) – Employee Benefits, the liability for LTIP (note 12) is recorded at the present value of the grants that have vested as of the year-end date less an allowance for early termination. The liability for LTIP vests over three years from the date of the grant. The liability for LTIP is included in incentive compensation payable, and the related expense is included in incentive compensation expenses.

iv Loans to ATB Advisors

ATBSI grants loans to its advisors at rates significantly below market value as an employee benefit. In accordance with IAS 39 Financial Instruments: Recognition and Measurement the loans are initially recorded at fair value, discounted at a market rate for a similar loan. After initial recognition, loans are accounted for at amortized cost with interest income determined using the effective interest method. As the rate on the loans to ATB advisors are below market interest rates, the fair value of the loans is less than the amount of the loan. The difference between its fair value on initial recognition and its carrying value is an employee benefit and therefore must be accounted for in accordance with IAS 39 Employee Benefits. As the loans are linked to future employee service, the difference between the carrying value and its fair value is recorded as

a deferred employee benefit on the statement of financial position and expensed over the service period to salaries and employee benefits. If the employee is terminated or leaves ATBSI the deferred employee benefit is immediately expensed to salaries and employee benefits.

n. Share-Based Payments

Certain eligible employees of the Company have the opportunity to participate in a share-based compensation plan of ATB. Under this plan, the Company receives services from employees as consideration for Achievement Notes issued by ATB (note 6(ii)). The obligation to settle the notes with employees is with ATB. This is a group plan where the awards are considered cash-settled by ATB and equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date. No compensation expense is recorded by the Company related to the awards when granted since the notes are issued to employees at fair value on the grant date.

Prior to December 31, 2013, the Company was charged by ATB for their share of subsequent changes in the fair value of the notes relating to employees providing a service to the Company as the awards vest to the employees. These charges were recorded as a payable to ATB (note 6(ii)) with a corresponding entry to retained deficit, similar to a distribution. By mutual agreement between the Company and ATB, effective December 31, 2013, the Company was absolved of this obligation and the unpaid liability accrued to that date was derecognized. This change was an operational decision, and not a change in accounting policy, and therefore enacted on a prospective basis. Any payments made up to December 31, 2013 were not reversed.

o. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition.

All financial assets and financial liabilities are initially recognized on the trade date. This is the date that ATBSI becomes a party to the contractual provisions of the instrument.

ATBSI derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

ATBSI derecognizes a financial liability when its contractual obligations are discharged or is cancelled or expires.

Classification

All financial instruments are initially recorded at fair value and are subsequently accounted for based on one of five classifications:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity;
- investments and available for sale financial assets; and
- other financial liabilities.

Management determines the classification of financial assets and liabilities at initial recognition.

Financial Assets

i Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit and loss are financial assets held for trading.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to earnings. Gains and losses arising from changes in fair value are included directly in the statement of operations and are reported as other revenue or other expenses. Interest income and expense on financial assets held for trading are included in interest revenue or interest expense.

Financial assets held for trading consist of short-term investments held by ATBSI.

ii Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value and subsequently recorded at amortized cost using effective interest rate method. ATBSI has classified cash, client's cash held in trust, due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable, miscellaneous receivables, loans to ATB advisors and due from affiliates as loans and receivables.

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, 2015.

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 at each reporting date. Gains and losses arising from changes in fair value are included as a separate component of equity until sale, when the cumulative gain or loss is transferred to the statement of operations and comprehensive income. Interest is determined using the effective interest method, and impairment losses and translation differences on monetary items are recognized in the statement of operations and comprehensive income. ATBSI has no financial instruments classified as available for sale at March 31, 2015.

Impairment

ATBSI assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the statement of operations and comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For practical reasons, ATBSI may measure impairment on the basis of an instrument's fair value using an observable market price.

Financial Liabilities

v Other Liabilities Measured at Amortized Cost

Other financial liabilities are measured initially at fair value and subsequently recorded at amortized cost using the effective rate method with any gains and losses in the realization of other financial liabilities included in income. Due to clients, due to brokers and dealers, accrued liabilities, commissions payable, incentive compensation payable, due to affiliates, and due to ATB are classified as other financial liabilities.

p. Financial Instruments – Estimated Fair Value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

The estimated fair value of items that are short-term in nature is considered to be equal to their carrying value. These items include cash, clients' cash held in trust, due from (to) clients, due from (to) brokers and dealers, client fee receivable, trailer fees receivable, miscellaneous receivables, due from (to) affiliates and ATB, accrued liabilities, commissions payable, and certain incentive compensation payable amounts that are not carried at fair value.

Short-term investments, loans to ATB advisors, securities sold short and certain liabilities for incentive compensation are carried at fair value. See note 3 for an explanation of how these items are fair valued and where they lie in the fair value hierarchy.

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 following:

- 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 $47,950 (March 31, 2014 – $52,949,) are classified as level 1 under the fair value hierarchy.
- The fair value of the LTIP component of the incentive compensation payable amounting to $784 (March 31, 2014 – $715) is determined by discounting the expected future obligation of the grants (note 12) using an internal hurdle rate of 10% per annum. The LTIP obligation has been classified as level 2 under the fair value hierarchy.
- Securities sold short of $7 (March 31, 2014 – $nil) are traded and quoted on an active market and are classified as level 1 under the fair value hierarchy.

There have been no transfers between levels during the year.

ii Financial Risk Management

ATBSI's financial instruments consist of cash, short-term investments, clients' cash held in trust, due from (to) clients, due from (to) brokers and dealers, client fees receivable, trailer fees receivable, due from (to) affiliates, loans to ATB advisors, miscellaneous receivables, accrued liabilities, securities sold short, commissions payable, incentive compensation payable, 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, 2015 US dollar denominated balances amounted to:

	US$ March 31, 2015	US$ March 31, 2014
Cash	**1,146**	880
Due from clients	**-**	40
Due from brokers and dealers	**101**	41
Accrued liabilities	**(46)**	-
Due to clients	**(527)**	(451)
Due to brokers and dealers	**(44)**	(2)
Total	**630**	508

A 5% change in US exchange rates would result in a foreign exchange gain or loss of approximately $32 (March 31, 2014 – $25).

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 is exposed to interest rate price risk as the fair value of its loans to ATB advisors and LTIP will fluctuate as a result of changes in market interest 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, 2015, 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 $60 (March 31, 2014 – $46).

As at March 31, 2015, ATBSI held $47,950 (March 31, 2014 - $52,949) in highly liquid treasury bills. At March 31, 2015 the three series of treasury bills held were earning yields of 53bps, 55bps and 55bps until they mature on April 23, 2015, May 21, 2015 and June 18, 2015 respectively. As at March 31, 2015, if interest rates were to change by 25bps, the change in interest income would be approximately $120 (March 31, 2014 – $132).

Price Risk

ATBSI is not exposed to significant financial market price risk as the securities sold short of $7 held by the Company at March 31, 2015 will not fluctuate materially as a result of changes in market prices.

Credit Risk

Credit risk is the risk that the counter party to a financial asset will default resulting in a financial loss to ATBSI. ATBSI is exposed to credit risk primarily through its cash, short-term investments, clients' cash held in trust, due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable, due from affiliates, loans to ATB advisors, and miscellaneous receivables.

Cash is on deposit with ATB, an Alberta Crown Agent and client's cash held in trust is on deposit with a reputable financial institution from which management believes the risk of loss is remote.

Short-term investments consisting of Canadian Treasury Bills are on deposit with a reputable securities depository from which management believes the risk of loss is remote.

The credit risk inherent in due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable, and miscellaneous receivables 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 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 owed.

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. Management has provided an allowance of $23 (March 31, 2014 – $nil) for doubtful accounts.

The Company's maximum credit exposure is $116,110 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, due from affiliates, loans to ATB advisors, and miscellaneous receivables.

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, and securities sold short, commissions payable, incentive compensation payable, due to affiliates, and due to ATB.

4. Accounting Changes

New and Amended Accounting Standards Adopted by the Company

The following standards have been adopted by the Company effective April 1, 2014:

IAS 32 *Financial Instruments – Presentation*
IAS 36 *Impairment of Assets*
IFRS 13 *Fair Value Measurement*

The adoption of these new standards and amendments to existing standards did not impact the financial statements other than certain note disclosures.

New Accounting Standards and Interpretations not yet Adopted

IAS 1 *Presentation of Financial Statements*

On December 18, 2014 the IASB published the 'Disclosure Initiative (Amendments to IAS 1)'. The amendment ensures the use of judgment by an entity when presenting their financial reports by clarifying the materiality guidance for the Statement of Financial Position and Profit or Loss and Other Comprehensive Income, and the notes to the financial statements.

ATBSI is currently assessing the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization*

On May 12, 2014, IASB issued amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The amendments provide additional guidance on how the depreciation or amortization of property, plant and intangible assets should be calculated.

ATBSI is currently assessing the impact of the amendments, which must be applied prospectively for annual periods beginning on or after January 1, 2016.

IFRS 9 *Financial Instruments*

On July 24, 2014 the IASB issued the final version of IFRS 9 *Financial Instruments*, which replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. The final version includes guidance on the classification and measurement of financial assets and liabilities, impairment, and hedge accounting.

Financial instruments amends the classification and measurement criteria for financial instruments included within the scope of IAS 39 *Financial Instruments: Recognition and Measurements*. For financial assets, IFRS 9 uses a single business model 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.

ATBSI is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces all existing IFRS revenue requirements. The standard clarifies the principles for recognizing revenue and cash flows arising from contracts with customers.

ATBSI is currently assessing the impact of the amendments, which must be applied retrospectively for annual periods beginning on or after January 1, 2017.

Annual Improvements

These amendments include changes from the 2010-12 cycle of the annual improvements project that affect the following standards:

IFRS 2, *Share-based payments*
IFRS 8, *Operating segments*
IAS 16, *Property, plant and equipment*
IAS 24, *Related party disclosures*
IAS 40, *Investment property*

ATBSI has evaluated the aforementioned accounting standards which are effective for annual periods beginning on or after July 1, 2014 and with the exception of some minor changes to the Company's note disclosures there is no significant impact to the Company's financial statements.

5. Due from (to) Affiliates

In the normal course of operations, ATBSI receives trailing commissions and collects client management fees on behalf of ATBIM, and receives referral fees from 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 from (to) affiliates arising from these transactions are generally settled by the following month and are not subject to interest charges.

The amounts due from (to) affiliates are as follows:

	March 31, 2015 $	March 31, 2014 $
Due from ATBIM	**706**	279
Due (to) ATBIA	**(21)**	(818)
	685	(539)

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, 2015 $	March 31, 2014 $
Due to ATB	8,144	4,614

The amount due to ATB, less PILOT (note 6(iii)), is subject to interest charges at ATB's prime lending rate. Interest is calculated in the following month based on all amounts owing at March 31, 2015. The prime lending rate at March 31, 2015 was 2.85% (March 31, 2014 – 3.00%).

ii Amounts Due to ATB Relating to Achievement Notes

ATB sells Principal at Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Investor Services brand name. Under this plan, eligible employees were provided an opportunity to purchase a 25-year note with a rate of return linked to the value of certain ATB subsidiaries, including ATBSI. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

Each note holder is entitled to:

- A cash payment at maturity representing the original invested amount adjusted for a proportionate share in the change in fair value of ATB Investor Services.
- Cash distributions, if any, based on the net positive dividends paid by ATB Investor Services to ATB.

There is no public market for these notes; thus the valuation is based on a model prepared annually by an external consultant using market data where available. This valuation model was used to establish the initial purchase price of the notes and the changes in fair value period to period until the notes mature.

The notes are not redeemable at the option of the note holder, or ATB, prior to maturity, subject to the occurrence of an extraordinary event for ATB (i.e., winding up, dissolution, or liquidation of ATB) or a catastrophic event for the note holder. The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the valuation of ATB Investor Services reduces, that the note holder will lose some or all of the original investment.

To the extent that notes were redeemed at fair market value, prior to December 31, 2013, the Company has reimbursed ATB, through equity distributions, for payments made to employees of the Company in excess of the original subscription amount. However, by mutual agreement between the Company and ATB, effective December 31, 2013, the Company is absolved of any future obligation to make equity distributions to ATB related to the achievement note program and as a result the liability was forgiven with a corresponding increase to the Company's equity.

A reconciliation of the amounts due to ATB arising from the issuance of the Achievement Notes are as follows:

	March 31, 2014 $
Opening	6,277
Redemption of achievement notes	(97)
Reversal of achievement notes liability through equity	(6,180)
	-

As at March 31, 2015 the liability recorded by ATB with regards to ATBSI achievement notes is $23,129 (March 31, 2014 – $17,667). The $5,462 change in the liability from the prior year is a result of $2,629 in new subscriptions, $2,812 in achievement notes redeemed during the year and a corresponding increase of $5,645 due to appreciation of the achievement notes

iii Payment in Lieu of Tax (PILOT)

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 (PILOT) is calculated as 23% of net income reported under IFRS.

Effective April 1, 2014, ATBSI began accruing for all amounts owing under the PILOT program as a result of its earnings in the current year. For the year ended March 31, 2015, ATBSI accrued and incurred an expense of $2,106 for PILOT. The amount owing for PILOT is not subject to interest and will be paid to ATB no later than June 30, 2015.

7. Software and Computer Equipment

	Computer Equipment $	Computer Equipment under development $	Software $	Software under development $	Total $
Cost					
Balance at March 31, 2013	1,518	37	15,422	1,706	18,683
Additions	37	-	3,827	2,209	6,073
Transfer to completed asset	-	(37)	-	(3,827)	(3,864)
Disposals	(27)	-	(549)	-	(576)
Balance at March 31, 2014	1,528	-	18,700	88	20,316
Balance at March 31, 2014	1,528	-	18,700	88	20,316
Additions	-	-	503	1,783	2,286
Transfer to completed asset	-	-	-	(503)	(503)
Disposals	(37)	-	(251)	-	(288)
Balance at March 31, 2015	1,491	-	18,952	1,368	21,811
Depreciation					
Balance at March 31, 2013	514	-	7,690	-	8,204
Amortization for the year	198	-	1,935	-	2,133
Disposals	(27)	-	(549)	-	(576)
Balance at March 31, 2014	685	-	9,076	-	9,761
Balance at March 31, 2014	685	-	9,076	-	9,761
Amortization for the year	192	-	2,107	-	2,299
Disposal	(15)	-	(61)	-	(76)
Balance at March 31, 2015	862	-	11,122	-	11,984
Carrying Amounts					
Balance at March 31, 2014	843	-	9,624	88	10,555
Balance at March 31, 2015	629	-	7,830	1,368	9,827

Amortization expense charged to the statement of operations and comprehensive income for the year ended March 31, 2015 was $2,299 (March 31, 2014 – $2,133). Retirement of assets recognized during the year ended March 31, 2015 was $22 (March 31, 2014 – $nil). There were no impairments recognized during the year ended March 31, 2015 (March 31, 2014 – $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, 2015	March 31, 2014
Class A common shares #	78,995,100	78,995,100
Amount	$26,391	$132,745

On June 5, 2014 ATBSI completed a capital reorganization which reduced its stated capital by the amount of its accumulated deficit ($92 million) and on June 30, 2014, it returned capital of $14 million to ATB.

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 by maintaining adequate residual capital as prescribed by the ATB Investor Services Board of Directors from time to time;
- 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, 2015, ATBSI had RAC of $13,879 which exceeded regulatory requirements set out by IIROC.

ATBSI also met all the early warning tests as prescribed by IIROC.

10. Management Fee Revenue

As of April 1, 2014 ATBSI implemented a new fee structure to more appropriately distribute the costs of shared management, executive, strategic and supporting costs with ATBIM and ATBIA. The new management fee is calculated by determining the total amount of shared costs and charging them to each of ATBSI, ATBIM and ATBIA according to the proportion of total combined revenue that each company generates (net of eliminations) on a year-to-date basis. The management fee charged by ATBSI to ATBIM and ATBIA is subject to a 25% markup. This methodology is intended to better assign costs proportional to the benefit generated by the shared services.

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, 2015 $	March 31, 2014 $
	Revenue			
ATBIM	ATBIM Trailer fees	Mutual fund commissions	**49,689**	38,493
ATBIM	ATBIM Referral fees	Client referral fees	**2,078**	1,651
ATBIM	Management fees	Intercorporate management fees	**8,853**	-
ATBIA	Management fees	Intercorporate management fees	**102**	-
ATBIA	ATBIA Insurance referrals	Client referral fees	**101**	54
ATB	ATB GIC Referral fees	GIC commissions	**2,717**	3,261
ATB	HISA Trailer fees	Mutual fund commissions	**1,598**	967
ATB	ATB Interest revenue	Interest revenue	**49**	39
			65,187	44,465
	Administration and Selling Expenses			
ATB	IT and Rent	General and administrative expenses	**5,413**	4,802
ATB	Professional services	Professional fees	**645**	373
ATB	Community sponsorships	General and administrative expenses	**405**	304
ATB	Partnership	Salaries and employee benefits	**100**	-
			6,563	5,479
	Interest Expense and Standby fees			
ATB	Interest expense and standby fees	Banking and interest charges	**56**	67

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, 2015 $	March 31, 2014 $
Short term employee benefits	2,940	2,795
Deferred compensation	404	196
Retirement and post employment benefits	208	390
Severance	636	-
	4,188	3,381

12. Employee Future Benefits

ATBSI provides future benefits to current and past employees through defined contribution plans. Effective January 1, 2015, all defined contribution plan members were switched to a flexible pension plan which is a combination of retirement savings in a registered defined contribution pension plan with a wealth accumulation component. This additional component allows employees to allocate funds to their ATB defined contribution pension plan, RRSP, RESP, or ATB mortgage. For the purposes of reporting, all of the funding contributions are reflected as defined contribution pension plan expense and are expensed as they become due. For the year ended March 31, 2015, expenses related to the plan were $3,528 (March 31, 2014 – $3,684).

As at March 31, 2015, the total obligation for LTIP was $1,285 of which $812 has vested. The present value of the grants that have vested amounts to $784 of which $451 is recorded as a long-term liability and the remaining $333 is recorded as a current liability on the statement of financial position. Once the LTIP grants have fully vested, $333 will become payable in June 2015, $484 will become payable in June 2016, and the remaining $468 will become payable in June 2017. The related expense is recorded in incentive compensation expenses.

Loans to ATB advisors bear interest of 1% and on initial recognition the loans are fair valued using market rates of interest of 9%. At March 31, 2015 the face value of the loans is $1,486 (March 31, 2014 – $1,425) with $212 (March 31, 2014 – $170) due in the next fiscal year and $1,275 (March 31, 2014 – $1,255) thereafter. Included in the current portion of the loans to ATB advisors is $58 (March 31, 2014 – $81) which is non-interest bearing and relates to expenses that are paid on behalf of the advisors by ATBSI and are due within the next fiscal year. Management has provided an allowance for doubtful accounts of $3 (2014 – $nil) against the amount due in the next fiscal year and $20 (March 31, 2014 – $nil) against the long-term portion. At March 31, 2015 the difference between the face value of the loans and its carrying amount is $310 (March 31, 2014 – $349). The current portion of the discount of $59 has been recorded in prepaid expenses and the long-term portion of $251 has been recorded as a deferred employee benefit expense on the statement of financial position.

13. Credit Facility

ATBSI has access to a $10,000 (March 31, 2014 - $15,000) unsecured operating loan facility with ATB. Interest on the facility is calculated based on prime less 0.25%, which is 2.60% at March 31, 2015. No amounts have been drawn on the facility at March 31, 2015 (March 31, 2014 - $nil) and a standby fee of $26 (March 31, 2014 - $48) was paid during the year on the undrawn portion.

14. Provisions

In conjunction with a pending legal action, ATBSI filed a claim in January 2013 with their insurance agents and expects the extent of the Company's liability, with respect to this matter, to be equal to the amount of the deductible under the professional liability insurance policy. A provision has been recorded in the financial statements for the insurance deductible amounting to $100 and a provision for legal fees of $25. Management does not expect its final resolution will have a material impact to the Company's financial statements.

15. Comparative Figures

Certain comparative figures have been reclassified to conform to current year's presentation as presented below:

Statement of Financial Position

	Current Year Presentation $	Prior Year Presentation $
Prepaid expenses	278	627
Deferred employee benefit expense	349	-
Variable compensation payable	-	6,684
Long-term incentive plan	-	715
Commissions payable	4,297	-
Incentive compensation payable	3,102	-

Statement of Operations and Comprehensive Income

	Current Year Presentation $	Prior Year Presentation $
Variable compensation expense	-	28,531
Other expenses	-	10,161
Commission expenses	24,991	-
General and administrative expenses	7,552	-
Professional fees	3,708	5,019
Incentive compensation expenses	3,540	-
Clearing and processing	2,057	-
IT infrastructure and services	1,863	-

Statement of Cash Flows

	Current Year Presentation $	Prior Year Presentation $
Loans to ATB advisors	(52)	(401)
Prepaid expenses	(427)	(78)
Variable compensation payable	-	1,614
Commission payable	1,480	-
Incentive compensation payable	554	-
Long-term incentive plan	-	420

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CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Financial Statements

Years Ended December 31, 2014

These Credit Union Deposit Guarantee Corporation (CUDGC) Financial Statements are a copy from the CUDGC 2014 Annual Report. A complete copy of the CUDGC Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the CUDGC website at www.cudgc.ab.ca.

Independent Auditor's Report

To the Directors of the Credit Union Deposit Guarantee Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of the Credit Union Deposit Guarantee Corporation, which comprise the statements of financial position as at December 31, 2014, and the statements of net income and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Credit Union Deposit Guarantee Corporation as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

March 4, 2015

Edmonton, Alberta

Statement of Financial Position
As at December 31

(thousands of dollars)	Notes	2014	2013
ASSETS			
Cash and cash equivalents	4	$ 7,699	$ 7,509
Assessments receivable	5	5,550	4,600
Accrued interest receivable and prepaid expenses		1,257	1,113
Investments	6	251,952	216,446
Property and equipment	7	299	412
Intangible assets	7	148	171
TOTAL ASSETS		**$ 266,905**	**$ 230,251**
LIABILITIES			
Accounts payable and accrued liabilities	8	$ 363	$ 690
Provision for financial assistance	9	50	-
Current tax liability	10	380	155
Deferred lease inducements	11	166	266
Deferred tax liability	10	1,432	312
Unclaimed credit union balances	12	1,481	1,361
TOTAL LIABILITIES		**$ 3,872**	**$ 2,784**
EQUITY			
Deposit guarantee fund		$ 257,630	$ 226,267
Accumulated other comprehensive income		5,403	1,200
TOTAL EQUITY		**$ 263,033**	**$ 227,467**
TOTAL LIABILITIES AND EQUITY		**$ 266,905**	**$ 230,251**

The accompanying notes are part of these financial statements.

Approved by the Board: March 4, 2015

[Original signed by] [Original signed by]

Herb Der, Director Loraine Oxley, Director

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31

(thousands of dollars)	Notes	2014	2013
NET INCOME			
Revenue			
Assessment revenue	13	$ 29,485	$ 27,043
Investment income	13	9,282	7,674
		38,767	**34,717**
Expenses			
Administration expenses	14	6,844	6,952
Provision for (Recovery of) financial assistance	9	44	(10)
		6,888	**6,942**
Income before income taxes		31,879	27,775
Income tax expense	10	516	173
NET INCOME		**31,363**	**27,602**
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX			
Items that will be reclassified to net income			
Net unrealized gain (loss) on available-for-sale financial instruments			
Other comprehensive income (loss)		6,429	(5,706)
Income tax (expense) recovery		(1,350)	1,198
Transfer of net gain		(1,109)	(444)
Income tax expense		233	93
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX		**4,203**	**(4,859)**
COMPREHENSIVE INCOME		**$ 35,566**	**$ 22,743**

The accompanying notes are part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31

(thousands of dollars)	Deposit Guarantee Fund	Accumulated Other Comprehensive Income	Total Equity
Balance as at December 31, 2012	**$ 198,665**	**$ 6,059**	**$ 204,724**
Net income	27,602	-	27,602
Other comprehensive loss, net of tax	-	(4,859)	(4,859)
Balance as at December 31, 2013	**226,267**	**1,200**	**227,467**
Net income	31,363	-	31,363
Other comprehensive income, net of tax	-	4,203	4,203
Balance as at December 31, 2014	**$ 257,630**	**$ 5,403**	**$ 263,033**

The accompanying notes are part of these financial statements.

Statement of Cash Flows
For the years ended December 31

(thousands of dollars)	2014	2013
Operating activities		
Assessments received	$ 28,535	$ 26,717
Investment income received	7,327	6,670
Financial assistance recovered (paid)	6	(228)
Interest and bank charges paid	(3)	(2)
Income taxes (paid) recovered	(288)	120
Paid to suppliers and employees	(6,962)	(6,649)
Net cash flows from operating activities	**28,615**	**26,628**
Investing activities		
Purchase of investments, net	(28,369)	(27,547)
Purchase of property and equipment	(54)	(23)
Purchase of intangible assets, net	(2)	(68)
Net cash flows used in investing activities	**(28,425)**	**(27,638)**
Increase (Decrease) in cash	190	(1,010)
Cash and cash equivalents at beginning of year	7,509	8,519
Cash and cash equivalents at end of year	**$ 7,699**	**$ 7,509**

The accompanying notes are part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

1. NATURE OF ORGANIZATION

The Credit Union Deposit Guarantee Corporation the ("Corporation") operates under the authority of the *Credit Union Act*, Chapter C-32, revised Statutes of Alberta, 2000. The mandate of the Corporation is to provide risk-based regulatory oversight and a deposit guarantee to enable a safe and sound credit union system in Alberta.

To fulfill its mandate the Corporation undertakes functions set out in the *Credit Union Act* and maintains the Deposit Guarantee Fund. The Corporation receives assessment revenue from credit unions to support the Deposit Guarantee Fund.

The *Credit Union Act* provides that the Government of Alberta ("Province") will ensure that the obligations of the Corporation are carried out. As at December 31, 2014, credit unions in Alberta held deposits, including accrued interest, totaling $20.8 billion (2013: $19.9 billion).

In cases where a credit union is experiencing financial difficulty, the Corporation implements an intervention strategy that may result in placing the credit union under supervision. The Corporation provides financial assistance, support and direction in planning, policy and operational matters for supervised credit unions.

2. BASIS OF PRESENTATION

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved by the Board of Directors on March 4, 2015.

Statements and notes are in Canadian dollars which is the Corporation's functional currency and rounded to the nearest thousand, unless stated otherwise.

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 9: Provision for Financial Assistance), assessments receivable (Note 5: Assessments Receivable), and the fair value of investments (Note 19: Fair Value of Financial Instruments). Actual results may differ from these estimates depending upon certain future events and uncertainties.

The Corporation presents its Statement of Financial Position in order of liquidity.

3. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF MEASUREMENT

The historical cost basis of measurement, except for available-for-sale financial assets that are measured at fair value in the Statement of Financial Position, is used in preparation of the financial statements.

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

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:

Loans and receivables	Loans and receivables are recorded at amortized cost. Interest received is accounted for using the effective interest method.	Cash and cash equivalents Assessments receivable Accrued interest receivable
Available-for-sale	Available-for-sale financial assets are recorded at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to net income. 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 comprehensive income and presented within equity. For available-for-sale financial assets that do not have quoted market prices, cost represents reasonable fair value for these assets.	Investments
Financial liabilities	Financial liabilities are recorded at amortized cost which is a reasonable estimate of the fair value of these instruments.	Accounts payable and accrued liabilities Provision for financial assistance Long-term unclaimed credit union balances

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
- the probability that the borrower will enter bankruptcy or financial re-organization.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

When a financial asset is considered to be impaired, cumulative losses previously recognized in other comprehensive income are transferred 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 investment income or expense which includes premiums or discounts earned on financial instruments.

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating investment income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Transaction Costs

Transaction costs related to financial assets and liabilities are expensed as incurred as these do not represent material amounts.

Property and Equipment and Intangible Assets

Property and equipment and intangible assets are recorded in the Statement 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 until they are disposed of at which time they are removed from the books.

Depreciation and impairment losses are recognized in net income. Depreciation and amortization have been calculated on the following basis:

Furniture and equipment	Five year straight line
Computer equipment	Three year straight line
Leasehold improvements	Straight line over lease term
Intangible assets [1]	
Software without maintenance agreement	Three year straight line
Software with maintenance agreement	Five year straight line

[1] Intangible assets include the purchase of computer software

Gains and losses on disposal of property and equipment and intangible assets are determined by comparing the proceeds from disposal with the carrying amount of the property and equipment and intangible assets, and are recognized net of depreciation and amortization as part of administration expenses.

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. 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, amalgamations, arrangements, liquidations or dissolutions. 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 indemnity agreements entered into with credit unions due to outcomes described above.
3. Where the Corporation has determined there is the potential for financial assistance based on an analysis of the inherent risks in the credit union 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 inherent risk in the credit union system.

Provisions and contingencies for financial assistance consist of the calculation of potential liabilities and contingencies to meet the IFRS standards. Calculations include management's judgment based on historical information and other factors. Credit union analysis includes a review of all credit unions based on key financial and risk information including risk ratings and contingencies related to amalgamations or arrangements and any indemnity agreements.

REVENUE RECOGNITION

Assessment Revenue

Credit union deposit guarantee assessments and special assessments are classified as revenue and are recognized when:

- The amount of revenue can be measured reliably; and
- It is probable that the economic benefit will flow to the Corporation.

Credit union deposit guarantee assessments are recognized when earned. These regular assessments are determined quarterly, and accrued monthly. Credit union payments are received four times per year.

Special assessments are recognized when earned. Special assessments would be charged only if, in the opinion of the Corporation's Board, the deposit guarantee fund is, or is about to be, significantly below the target level. Special assessments require Ministerial approval prior to being charged.

Investment and Dividend Income

Investment and dividend income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Investment income is accrued on a time basis, by reference to principal outstanding at the applicable effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. Dividend income is recognized when it is known that a dividend has been declared.

EMPLOYEE BENEFITS

Defined Contribution Plan

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 Comprehensive Income in the periods during which services are rendered by employees.

Termination Benefits

The Corporation recognizes termination benefits only when there is evidence that the employee is leaving the Corporation. Termination amounts are either paid with the final pay or are accrued to be paid at the appropriate time.

Short-term Employee Benefits

Short-term employee benefit obligations are measured at cost on an undiscounted basis and are expensed as the related service is provided.

LEASES

Operating leases are leases whose terms do not transfer the risks and rewards of ownership to the lessee. Operating lease payments, net of any lease inducements, are recognized on a straight-line basis over the lease term.

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 records income taxes based on the tax liability method which is the amount expected to be paid to or recovered from the taxation authorities.

Current Tax

The current tax liability is based on taxable income for the year. Taxable income differs from net income as reported in the Statement of Comprehensive Income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Corporation's current tax liability is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of temporary taxable differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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.

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 investments classified as available-for-sale.

Amounts recognized in other comprehensive income will eventually be transferred to the Statement of Comprehensive Income and reflected in net income as gains or losses once available-for-sale investments are realized.

Comprehensive income and its components are disclosed in the Statement of Comprehensive Income. The Statement 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 Statement of Financial Position.

CHANGES IN ACCOUNTING POLICIES

There are a few IFRS changes that came into effect in 2014 that were relevant to the Corporation.

IAS 32 – Financial Instruments: Presentation, Offsetting Financial Assets and Financial Liabilities

This standard establishes principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset. The International Accounting Standards Board ("IASB") issued Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) in December 2011 clarifying the offsetting criteria. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014 and are to be applied retrospectively. The adoption of this standard has not impacted the presentation or disclosure in the financial statements and has not impacted the financial results of the Corporation.

IAS 36 – Impairment of Assets

This standard ensures that assets are carried at no more than their recoverable amount, and defines how recoverable amount is determined. On May 29, 2013, the IASB issued Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) to clarify that the scope of the disclosure of information is limited to the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. Amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014. The Corporation has determined that there are no assets that are impaired therefore the adoption of this standard has not impacted the disclosure or the financial results of the Corporation.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2014, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Corporation, except for potentially IFRS 9 – Financial Instruments. On July 24, 2014, the IASB issued the final version of IFRS 9 - Financial Instruments to replace the classification and measurement, impairment and hedge accounting phases of IAS 39 - Financial Instruments: Recognition and Measurement. This version adds a new expected loss impairment model

and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income ("FVTOCI") category for certain debt instruments, a substantially-reformed approach to hedge accounting, and additional guidance on how to apply the business model and contractual cash flow characteristics test. The Standard supersedes all previous versions of IFRS 9, is applied retrospectively and is effective for periods beginning on or after January 1, 2018. The impact of the adoption of this standard on the Corporation's financial statements has not been determined at this time.

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, 2014, securities held in CCITF have a rate of return of 1.2% per annum (2013: 1.2%).

5. Assessments Receivable

Assessments receivable refer to an accrued balance that will be owed by credit unions for the fourth quarter assessment to be charged by the Corporation. The annual assessment rate, which had been 0.14% of total credit union deposits and borrowings since November 1, 2012, was increased to 0.16% effective November 1, 2014. Assessments are based on credit union quarter ends with the December receivable being an accrual based on October results. Invoices are not issued until February of the following year. Variances between the accruals made and actual billed are minimal. The invoices are paid within a week of processing as payment from each credit union is processed via electronic fund transfers to their Credit Union Central Alberta accounts and a lump sum is then transferred to the Corporation's account.

6. Investments

The fair value of the Corporation's financial instruments is summarized below:

(thousands of dollars)	December 31, 2014		December 31, 2013	
	Fair Value	Cost	Fair Value	Cost
Directly held				
Securities issued or guaranteed by:				
Canada	$ 21,563	$ 21,291	$ 40,820	$ 41,122
Provinces	70,403	67,201	49,552	48,567
Financial institutions	84,629	83,081	53,319	52,535
Utility and transportation	9,780	9,697	12,053	12,176
Asset backed securities and other [1]	27,041	26,615	27,904	27,615
Bond Pool	38,536	37,228	32,798	32,913
Total	**$ 251,952**	**$ 245,113**	**$ 216,446**	**$ 214,928**

1. Other securities total $115 (2013: $115) and are shares of Credit Union Central Alberta Limited at $100 (2013: $100) and Concentra Financial Services Association at $15 (2013: $15).

7. Capital Assets

Property and Equipment

(thousands of dollars)	Furniture & Equipment	Computer Equipment	Leasehold Improvements	Total
Cost				
Balance at December 31, 2013	$ 415	$ 328	$ 648	$ 1,391
Additions	-	54	-	54
Disposals	-	(109)	-	(109)
Balance at December 31, 2014	**415**	**273**	**648**	**1,336**
Accumulated depreciation				
Balance at December 31, 2013	370	286	323	979
Disposals	-	(109)	-	(109)
Depreciation and amortization expense	16	29	122	167
Balance at December 31, 2014	**386**	**206**	**445**	**1,037**
Net book value	**$ 29**	**$ 67**	**$ 203**	**$ 299**

As at December 31, 2014, the cost of fully depreciated capital assets that are still in use are as below:

(thousands of dollars)	2014	2013
Furniture and equipment	$ 338	$ 331
Computer equipment	176	195
Total fully depreciated capital assets	**$ 514**	**$ 526**

Intangible Assets

(thousands of dollars)	2014	2013
Cost	$ 443	$ 441
Accumulated amortization	(295)	(270)
Net book value	**$ 148**	**$ 171**

As at December 31, 2014, the cost of fully amortized intangible assets is $259 (2013: $258).

8. Accounts Payable and Accrued Liabilities

Accounts payable refers to trade payables. Trade payables are outstanding invoices to vendors, payable upon receipt. Accrued liabilities refer to obligations to employees, consisting of primarily accrued vacation liability (and incentive pay in 2013), or to vendors where no invoice has been received.

(thousands of dollars)	2014	2013
Accounts payable	$ 35	$ 21
Accrued liabilities	328	669
Total accounts payable and accrued liabilities	**$ 363**	**$ 690**

9. Provision for Financial Assistance

The Corporation monitors credit unions experiencing financial difficulty and has a contingent responsibility to provide financial assistance in the outcomes referred to in Note 3: Provision for Financial Assistance.

(thousands of dollars)	2014	2013
Change in financial assistance provision	$ 50	$ (238)
Financial assistance payments	-	238
Recoveries	(6)	(10)
Provision for (Recovery of) financial assistance	**$ 44**	**$ (10)**

The current year provision is based on expected loss calculation and is subject to uncertainty surrounding amount The expected timing of outflows of economic benefit are dependent on future events. As such, actual losses may differ significantly from estimate.

10. Income Taxes

Current Tax Liability

(thousands of dollars)	2014	2013
Income tax payable	$ 536	$ 176
Income tax instalments	(156)	(21)
Current tax liability	**$ 380**	**$ 155**

DEFERRED TAX LIABILITY

The table below is the analysis of deferred tax assets/(liabilities) as presented in the Statement of Financial Position and the related income tax recovery/(expense) recognized in net income and in other comprehensive income ("OCI").

(thousands of dollars)	2014 Opening Balance	2014 Recognized in Net Income	2014 Recognized in OCI	2014 Total	2013 Opening Balance	2013 Recognized in Net Income	2013 Recognized in OCI	2013 Total
Capital assets	$ (4)	$ 1	$ -	$ (3)	$ (11)	$ 7	$ -	(4)
Deferred revenue	11	(4)		7	15	(4)		11
Available-for-sale financial instruments	(319)	-	(1,117)	(1,436)	(1,610)	-	1,292	(319)
Total	**$ (312)**	**$ (3)**	**$ (1,117)**	**$ (1,432)**	**$ (1,606)**	**$ 3**	**$ 1,292**	**$ (312)**

1. This represents deferred income tax/(expense) recovery on the unrealized gain/(loss) on available-for-sale financial instruments.

INCOME TAX EXPENSE

The Corporation's statutory income tax rate is 21% (2013: 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)	2014	2013
Expected income taxes on pre-tax net income at the statutory rate	$ 6,695	$ 5,834
Add (deduct) tax effect of:		
Non-taxable assessments	(6,191)	(5,679)
Non-deductible provision for financial assistance	9	(2)
Other	$ 3	$ (2)
Current tax	**$ 516**	**$ 151**
Adjustments	-	22
Total income taxes	**$ 516**	**$ 173**

At December 31, 2014, the non-depreciated property and equipment values for income tax purposes are lower than the related book values by approximately $14 (2013: $21). The resulting deferred tax liability is reflected in the Statement of Financial Position. The Corporation's future effective income tax rate is 21% (2013: 21%).

11. DEFERRED LEASE INDUCEMENTS

Deferred lease inducements consist of tenant improvement allowance and four months free rent from the commencement of the current lease for the office premises. The amount is recorded at amortized cost and is recognized as an offset against monthly office lease payments over the term of the lease.

(thousands of dollars)	2014	2013
Tenant improvement allowance	$ 133	$ 213
Free rent	33	53
Total deferred lease inducements	**$ 166**	**$ 266**

12. Unclaimed Credit Union Balances

The unclaimed credit union balances are members' monies transferred from credit unions, after ten years of inactivity, to the Corporation. The amounts earn monthly interest calculated using the prescribed rate by the Credit Union Act. The interest rate used in 2014 is 1% (2013: 1%).

(thousands of dollars)	Balance
Balance as of December 31, 2012	$ 998
Amount transferred from credit unions	361
Interest	10
Amounts paid out	(8)
Balance as of December 31, 2013	$ 1,361
Amount transferred from credit unions	119
Interest	13
Amounts paid out	(12)
Balance as of December 31, 2014	**$ 1,481**

13. Revenue

Assessment Revenue

The Corporation charges quarterly deposit guarantee assessments to credit unions to carry out its legislated mandate. In 2014, the Corporation earned $29,485 (2013: $27,043) from deposit guarantee assessments charged to credit unions. Assessments received by the Corporation from the largest credit union represent 61% of the total assessments received.

INVESTMENT INCOME

Investment income is as follows:

(thousands of dollars)	2014	2013
Investment and dividend income	**$ 8,173**	**$ 7,230**
Gain on sale of investments	1,109	593
Loss on sale of investments	-	(149)
Net gain on sale of investments	**1,109**	**444**
Total investment income	**$ 9,282**	**$ 7,674**

For 2014, no adjustments for impairment losses (2013: Nil) were required.

14. ADMINISTRATION EXPENSES

(thousands of dollars)	2014	2013
Salaries and benefits	$ 5,148	$ 5,040
Lease payments	459	487
Professional fees	187	347
Office	188	242
Depreciation and amortization	192	204
Other	302	186
Board and committee fees	168	176
Staff travel	147	144
Board and committee expenses	53	126
Total administration expenses	**$ 6,844**	**$ 6,952**

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. For 2014, there was a change in the amount contributed whereby the Corporation contributes 9% (2013: 6%) of the employees' gross salary including any paid vacation pay to each employee's RRSP and the employee contributes 3%. 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 Statement of Comprehensive Income of $366 (2013: $213) represents contributions payable to these plans by the Corporation. As at December 31, 2014, no contributions (2013: Nil) were outstanding in respect of the 2014 reporting period.

The Corporation does not have any defined benefit plans nor are there any post-retirement benefits.

16. Related Party Transactions

Included in these financial statements are transactions with Alberta Investment Management Corporation ("AIMCo"), an Alberta Crown Corporation, and departments related to the Corporation by virtue of common control or influence by the Province. Routine operating transactions and outstanding balances with any related parties, which are settled at prevailing market prices under normal trade terms and conditions, no more or less favorable than with non-government parties dealing with arm's length, are incidental and not disclosed. Management fees paid to AIMCo is $177 (2013: $195), which includes $38 (2013: $35) for the Bond Pool.

The Board of Directors, senior management and their immediate family members are also deemed to be related parties. The Board Chair for the Corporation reports directly to the President of Treasury Board and Minister of Finance. As at the reporting date, there were no business relationships or transactions, other than compensation, between the Corporation, Board members and its senior management. The required directors' and management remuneration disclosure is in the table below. As at December 31, 2014, the balance of compensation payable was $24 (2013: $128).

	2014				2013			
(thousands of dollars)	Salary [1,2]	Other Cash Benefits [1,5]	Other Non-Cash Benefits [1,6]	Total	Salary [2]	Other Cash Benefits [5]	Other Non-Cash Benefits [6]	Total
Chair [4,7]	$ 36	$ -	$ -	$ 36	$ 41	$ -	$ -	$ 41
Board members [4,7,8]	132	-	-	132	135	-	-	135
Current senior management:								
President & CEO [3]	300	26	34	360	250	50	13	313
Executive Vice President, Regulation & Risk Assessment	222	48	37	307	200	53	24	277
Vice President, Finance, Governance & Human Resources	205	45	40	290	183	50	26	259
Vice President, Strategy, Analysis & Information Technology	186	44	37	267	171	47	22	240
Total remuneration	**$ 1,081**	**$ 163**	**$ 148**	**$ 1,392**	**$ 980**	**$ 200**	**$ 85**	**$ 1,265**

1. Effective January 1, 2014, the Total Rewards Program was implemented eliminating the Incentive Pay Program. Employees received a one-time salary adjustment and an increase in the employer portion of the RRSP Contribution. The last bonus payment relating to 2013 was received in 2014.
2. Salary includes regular base pay.
3. The President & Chief Executive Officer commenced in March 2013.
4. The Chair for the Board of Directors retired and a new Chair and three new Directors were appointed in the second quarter of 2013.
5. Other cash benefits include bonus, computer grant and other allowances.
6. Employer's share of all employee benefits and contributions or payments made on behalf of employees including Canada Pension Plan, Employment Insurance, group Registered Retirement Savings Plan, dental coverage, medical benefits, group life insurance, accidental disability and dismemberment insurance and professional memberships. The total amount contributed to senior management RRSPs in the defined contribution plan was $93 (2013: $34).
7. The Chair receives a retainer paid monthly for an annual amount of $10. 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.

8. The minimum and maximum amounts paid to directors were $14 (2013: $4) and $36 (2013: $34), respectively. The average amount paid to directors was $21 (2013: $18).

17. Commitments

The Corporation is a lessee under an operating lease related to a five-year agreement for office space with an option to renew for an additional five years. This agreement expires on August 31, 2016.

The following represents the minimum payments over the next five years.

Not later than one year	**$**	**602**
Later than one year and not later than 5 years	**$**	**401**
Later than 5 years	**$**	**-**

18. Risks Arising from Financial Instruments

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.

Investment/Market Risk

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. Compliance with the policy is monitored by the fund manager and is reported to the Board of Directors on a quarterly basis.

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 which includes 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 Bond Pool includes derivative contracts with a total net negative fair value of $5 (2013: ($133)).

Market risk relates to the possibility that investments will change in value due to future fluctuations in market prices and interest rates. As investments are carried at fair value, they are exposed to fluctuations in fair value. The Corporation is exposed to interest rate fluctuation as a result of normal market risk. This can affect cash flows, term deposits and fixed income securities at the time of maturity and re-investment of individual instruments. To mitigate the interest rate risk, 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 $11,878 (2013: $10,014) in the fair value of total investment if all other variables are constant.

As at December 31, 2014, securities directly held (excluding the Bond Pool) have an average effective yield of 2.0% (2013: 2.4%) based on fair value.

The Corporation owns units in the Bond Pool representing approximately 0.6% of the Bond Pool's outstanding units. The Bond Pool is comprised of Canadian fixed-income instruments and debt related derivatives. As at December 31, 2014, securities held by the Bond Pool have an average effective market yield of 3.0% per annum (2013: 3.4% per annum). The investment in units of the Bond Pool can be liquidated with one week's notice.

CAPITAL/FUNDING 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. As at December 31, 2014, the fund is at 1.23% (2013: 1.13%) of total credit union deposits and borrowings. The Corporation manages equity through the following: quarterly reporting to the Board of Directors through its committees on financial results and equity, setting budgets and reporting variances to those budgets, establishing the Corporate Investment Policy, monitoring and reporting, and reviewing the adequacy of the Deposit Guarantee Fund annually in conjunction with the review of assessment rates for credit unions.

CREDIT RISK

Credit risk related to securities arises from the possibility that the counter-party to an instrument fails to discharge its contractual obligation to the Corporation or the possibility of a decline in the value of a debt security following a rating downgrade as well as the risk of failing to receive assessment receivable from the credit unions.

To mitigate credit risk, the Corporation has established specific rules with respect to the credit ratings of counter-parties so that they do not fall below an acceptable threshold. The Corporation only invests in issuers of debt instruments with a credit rating of A for federal and provincial investments, AA for financial institutions, AAA for asset backed securities and A for utility and transportation from recognized credit rating agencies: Standard & Poors ("S&P") or Dominion Bond Rating Service ("DBRS"). DBRS is used to rate most fixed income investments, followed by S&P. The Bond Pool continues to limit its credit exposure to counter-parties with a credit standing A plus unless there is a Credit Support Annex in place. In that instance, counter parties with a rating of A minus may be accepted.

To maintain assurance on the collectability of the assessment receivable, the Corporation monitors the financial strength of the credit unions on a monthly basis. Assessments receivable from credit unions are unrated and the outstanding balances are collected within a week of the invoice date (see Note 5: Assessments Receivable). Historically, there have been no issues to collect the assessment receivable from any credit union.

The table below shows the credit risk exposure, by bond rating, at the end of the reporting period.

(thousands of dollars) Bond Rating	2014 Fair Value	2014 Book Value	2014 % of Total	2013 Fair Value	2013 Book Value	2013 % of Total
A	$ 3,335	$ 3,417	1.3%	$ 3,332	$ 3,417	1.6%
AA	65,167	63,805	25.9%	50,253	49,536	23.2%
AAA	48,489	47,791	19.3%	71,675	71,622	33.1%
AAL	49,012	47,557	19.4%	18,653	18,992	8.6%
AH	47,298	45,199	18.8%	39,620	38,333	18.3%
Bond Pool	38,536	37,229	15.3%	32,798	32,913	15.2%
Total	**$ 251,837**	**$ 244,998**	**100.0%**	**$ 216,331**	**$ 214,813**	**100.0%**

Note: Excludes Credit Union Alberta Central Limited ($100) and Concentra Financial Services Association ($15) shares as there is no credit risk associated with these equities.

LIQUIDITY RISK

Liquidity risk is the risk of having insufficient financial resources to meet the Corporation's cash and funding requirements in support of the guarantee of deposits at credit unions. Management expects that the Corporation's principal sources of funds will be cash generated from credit union deposit guarantee assessments and interest earned on its investments to meet its financial obligation to guarantee deposits at the credit unions. The Corporation's Investment Policy provides for a minimum of $3 million (2013: $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.

The term structure is presented in the table below. The Bond Pool structure is based on principle amount, net of obligations under repurchase agreements.

	Securities		Bond Pool	
	2014	2013	2014	2013
Under 1 year to 5 years [1]	56%	58%	38%	39%
Over 5 years	44%	42%	62%	61%

[1]The amount due within 1 year in securities is 3% (2013:3%) and in the Bond Pool is (17%) (2013: (3%)) which includes 12% (2013: 6%) of bonds and (29%) (2013: (9%)) of repurchase agreements.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 financial assets that are carried at fair value on a recurring basis. The measure of reliability is determined based on the following three levels:

Level 1:	The fair value is based on quoted prices in active markets.
Level 2:	The fair value is based on inputs other than quoted prices that are observable market data. Generally included in this category would be Government of Canada bonds, provincial government bonds, municipal bonds and chartered bank deposit notes.

Level 3: The fair value is based on inputs that are not based on observable market data.

(thousands of dollars)	December 31, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash (CCITF - fixed income securities)	$ 1,080	$ 6,622	$ -	$ 7,702	$ 849	$ 6,676	$ -	$ 7,525
Fixed income securities, directly held	21,563	191,738	115	213,416	40,820	142,713	115	183,648
Bond Pool	-	38,536	-	38,536	-	32,798	-	32,798
Total	**$ 22,643**	**$ 236,896**	**$ 115**	**$ 259,654**	**$ 41,669**	**$ 182,187**	**$ 115**	**$ 223,971**

There were no transfers (2013: Nil) between Level 1 and 2 nor were there changes to the Level 3 assets in the period; therefore a continuity schedule has not been provided.

Valuation Technique and Inputs

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.

The valuation technique and key inputs used for Level 2 securities for fixed income securities and the Bond Pool are based on a vendor hierarchy:

- Using either spread pricing or curve pricing when direct quotes are not available. Spread pricing involves using interpolated spreads from liquid bonds and applying those to the valuation of illiquid bonds. Curve pricing involves using a variety of different generic quotes and terms to maturity to generate a curve of data points that would then be used to value securities using a linear interpolation.
- Using market observations to calculate evaluated prices for a variety of security types with a 3-pronged approach in the valuation algorithms: direct observations, historical tracking and observed comparables. The results are then weighted and aggregated based on the reliability of each input to arrive at a final evaluated price for that security.

Fair Value Classification of Bond Pool

The Corporation owns units in the Bond Pool and is considered to have exposure to the risks and benefits of those units in the pool and not the underlying investments. The classification of the Bond Pool is therefore determined based on the level that represents the most significant portion of the underlying investments in the entire pool. As a result, the value of the Bond Pool is categorized as Level 2.

Fair Value Measurement of Shares

The shares in Credit Union Alberta Central Limited ($100) and Concentra Financial Services Association ($15) have no specific maturity, are not quoted nor traded in an active market, the shares are issued and redeemed at par value, and there is no observable market data with which to reliably measure a fair value. On this basis, the shares are classified as Level 3 as available-for-sale and the cost (i.e. par value) is considered to be the fair market value of the shares. There are no identifiable observable inputs and thus no inputs from which to determine the relationship to or sensitivity of fair market value to changes in unobservable inputs. During the year, there were no changes to the valuation of the shares (i.e. profit, loss, purchase, sales or transfers).

20. Comparative Figures

Certain 2013 figures have been reclassified, where necessary, to conform to 2014 presentation.

Other Information

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Supplementary Information

Required by Legislation or by Direction of the President of Treasury Board and Minister of Finance

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Public Interest Disclosure (Whistleblower Protection) Act

(Unaudited)
For the year ended March 31, 2015

Section 32 of the *Public Interest Disclosure Act* requires the ministry to report annually on the following parts of the act:

a) the number of disclosures received by the designated officer of the Public Interest Disclosure Office, the number of disclosures acted on and the number of disclosures not acted on by the designated officer;

b) the number of investigations commenced by the designated officer as a result of the disclosures;

c) in the case of an investigation that results in a finding of wrongdoing, a description of the wrongdoing and any recommendations made or corrective measures taken in relation to the wrongdoing or the reasons why no corrective measure was taken.

In 2014-15, there were no disclosures of wrongdoing filed with the Public Interest Disclosure Office.

Statement of Remissions, Compromises and Write-offs

(Unaudited)
For the year ended March 31, 2015

The following has been prepared pursuant to section 23 of the *Financial Administration Act*.

The statement includes all remissions, compromises and write-offs of the Ministry of Treasury Board and Finance made or approved during the fiscal year.

Write-offs	
Department of Treasury Board and Finance	
Accounts Receivable	
Corporate Income Tax	$ 16,484,623
Fuel Tax	346,261
Tobacco Tax	6,729
Sub-total	16,837,613
Implemented guarantees and indemnities	
Gainers Inc. and subsidiaries	11,955
ATB Financial	
Loans and accounts receivable	35,578,000
Total write-offs	$ 52,427,568
Remissions	
Insurance	2,412,941
Subtotal	2,412,941
Total write-offs and remissions	$ 54,840,509

Statement of Borrowings Made Under Section 56(1) of the *Financial Administration Act*

(Unaudited)
For the year ended March 31, 2015

The following has been reported pursuant to section 56(2) of the *Financial Administration Act*.

	Issue Principal	Proceeds
Payable in Canadian dollars:		
Promissory Notes	$ 14,622,369,324	$ 14,605,016,801
Debentures	5,759,294,282	5,772,752,242
	$ 20,381,663,606	$ 20,377,769,043

Statement of the Amount of Debt of the Crown for Which Securities Were Pledged

(Unaudited)
For the year ended March 31, 2015

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 2014-15 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, 2015

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 Treasury Board and Finance and on behalf of the Crown and Provincial Corporations for the year ended March 31, 2015, 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	$ 11,955	$ -

LONG TERM DISABILITY INCOME CONTINUANCE PLAN - BARGAINING UNIT

Financial Statements

Year Ended March 31, 2015

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 Long Term Disability Income Continuance Plan – Bargaining Unit, which comprise the statement of financial position as at March 31, 2015, and the statements of changes in net assets available for benefits and changes in benefit 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 Long Term Disability Income Continuance Plan – Bargaining Unit as at March 31, 2015, and the changes in its net assets available for benefits and changes in its benefit obligation 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, 2015
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2015

	($ thousands)	
	2015	**2014**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 256,784	$ 228,659
Contributions receivable		
Employer	156	849
Employee	157	849
Accounts receivable	104	58
Total Assets	257,201	230,415
Liabilities		
Accounts payable and accrued liabilities	831	654
Total Liabilities	831	654
Net assets available for benefits	256,370	229,761
Benefit obligation and surplus		
Benefit obligation (Note 5)	169,482	154,561
Surplus (Note 6)	86,888	75,200
Benefit obligation and surplus	**$ 256,370**	**$ 229,761**

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

Statement of Changes in Net Assets Available for Benefits

Year ended March 31, 2015

	($ thousands)	
	2015	**2014**
Increase in assets		
Contributions:		
Employers	$ 19,073	$ 20,025
Employees	19,073	20,021
Investment income (Note 7)	28,333	32,400
	66,479	72,446
Decrease in assets		
Benefit payments	34,141	31,324
Adjudication	2,328	2,240
Severance	959	1,061
Rehabilitation	609	597
Investment expenses (Note 8)	1,337	1,191
Administrative expenses (Note 9)	496	452
	39,870	36,865
Increase in net assets	26,609	35,581
Net assets available for benefits at beginning of year	229,761	194,180
Net assets available for benefits at end of year	**$ 256,370**	**$ 229,761**

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

Statement of Changes in Benefit Obligation

Year ended March 31, 2015

	($ thousands)	
	2015	**2014**
Increase in benefit obligation		
New claims	$ 32,263	$ 29,701
Interest accrued on benefits	6,613	6,111
Change in discount rate assumption	5,583	-
Other net experience loss	6,355	11,543
	50,814	47,355
Decrease in benefit obligation		
Benefit payments	34,141	31,324
Terminations other than expected	1,752	3,933
	35,893	35,257
Net increase in benefit obligation	14,921	12,098
Benefit obligation at beginning of year	154,561	142,463
Benefit obligation at end of year	$ 169,482	$ 154,561

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended March 31, 2015
(all dollar values in thousands, unless otherwise stated)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Long Term Disability Income Continuance Plan (the Plan) for bargaining unit employees is a summary only. For a complete description of the Plan, reference should be made to section 21 of the *Public Service Act*, the Long Term Disability Income Continuance Plan Regulation, section 98 of the *Financial Administration Act* and Treasury Board Directive 08/98, as amended.

a) GENERAL

The Plan provides disability benefits and ensures income continuance of eligible Government of Alberta employees included in an Alberta Union of Provincial Employee's (AUPE) bargaining unit. Management and employees opted out and excluded from an AUPE bargaining unit are covered under a separate plan.

b) FUNDING POLICY

Long term disability benefits are funded equally by employer and employee contributions at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at March 31, 2015 are 1.625 per cent (2014: 1.725 per cent) of insurable salary for employers and 1.625 per cent (2014: 1.725 per cent) for employees. The rates are to be reviewed at least once every three years by the Deputy Minister of Leadership and Talent Development and Public Service Commissioner based on recommendations of the Plan's actuary and Advisory Committee.

c) LONG TERM DISABILITY BENEFITS

Benefits are payable when eligible plan members become disabled for 80 consecutive normal workdays as the result of bodily injury or illness, as determined by the Plan's adjudicator. Plan members are eligible for coverage after completion of three consecutive months of service without absence in a permanent position, or a full year in a temporary position. The Plan provides for benefits equal to 70 per cent of members' pre-disability salary. Reduced benefits are payable to eligible members who receive compensation from the Workers' Compensation Board, an automobile insurance plan, benefits under the Canada Pension Plan or any other group disability plan, vacation leave pay or employment income other than a rehabilitation program.

No benefit is payable if the disability is the result of injuries suffered from participation in a criminal act or an act of war, or injury or illness which are self-inflicted intentionally. Disabled members who are not under the continuous care of a physician or who are confined in prisons are not eligible for benefits.

Benefits terminate upon the earliest of the date the member resigns or is gainfully employed or is no longer disabled, three months after the adjudicator declares the member is suitable for gainful employment, or the date the member attains age 65 and is eligible for an unreduced public service pension. Benefits also terminate when a member's earnings under a rehabilitation program or earnings received from employment or self employment are the same as the member's pre-disability salary or after 24 months where the member is in a temporary position or when an employee refuses or wilfully fails to participate and cooperate in a rehabilitation plan.

d) DECREASE IN ASSETS

Expenses of the Plan include benefits paid out, adjudication fees, rehabilitation expenses, administrative expenses and severance payments for resignation of employment subsequent to disability leave. Adjudication fees include services performed by an independent agent in determining the eligibility of claims, the amounts of eligible benefits and the time period applicable for disability. Administrative expenses include the cost of salaries and benefits incurred on behalf of the Plan by Corporate Human Resources of $261 (2014: $267).

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 benefit obligation.

These financial statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds (the pools). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, 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 the 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 pools and the selection of securities in the pools. 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 pool units. The Plan reports its share of the financial risks in Note 4.

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

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to 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 pool 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

c) INVESTMENT INCOME

a) Investment income is recorded on an accrual basis.

b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 7 and includes the following items recorded in the Plan's accounts:

   i. Income distributions from the pools.

   ii. Changes in fair value of units including realized gains and losses on disposal of pool units and unrealized gains and losses on pool units determined on an average cost basis.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING… (CONTINUED)

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income (see Note 8). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) VALUATION OF BENEFIT OBLIGATION

The value of the benefit 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 based on estimates of the Plan's Disabled Life Reserve and the Incurred But Unreported Reserve and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

f) VALUATION OF ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The fair values of accounts receivable, accounts payable and accrued liabilities are estimated to approximate their book values.

g) 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 benefit obligation, private investments, hedge funds, private real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the valuation of the Plan's benefit obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds, private 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 benefit obligation and in the valuation of the Plan's private and alternative investments and real estate, management considers that it is possible, based on existing knowledge, that change in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in respect of the benefit obligation are disclosed as net experience gains or losses that change the value of the benefit obligation (see Note 5b).

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values 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 Goals (SIP&G) approved by the Deputy Minister of Treasury Board and Finance. 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)]			**2015**	**2014**
	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Money market and fixed income					
Deposits and short-term securities	$ -	$ 6,863	$ -	$ 6,863	$ 4,951
Bonds, mortgages and private debt	-	111,598	7,685	119,283	74,175
	-	118,461	7,685	126,146	79,126
Equities					
Canadian	18,787	6,587	-	25,374	34,488
Foreign	39,211	5,238	23,863	68,312	85,516
Private	-	-	6,277	6,277	5,228
	57,998	11,825	30,140	99,963	125,232
Inflation sensitive and alternatives					
Real estate	-	-	17,388	17,388	14,155
Infrastructure	-	-	6,994	6,994	5,057
Timberland	-	-	3,031	3,031	2,811
	-	-	27,413	27,413	22,023
Strategic opportunities and tactical allocations *	-	1,602	1,660	3,262	2,278
Total investments	$ 57,998	$ 131,888	$ 66,898	$ 256,784	$ 228,659

* This asset class is not listed in the SIP&G as it relates to investments made on an opportunistic basis (see Note 4).

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 $57,998 (2014: $77,568).
- ***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 $131,888 (2014: $98,462). 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, private equities and all inflation sensitive investments totalling $66,898 (2014: $52,629).

NOTE 3 INVESTMENTS (CONTINUED)

Reconciliation of Level 3 Fair Value Measurements:

	($ thousands)	
	2015	**2014**
Balance, beginning of year	$ 52,629	$ 40,425
Investment income	6,908	5,947
Purchases of Level 3 pooled fund units	15,117	11,481
Sale of Level 3 pooled fund units	(7,756)	(5,224)
Balance, end of year	**$ 66,898**	**$ 52,629**

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. Private debt and loans are valued similar to private mortgages. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. 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 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 infrastructure investments is estimated by managers or general partners of infrastructure 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. The fair value of timberland investments is appraised annually by independent third party evaluators.
- ***Strategic opportunities and tactical allocations:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provide overweight or underweight exposure to global and bond markets, including emerging markets.
- ***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

The 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 Plan are clearly outlined in the SIP&G approved by the Deputy Minister of Treasury Board and Finance. 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 Deputy Minister of Treasury Board and Finance has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix			
		March 31, 2015		March 31, 2014	
		($ thousands)	*%*	*($ thousands)*	*%*
Money market and fixed income	35 - 55%	$ 126,146	49.1	$ 79,126	34.6
Equities	20 - 58%	99,963	38.9	125,232	54.8
Inflation sensitive and alternatives	7 - 20%	27,413	10.7	22,023	9.6
Strategic opportunities and tactical allocations	(a)	3,262	1.3	2,278	1.0
		$ 256,784	100.0	$ 228,659	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above.

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 summaries these debt securities by counterparty credit rating at March 31, 2015:

Credit rating	2015	2014
Investment Grade (AAA to BBB-)	94.5%	92.0%
Speculative Grade (BB+ or lower)	0.7%	0.4%
Unrated	4.8%	7.6%
	100.0%	100.0%

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

ii. Counterparty default risk - derivative contracts

The 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 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 Plan participates in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2015, the Plan's share of securities loaned under this program is $4,781 (2014: $6,107) and collateral held totals $5,021 (2014: $6,403). 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 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 27% of the Plan's investments, or $70 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (15%) 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 in fair value to the Plan would be approximately 2.7% (2014: 3.9%) of total investments.

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at March 31, 2015:

	($ millions)			
	2015		**2014**	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 37	$ (3.7)	$ 47	$ (4.7)
Euro	7	(0.7)	11	(1.1)
British pound	5	(0.5)	7	(0.7)
Japanese yen	4	(0.4)	5	(0.5)
Hong Kong dollar	3	(0.3)	3	(0.3)
Other foreign currencies	14	(1.4)	16	(1.6)
Total foreign currency investments	$ 70	$ (7.0)	$ 89	$ (8.9)

c) Interest rate risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in 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 3.3% (2014: 1.8%) of total investments.

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

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 Plan 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 Plan would be approximately 4.6% (2014: 5.5%) of total investments. 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. 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 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 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	**2015**	**2014**
Contracts in favourable position (current credit exposure)	26	$ 907	$ 1,647
Contracts in unfavourable position	15	(2,021)	(659)
Net fair value of derivative contracts	41	$ (1,114)	$ 988

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 $907 (2014: $1,647) 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 the pools 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, the notional values are not recorded in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	**2015**	**2014**
Structured equity replication derivatives	$ 94	$ 1,088
Foreign currency derivatives	(458)	(257)
Interest rate derivatives	(1,032)	220
Credit risk derivatives	282	(63)
Net fair value of derivative contracts	$ (1,114)	$ 988

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

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

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

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

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

v. Deposits: At March 31, 2015 deposits in futures contracts margin accounts totaled $648 (2014: $1,340) and deposits as collateral for derivative contracts totaled $963 (2014: $165).

NOTE 5 BENEFIT OBLIGATION

a) ACTUARIAL VALUATION

An actuarial valuation of the Plan was carried out as at December 31, 2014 by the Plan's actuary, Mercer (Canada) Limited and was then extrapolated to March 31, 2015.

The assumptions used in the valuation were developed as the best estimate of expected short and long term market conditions and other future events. These estimates were, after consultation with the Plan's actuary, adopted by the Deputy Minister of Leadership and Talent Development and Public Service Commissioner.

The major assumptions used were:

	%	
	2015 Extrapolation	**2014 Valuation**
Interest discount rate (net of investment and administrative expenses)	4.0	4.7
Continuance rates		
Based on Study on Canadian Group Long Term Disability Termination Experience (1988-1997)	Modified*	Modified*
Incurred but unreported reserve factor		
As percentage of experience rated premiums	30	30

* The rates have been modified by duration to reflect the Plan's adjudication practices and claims termination experience.

The Disabled Life Reserve is an estimate of the value of future payments to be made over the life of incurred claims, discounted to a current value using a rate of 4.0 per cent (2014: 4.7 per cent). An adjustment has been made to the Disabled Life Reserve to reflect Plan members who may be approved for Canada Pension Plan benefits in the future.

The Incurred But Unreported Reserve is an estimate of the value of the financial impact of claims that are either unreported or not approved at the fiscal year end, but which will ultimately be accepted for benefits. Based on a review of historical reserves, management and the Plan's actuary determined a reserve factor of 30 per cent (2014: 30 per cent) of experience rated premiums was appropriate for estimating the reserve amount.

NOTE 5 BENEFIT OBLIGATION (CONTINUED)

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2015. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2016.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

As at March 31, 2015, based on the extrapolation performed from the December 31, 2014 valuation, holding the continuance rates and incurred but unreported reserve factor constant, a 0.5 per cent decrease in the assumed interest discount rate would reduce the actuarial surplus of the Plan by $4.3 million (2014: $3.7 million).

NOTE 6 SURPLUS

	($ thousands)	
	2015	**2014**
Surplus at beginning of year	$ 75,200	$ 51,717
Increase in net assets available for benefits	26,609	35,581
Net increase in benefit obligation	(14,921)	(12,098)
Surplus at end of year	$ 86,888	$ 75,200

NOTE 7 INVESTMENT INCOME

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

	($ thousands)			
	Income	**Change in Fair Value**	**2015 Total**	**2014 Total**
Money market and fixed income	$ 5,565	$ 4,800	$ 10,365	$ 2,393
Equities				
Canadian	2,238	(139)	2,099	5,549
Foreign	9,868	2,809	12,677	21,433
Private	475	503	978	462
	12,581	3,173	15,754	27,444
Inflation sensitive and alternatives				
Real estate	643	311	954	1,616
Infrastructure	196	829	1,025	181
Timberland	(57)	214	157	587
Private debt and loans			-	48
	782	1,354	2,136	2,432
Strategic opportunities and tactical allocations	(141)	219	78	131
	$ 18,787	$ 9,546	$ 28,333	$ 32,400

The change in fair value includes realized gains and losses on disposal of pool units totaling $5,847 and unrealized gains and losses on pool units totaling $3,390.

NOTE 7 NET INVESTMENT INCOME (CONTINUED)

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 8 INVESTMENT EXPENSES

	($ thousands)	
	2015	**2014**
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 970	$ 856
Performance based fees [(a)]	355	323
	1,325	1,179
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	12	12
Total investment expenses	$ 1,337	$ 1,191
Increase in expenses	12.3%	61.6%
Increase in average investments under management	15.1%	17.4%
Investment expense as a percent of:		
Dollar earned	4.7%	3.7%
Dollar invested	0.6%	0.6%

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily nonperformance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

NOTE 9 ADMINISTRATIVE EXPENSES

	($ thousands)	
	2015	**2014**
General administration costs		
Salaries and related expenses	$ 261	$ 267
Fund Administration - Union liaison and others	72	72
Actuarial fees	60	54
Supplies and services	103	59
	$ 496	$ 452

NOTE 10 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND BENEFIT OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the benefit obligation and the per cent of benefit obligation supported by net assets.

	2015	2014	2013	2012	2011
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	13.0	15.1	9.8	4.5	10.2
Value added return by investment manager	(1.1)	1.0	1.7	1.0	(0.1)
Total return on investments [(a)]	**11.9**	**16.1**	**11.5**	**5.5**	**10.1**
Other sources [(b)]	(0.3)	2.2	4.7	4.6	5.1
Per cent change in net assets [(c)]	**11.6**	**18.3**	**16.2**	**10.1**	**15.2**
Per cent change in benefit obligation [(c)]	**9.7**	**8.5**	**(9.8)**	**1.4**	**11.3**
Per cent of benefit obligation supported by net assets	**151**	**149**	**136**	**106**	**97**

(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 11.0% (PBR: 10.5%), ten years is 7.3% (PBR: 7.3%) and since inception is 6.6% (PBR: 6.3%).

(b) Other sources include employee and employer contributions and administration expenses.

(c) The percentage increase in net assets and the benefit obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in benefit obligation.

NOTE 11 CAPITAL

The Plan defines its capital as the funded status. The Plan's definition of capital is unchanged from prior periods. The funded status is the same as accounting surplus of $86,888 (2014: surplus of $75,200) reported in Note 6.

NOTE 12 CONTINGENT LIABILITIES

The Plan is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities.

The Plan has been named in one (2014: zero) claim of which the outcome is not determinable, and as such, no amounts are accrued in these financial statements in respect of this claim. The claim has a specified amount of $43 (2014: $0). The resolution of the claim may result in a liability, if any, that may be significantly lower than the claimed amount.

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2015 presentation.

NOTE 14 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were prepared by management and approved by the Deputy Minister of Leadership and Talent Development and Public Service Commissioner and the Senior Financial Officer on June 3, 2015.

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LONG TERM DISABILITY INCOME CONTINUANCE PLAN - MANAGEMENT, OPTED OUT AND EXCLUDED

Financial Statements

Year Ended March 31, 2015

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 Long Term Disability Income Continuance Plan – Management, Opted Out and Excluded, which comprise the statement of financial position as at March 31, 2015, and the statements of changes in net assets available for benefits and changes in benefit 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 Long Term Disability Income Continuance Plan – Management, Opted Out and Excluded as at March 31, 2015, and the changes in its net assets available for benefits and changes in its benefit obligation 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, 2015
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2015

	($ thousands)	
	2015	**2014**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 75,289	$ 67,939
Employer contributions receivable	77	451
Total Assets	75,366	68,390
Liabilities		
Accounts payable and accrued liabilities	188	152
Total Liabilities	188	152
Net assets available for benefits	75,178	68,238
Benefit obligation and surplus		
Benefit obligation (Note 5)	42,835	44,183
Surplus (Note 6)	32,343	24,055
Benefit obligation and surplus	**$ 75,178**	**$ 68,238**

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

Statement of Changes in Net Assets Available for Benefits

Year ended March 31, 2015

	($ thousands)	
	2015	**2014**
Increase in assets		
Employer contributions	$ 9,549	$ 10,535
Investment income (Note 7)	8,152	8,352
	17,701	18,887
Decrease in assets		
Benefit payments	9,832	9,963
Adjudication	244	471
Rehabilitation	46	60
Severance	77	169
Investment expenses (Note 8)	370	366
Administrative expenses (Note 9)	192	215
	10,761	11,244
Increase in net assets	6,940	7,643
Net assets available for benefits at beginning of year	68,238	60,595
Net assets available for benefits at end of year	**$ 75,178**	**$ 68,238**

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

Statement of Changes in Benefit Obligation

Year ended March 31, 2015

	($ thousands)	
	2015	**2014**
Increase in benefit obligation		
New claims	$ 6,879	$ 7,850
Interest accrued on benefits	1,749	1,675
Other net experience loss	1,107	2,912
	9,735	12,437
Decrease in benefit obligation		
Benefit payments	9,832	9,963
Terminations other than expected	1,251	559
	11,083	10,522
Net (decrease) increase in benefit obligation	(1,348)	1,915
Benefit obligation at beginning of year	44,183	42,268
Benefit obligation at end of year	$ 42,835	$ 44,183

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2015
(all dollar values in thousands, unless otherwise stated)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Long Term Disability Income Continuance Plan (the Plan) for management, opted out and excluded employees is a summary only. For a complete description of the Plan, reference should be made to section 21 of the *Public Service Act*, the Provincial Court Judges and Masters in Chambers Compensation Regulation 176/98 and the Justice of Peace Regulation 6/99, the Long Term Disability Income Continuance Plan Regulation, the Long Term Disability Benefits Regulation (Legislative Assembly Act), section 98 of *the Financial Administration Act* and Treasury Board Directive 09/98, as amended.

a) GENERAL

The Plan provides disability benefits and ensures income continuance of eligible Government of Alberta management, opted out and excluded employees, Members of the Legislative Assembly, Auditor General, Child and Youth Advocate, Chief Electoral Officer, Ethics Commissioner, Freedom of Information and Privacy Commissioner, Ombudsman, Full-Time Justice of the Peace and Provincial Judges. Employees included in an Alberta Union of Provincial Employee's bargaining unit are covered under a separate plan.

b) FUNDING POLICY

Long term disability benefits are funded by employer (Government of Alberta including Legislative Assembly and other Legislative Offices) contributions at a rate which is expected to provide for all benefits payable under the Plan. The rate in effect at March 31, 2015 is 1.20 per cent (2014: 1.35 per cent) of insurable salary of eligible employees with the exception of Provincial Judges with the rate of 2.15 per cent (2014: 2.05 per cent). The rates are to be reviewed at least once every three years by the Deputy Minister of Leadership and Talent Development and Public Service Commissioner based on recommendations of the Plan's actuary and Advisory Committee.

c) LONG TERM DISABILITY BENEFITS

Benefits are payable when eligible plan members become disabled for 80 consecutive normal workdays as the result of bodily injury or illness, as determined by the Plan's adjudicator. Plan members are eligible for coverage after completion of three consecutive months of service without absence in a permanent position, or a full year in a temporary position. The Plan provides for benefits equal to 70 per cent of members' pre-disability salary. Reduced benefits are payable to eligible members who receive compensation from the Workers' Compensation Board, an automobile insurance plan, benefits under the Canada Pension Plan or any other group disability plan, vacation leave pay or employment income other than a rehabilitation program.

No benefit is payable if the disability is the result of injuries suffered from participation in a criminal act or an act of war, or injury or illness which are self-inflicted intentionally. Disabled members who are not under the continuous care of a physician or who are confined in prisons are not eligible for benefits.

Benefits terminate upon the earliest of the date the member resigns or is gainfully employed or is no longer disabled, three months after the adjudicator declares the member is suitable for gainful employment, or the date the member attains age 65 and is eligible for an unreduced public service pension. For Judges and Full-Time Justices of the Peace benefits terminate at age 70. Benefits also terminate when a member's earnings under a rehabilitation program or earnings received from employment or self employment are the same as the member's pre-disability salary or after 24 months where the member is in a temporary position or when an employee refuses or wilfully fails to participate and cooperate in a rehabilitation plan.

d) DECREASE IN ASSETS

Expenses of the Plan include benefits paid out, adjudication fees, rehabilitation expenses, administrative expenses and severance payments for resignation of employment subsequent to disability leave. Adjudication fees include services performed by an independent agent in determining the eligibility of claims, the amounts of eligible benefits and the time period applicable for disability. Administrative expenses include the cost of salaries and benefits incurred on behalf of the Plan by Corporate Human Resources of $118 (2014: $117).

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 benefit obligation.

These financial statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds (the pools). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, 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 the 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 pools and the selection of securities in the pools. 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 pool units. The Plan reports its share of the financial risks in Note 4.

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

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to 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 pool 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

c) INVESTMENT INCOME

a) Investment income is recorded on an accrual basis.

b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 7 and includes the following items recorded in the Plan's accounts:

   i. Income distributions from the pools.

   ii. Changes in fair value of units including realized gains and losses on disposal of pool units and unrealized gains and losses on pool units determined on an average cost basis.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING… (CONTINUED)

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income (see Note 8). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) VALUATION OF BENEFIT OBLIGATION

The value of the benefit 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 based on estimates of the Plan's Disabled Life Reserve and the Incurred But Unreported Reserve and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

f) VALUATION OF ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The fair values of accounts payable and accrued liabilities are estimated to approximate their book values.

g) 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 benefit obligation, private investments, hedge funds, private real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the valuation of the Plan's benefit obligation, and
ii) the estimated fair values of the Plan's private investments, hedge funds, private 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 benefit obligation and in the valuation of the Plan's private and alternative investments and real estate, management considers that it is possible, based on existing knowledge, that change in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in respect of the benefit obligation are disclosed as net experience gains or losses that change the value of the benefit obligation (see Note 5b).

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values 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 Goals (SIP&G) approved by the Deputy Minister of Treasury Board and Finance. 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]			2015	2014
	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Money market and fixed income					
Deposits and short-term securities	$ -	$ 1,471	$ -	$ 1,471	$ 454
Bonds, mortgages and private debt	-	32,558	2,706	35,264	32,457
	-	34,029	2,706	36,735	32,911
Equities					
Canadian	5,527	1,938	-	7,465	6,968
Foreign	11,491	1,489	6,190	19,170	17,963
Private	-	-	2,381	2,381	2,275
	17,018	3,427	8,571	29,016	27,206
Inflation sensitive and alternatives					
Real estate	-	-	5,361	5,361	4,675
Infrastructure	-	-	2,311	2,311	1,642
Timberland	-	-	857	857	796
	-	-	8,529	8,529	7,113
Strategic opportunities and tactical allocations *	-	482	527	1,009	709
Total investments	$ 17,018	$ 37,938	$ 20,333	$ 75,289	$ 67,939

* This asset class is not listed in the SIP&G as it relates to investments made on an opportunistic basis (see Note 4).

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 $17,018 (2014: $15,496).
- ***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 $37,938 (2014: $35,785). 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, private equities and all inflation sensitive investments totalling $20,333 (2014: $16,658).

NOTE 3 INVESTMENTS (CONTINUED)

Reconciliation of Level 3 Fair Value Measurements:

	($ thousands)	
	2015	**2014**
Balance, beginning of year	$ 16,658	$ 14,559
Investment income	1,912	1,982
Purchases of Level 3 pooled fund units	3,690	1,995
Sale of Level 3 pooled fund units	(1,927)	(1,878)
Balance, end of year	**$ 20,333**	**$ 16,658**

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. Private debt and loans are valued similar to private mortgages. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. 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 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 infrastructure investments is estimated by managers or general partners of infrastructure 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. The fair value of timberland investments is appraised annually by independent third party evaluators.
- ***Strategic opportunities and tactical allocations:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provide overweight or underweight exposure to global and bond markets, including emerging markets.
- ***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

The 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 Plan are clearly outlined in the SIP&G approved by the Deputy Minister of Treasury Board and Finance. 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 Deputy Minister of Treasury Board and Finance has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix			
		March 31, 2015		March 31, 2014	
		($ thousands)	*%*	*($ thousands)*	*%*
Money market and fixed income	25 - 50%	$ 36,735	48.8	$ 32,911	48.4
Equities	35 - 65%	29,016	38.5	27,206	40.1
Inflation sensitive and alternatives	7 - 20%	8,529	11.4	7,113	10.5
Strategic opportunities and tactical allocations	(a)	1,009	1.3	709	1.0
		$ 75,289	100.0	$ 67,939	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above.

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 summaries these debt securities by counterparty credit rating at March 31, 2015:

Credit rating	2015	2014
Investment Grade (AAA to BBB-)	93.6%	92.7%
Speculative Grade (BB+ or lower)	0.7%	0.5%
Unrated	5.7%	6.8%
	100.0%	100.0%

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

ii. Counterparty default risk - derivative contracts

The 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 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 Plan participates in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2015, the Plan's share of securities loaned under this program is $1,404 (2014: $1,591) and collateral held totals $1,474 (2014: $1,666). 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 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 27% of the Plan's investments, or $20 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (15%) 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 in fair value to the Plan would be approximately 2.7% (2014: 2.9%) of total investments.

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at March 31, 2015:

($ millions)

	2015		2014	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 11	$ (1.1)	$ 11	$ (1.1)
Euro	2	(0.2)	2	(0.2)
British pound	1	(0.1)	2	(0.2)
Japanese yen	1	(0.1)	1	(0.1)
Other foreign currencies	5	(0.5)	4	(0.4)
Total foreign currency investments	$ 20	$ (2.0)	$ 20	$ (2.0)

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 3.3% (2014: 2.7%) of total investments.

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

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 Plan 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 Plan would be approximately 4.6% (2014: 4.1%) of total investments. 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. 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 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 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	**2015**	**2014**
Contracts in favourable position (current credit exposure)	24	$ 258	$ 453
Contracts in unfavourable position	17	(595)	(144)
Net fair value of derivative contracts	41	$ (337)	$ 309

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 $258 (2014: $453) 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 the pools 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, the notional values are not recorded in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	**2015**	**2014**
Structured equity replication derivatives	$ 24	$ 303
Foreign currency derivatives	(142)	(86)
Interest rate derivatives	(302)	117
Credit risk derivatives	83	(25)
Net fair value of derivative contracts	$ (337)	$ 309

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

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

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

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

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

v. Deposits: At March 31, 2015 deposits in futures contracts margin accounts totaled $176 (2014: $347) and deposits as collateral for derivative contracts totaled $285 (2014: $50).

NOTE 5 BENEFIT OBLIGATION

a) ACTUARIAL VALUATION

An actuarial valuation of the Plan was carried out as at December 31, 2014 by the Plan's actuary, Mercer (Canada) Limited and was then extrapolated to March 31, 2015.

The assumptions used in the valuation were developed as the best estimate of expected short and long term market conditions and other future events. These estimates were, after consultation with the Plan's actuary, adopted by the Deputy Minister of Leadership and Talent Development and Public Service Commissioner.

The major assumptions used were:

	%	
	2015 Extrapolation	**2014 Valuation**
Interest discount rate (net of investment and administrative expenses)	4.4	4.4
Continuance rates		
Based on Study on Canadian Group Long Term Disability Termination Experience (1988-1997)	Modified*	Modified*
Incurred but unreported reserve factor		
As percentage of experience rated premiums	35	35

* The rates have been modified by duration to reflect the Plan's adjudication practices and claims termination experience.

The Disabled Life Reserve is an estimate of the value of future payments to be made over the life of incurred claims, discounted to a current value using a rate of 4.4 per cent (2014: 4.4 per cent). An adjustment has been made to the Disabled Life Reserve to reflect Plan members who may be approved for Canada Pension Plan benefits in the future.

The Incurred But Unreported Reserve is an estimate of the value of the financial impact of claims that are either unreported or not approved at the fiscal year end, but which will ultimately be accepted for benefits. Based on a review of historical reserves, management and the Plan's actuary determined a reserve factor of 35 per cent (2014: 35 per cent) of experience rated premiums was appropriate for estimating the reserve amount.

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2015. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2016.

NOTE 5 BENEFIT OBLIGATION (CONTINUED)

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

As at March 31, 2015, based on the extrapolation performed from the December 31, 2014 valuation, holding the continuance rates and incurred but unreported reserve factor constant, a 0.5 per cent decrease in the assumed interest discount rate would reduce the actuarial surplus of the Plan by $0.9 million (2014: $0.9 million).

NOTE 6 SURPLUS

	($ thousands)	
	2015	**2014**
Surplus at beginning of year	$ 24,055	$ 18,327
Increase in net assets available for benefits	6,940	7,643
Net decrease (increase) in benefit obligation	1,348	(1,915)
Surplus at end of year	$ 32,343	$ 24,055

NOTE 7 INVESTMENT INCOME

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

	($ thousands)			
	Income	**Change in Fair Value**	**2015 Total**	**2014 Total**
Money market and fixed income	$ 1,765	$ 1,450	$ 3,215	$ 1,141
Equities				
Canadian	645	(90)	555	1,123
Foreign	2,814	582	3,396	5,115
Private	172	120	292	146
	3,631	612	4,243	6,384
Inflation sensitive and alternatives				
Real estate	210	95	305	540
Infrastructure	65	250	315	59
Timberland	(17)	61	44	166
Private debt and loans	-	-	-	17
	258	406	664	782
Strategic opportunities and tactical allocations	(41)	71	30	45
	$ 5,613	$ 2,539	$ 8,152	$ 8,352

The change in fair value includes realized gains and losses on disposal of pool units totaling $378 and unrealized gains and losses on pool units totaling $2,064.

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 8 INVESTMENT EXPENSES

	($ thousands)	
	2015	**2014**
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 269	$ 260
Performance based fees [(a)]	89	94
	358	354
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	12	12
Total investment expenses	$ 370	$ 366
Increase in expenses	1.1%	41.9%
Increase in average investments under management	11.7%	12.8%
Investment expense as a percent of:		
Dollar earned	4.5%	4.4%
Dollar invested	0.5%	0.6%

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily nonperformance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

NOTE 9 ADMINISTRATIVE EXPENSES

	($ thousands)	
	2015	**2014**
General administration costs		
Salaries and related expenses	$ 118	$ 117
Actuarial fees	43	30
Supplies and services	31	68
	$ 192	$ 215

NOTE 10 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND BENEFIT OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the benefit obligation and the per cent of benefit obligation supported by net assets.

	2015	2014	2013	2012	2011
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	13.0	12.6	9.8	4.5	10.2
Value added return by investment manager	(1.5)	0.7	1.8	1.2	(0.1)
Total return on investments [(a)]	**11.5**	**13.3**	**11.6**	**5.7**	**10.1**
Other sources [(b)]	(1.3)	(0.7)	1.2	0.3	1.2
Per cent change in net assets [(c)]	**10.2**	**12.6**	**12.8**	**6.0**	**11.3**
Per cent change in benefit obligation [(c)]	**(3.1)**	**4.5**	**(2.3)**	**(0.9)**	**14.6**
Per cent of benefit obligation supported by net assets	**176**	**154**	**143**	**124**	**116**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 10.4% (PBR: 10.0%), ten years is 7.0% (PBR: 7.1%) and since inception is 6.3% (PBR: 6.2%).

(b) Other sources includes employer contributions and administration expenses.

(c) The percentage increase in net assets and the benefit obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in benefit obligation.

NOTE 11 CAPITAL

The Plan defines its capital as the funded status. The Plan's definition of capital is unchanged from prior periods. The funded status is the same as accounting surplus of $32,343 (2014: surplus of $24,055) reported in Note 6.

NOTE 12 CONTINGENT LIABILITIES

The Plan is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities.

The Plan has been named in one (2014: one) claim of which the outcome is not determinable, and as such, no amounts are accrued in these financial statements in respect of this claim. The claim has a specified amount of $1,500 (2014: $1,500). The claim is covered by Alberta Risk Management Fund. The resolution of the claim may result in a liability, if any, that may be significantly lower than the claimed amount.

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2015 presentation.

NOTE 14 APROVAL OF FINANCIAL STATEMENTS

These financial statements were prepared by management and approved by the Deputy Minister of Leadership and Talent Development and Public Service Commissioner and the Senior Financial Officer on June 3, 2015.

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LOCAL AUTHORITIES PENSION PLAN

Financial Statements

Year Ended December 31, 2014

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance and
the Local Authorities Pension Plan Board of Trustees

Report on the Financial Statements

I have audited the accompanying financial statements of the Local Authorities Pension Plan, which comprise the statement of financial position as at December 31, 2014, 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, 2014, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 20, 2015

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2014

	($ thousands)	
	2014	**2013**
Net assets available for benefits		
Assets		
Investments (Note 3)	$30,706,727	$26,462,783
Contributions receivable		
Employers	43,381	37,192
Employees	40,014	34,040
Accounts receivable	29,225	30,343
Total Assets	30,819,347	26,564,358
Liabilities		
Accounts payable	21,986	14,155
Liability for investment purchases and expenses	6,997	19
Total Liabilities	28,983	14,174
Net assets available for benefits	$ 30,790,364	$ 26,550,184
Pension obligation and deficit		
Pension obligation (Note 5)	$33,245,000	$31,411,700
Deficit (Note 6)	(2,454,636)	(4,861,516)
Pension obligation and deficit	$30,790,364	$26,550,184

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2014

	($ thousands)	
	2014	**2013**
Increase in assets		
Contributions (Note 7)	$ 2,372,753	$ 2,074,795
Investment income (Note 8)	3,238,702	2,859,591
Transfers from other plans	17,617	29,724
	5,629,072	4,964,110
Decrease in assets		
Benefit payments (Note 10)	1,171,417	1,073,227
Transfers to other plans	17,976	24,307
Investment expenses (Note 11)	166,284	149,510
Administrative expenses (Note 12)	33,215	29,379
	1,388,892	1,276,423
Increase in net assets	4,240,180	3,687,687
Net assets available for benefits at beginning of year	26,550,184	22,862,497
Net assets available for benefits at end of year	$ 30,790,364	$ 26,550,184

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2014

	($ thousands)	
	2014	**2013**
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 1,948,300	$ 1,704,700
Benefits earned	1,609,500	1,546,400
	3,557,800	3,251,100
Decrease in pension obligation		
Net decrease (increase) due to actuarial assumption changes (Note 5a)	117,000	(1,415,000)
Net experience gains (losses) (Note 5b)	401,100	(4,700)
Benefits, transfers and interest	1,206,400	1,098,900
	1,724,500	(320,800)
Net increase in pension obligation	1,833,300	3,571,900
Pension obligation at beginning of year	31,411,700	27,839,800
Pension obligation at end of year (Note 5)	$ 33,245,000	$ 31,411,700

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2014

(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'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, 2014 were 10.39% (2013: 9.43%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 14.84% (2013: 13.47%) of the excess for employees, and 11.39% (2013: 10.43%) of pensionable earnings up to the YMPE and 15.84% (2013: 14.47%) of the excess for employers. Contributions are made on pensionable earnings subject to the limit allowed under the *Income Tax Act*. In 2014, this limit was $154,250 (2013: $150,163.50).

The contribution rates were reviewed by the Board in 2014 and, as a result, contribution rates did not changed effective January 1, 2015. Rates are to be reviewed at least once every three years based on recommendations of the Plan's actuary.

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 or pensionable service and who are not immediately entitled to a pension may receive the commuted value for all years of membership, with the commuted value being subject to locking-in provisions. Any optional service purchased wholly by the member is not included in the commuted value and is paid as contributions with interest. If the remaining member contributions fund more than 50% of the benefit, that excess is paid as a cash refund. 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 benefit payments on the statement of changes in net assets available for benefits.

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. The increase is prorated for pensions that became payable within the year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, 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 Plan does not report the financial instruments of the pools on its statement of financial position.

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

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

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

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

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

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

c) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 8 and includes the following items recorded in the Plan's accounts:

i. Income distributions from the pools.

ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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)]			2014	2013
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Fixed income					
Deposits and short-term securities	$ -	$ 258,823	$ -	$ 258,823	$ 294,323
Bonds, mortgages and private debt	-	7,647,573	1,286,281	8,933,854	7,342,110
	-	7,906,396	1,286,281	9,192,677	7,636,433
Inflation sensitive and alternatives					
Real estate	-	-	3,832,167	3,832,167	3,425,524
Real return bonds	-	1,180,597	-	1,180,597	1,037,710
Infrastructure	-	-	1,451,537	1,451,537	1,289,947
Timberland	-	-	353,399	353,399	353,111
	-	1,180,597	5,637,103	6,817,700	6,106,292
Short horizon					
Canadian equities	2,679,571	950,508	-	3,630,079	3,207,749
Global developed equities	4,492,501	992,084	1,736,498	7,221,083	6,080,707
Emerging market equities	1,007,092	123,999	-	1,131,091	951,835
Small cap equity	991,494	-	-	991,494	954,486
	9,170,658	2,066,591	1,736,498	12,973,747	11,194,777
Long horizon					
Private equities	-	-	1,277,251	1,277,251	1,273,834
Strategic opportunities and tactical allocation *	-	247,564	197,788	445,352	251,447
Total investments	$9,170,658	$ 11,401,148	$ 10,134,921	$30,706,727	$26,462,783

* This asset class is not listed in the SIP&G as it relates to investments made on an opportunistic basis (see Note 4).

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 totaling $9,170,658 (2013: $7,168,201).
- ***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 totaling $11,401,148 (2013: $10,585,790). 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 totaling $10,134,921 (2013: $8,708,792).

Reconciliation of Level 3 Fair Value Measurement

	($ thousands)	
	2014	**2013**
Balance, beginning of year	$ 8,708,792	$7,497,502
Investment income	711,949	1,034,533
Purchases of Level 3 pooled fund units	1,572,871	1,140,537
Sale of Level 3 pooled fund units	(858,691)	(963,780)
Balance, end of year	$10,134,921	$8,708,792

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

NOTE 3 INVESTMENTS CONTINUED

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

NOTE 4 INVESTMENT RISK MANAGEMENT

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

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange

contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2014 ($ thousands)	2014 %	2013 ($ thousands)	2013 %
Fixed income	20 - 40%	$ 9,192,677	29.9	$ 7,636,433	28.9
Inflation sensitive and alternatives	20 - 50%	6,817,700	22.2	6,106,292	23.1
Short horizon	25 - 50%	12,973,747	42.2	11,194,777	42.3
Long horizon	3 - 9%	1,277,251	4.2	1,273,834	4.8
Strategic opportunities and tactical allocation	(a)	445,352	1.5	251,447	0.9
		$30,706,727	100.0	$26,462,783	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 3% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above.

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, 2014:

Credit rating	2014	2013
Investment Grade (AAA to BBB-)	90.5%	89.8%
Speculative Grade (BB+ or lower)	0.2%	0.4%
Unrated	9.3%	9.8%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure

to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2014, the Plan's share of securities loaned under this program is $1,992 million (2013: $1,558 million) and collateral held totals $2,105 million (2013: $1,641 million). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments 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 29% of the Plan's investments, or $8,799 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (16%) and the Euro (2%).

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 2.9% (2013: 3.0%).

The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2014:

	($ millions)			
	2014		**2013**	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 4,808	$ (481)	$ 4,181	$ (418)
Euro	610	(61)	806	(81)
British pound	609	(61)	524	(52)
Japanese yen	505	(50)	492	(49)
Australian dollar	237	(24)	199	(20)
Swiss franc	233	(23)	218	(22)
Other foreign currencies	1,797	(180)	1,410	(141)
Total foreign currency investments	$ 8,799	$ (880)	$ 7,830	$ (783)

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 3.5% (2013: 3.2%).

d) Price Risk

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Plan would be approximately 5.3% (2013: 4.9%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the 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	**2014**	**2013**
Contracts in favourable position (current credit exposure)	33	$ 114,224	$ 243,621
Contracts in unfavourable position	15	(103,863)	(121,566)
Net fair value of derivative contracts	48	$ 10,361	$ 122,055

(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 $114,224 (2013: $243,621) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Types of derivatives used in pools	Plan's Indirect Share ($ thousands) 2014	2013
Structured equity replication derivatives	$ 93,634	$ 169,827
Foreign currency derivatives	(68,973)	(51,989)
Interest rate derivatives	(18,118)	5,366
Credit risk derivatives	3,818	(1,149)
Net fair value of derivative contracts	$ 10,361	$ 122,055

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

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

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

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

(v) Deposits: At December 31, 2014 deposits in futures contracts margin accounts totalled $208,195 (2013: $123,611) and deposits as collateral for derivative contracts totalled $31,696 (2013: $52,157).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2013 by Mercer (Canada) Limited and results were then extrapolated to December 31, 2014.

The actuarial assumptions used in determining the value of the pension obligation of $33,245,000 (2013: $31,411,700) 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:

	2014	2013
	%	
Discount rate	5.80	5.90
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector) with a LAPP specific multiplier	

* 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, 2014 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 2015.

b) NET EXPERIENCE GAINS (LOSSES)

Net experience gains of $401,100 (2013: ($4,700)) arose from differences between the actuarial assumptions used in the 2013 valuation and 2014 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, 2014:

	($ 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	2,137,000	0.8
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	1,481,100	1.4
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	5,119,700	3.2

[1] The current service cost as a percentage of pensionable earnings as determined by the December 31, 2014 extrapolation was 16.94%.

NOTE 6 DEFICIT

	($ thousands)	
	2014	**2013**
Deficit at beginning of year	$ (4,861,516)	$ (4,977,303)
Increase in net assets available for benefits	4,240,180	3,687,687
Net increase in pension obligation	(1,833,300)	(3,571,900)
Deficit at end of year	$ (2,454,636)	$ (4,861,516)

NOTE 7 CONTRIBUTIONS

	($ thousands)	
	2014	**2013**
Current and optional service		
Employers	$ 1,218,973	$ 1,067,794
Employees	1,123,282	975,876
Past service		
Employers	8,373	8,273
Employees	22,125	22,852
	$ 2,372,753	$ 2,074,795

NOTE 8 INVESTMENT INCOME

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

	($ thousands)			
	Income	**Change in Fair Value**	**2014 Total**	**2013 Total**
Fixed Income	$ 514,766	$ 587,007	$ 1,101,773	$ (180,719)
Inflation sensitive and alternatives				
Real estate	164,499	156,973	321,472	398,590
Real return bonds	59,843	80,872	140,715	(132,541)
Infrastructure	44,665	41,291	85,956	109,690
Timberland	(9,128)	624	(8,504)	85,217
	259,879	279,760	539,639	460,956
Short horizon				
Canadian equities	375,317	27,766	403,083	432,385
Foreign equities	1,234,863	(118,549)	1,116,314	2,069,311
	1,610,180	(90,783)	1,519,397	2,501,696
Long horizon				
Private equities	177,665	(34,649)	143,016	64,803
Strategic opportunities and tactical allocation	(62,381)	(2,742)	(65,123)	12,855
	$ 2,500,109	$ 738,593	$ 3,238,702	$ 2,859,591

The change in fair value includes realized gains and losses on disposal of pool units totaling $93,661 and unrealized gains on pool units totaling $644,932.

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which 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:

	2014	2013	2012	2011	2010
	in per cent				
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	12.9	11.0	9.5	5.2	11.5
Value (lost) added by investment manager	(1.5)	0.3	1.6	1.5	(1.6)
Total return on investments [a]	**11.4**	11.3	11.1	6.7	9.9
Other sources [b]	4.6	4.8	5.2	4.5	5.2
Per cent change in net assets [c]	**16.0**	**16.1**	**16.3**	**11.2**	**15.1**
Per cent change in pension obligation [c]	**5.8**	**12.8**	**14.6**	**8.9**	**15.3**
Per cent of pension obligation supported by net assets	**93**	**85**	**82**	**81**	**79**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 10.1% (PBR: 10.1%), ten years is 7.5% (PBR: 7.7%) and twenty years is 8.1% (PBR: 8.2%). The benchmark return reported for 2013 has been restated to conform with changes made by AIMCo subsequent to the completion of the 2013 financial statements. As a result the benchmark return changed from 11.3% to 11.0%. The Plan's actuary estimates the long-term net investment return on assets to be 5.75%.

(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)	
	2014	**2013**
Retirement benefits	$ 826,538	$ 747,264
Disability benefits	9,420	10,091
Termination benefits	284,855	254,975
Death benefits	50,604	60,897
	$ 1,171,417	$ 1,073,227

NOTE 11 INVESTMENT EXPENSES

	($ thousands)	
	2014	**2013**
Amounts charged by AIMCo for:		
Investment costs [a]	$ 123,485	$ 115,387
Performance based fees [a]	28,451	34,071
GST [b]	14,296	-
	166,232	149,458
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	52	52
Total investment expenses	$ 166,284	$ 149,510
Increase in expenses [a]	11.2%	43.7%
Increase in average investments under management	16.1%	16.1%
Investment expense as a per cent of:		
Dollar earned	5.1%	5.2%
Dollar invested	0.6%	0.6%
Investment expenses per member	$ 700	$ 658

[a] Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

The per cent increase in investment costs and performance based fees is 1.7% (2013: 43.7%).

[b] Two-thirds of GST paid in 2014 and two-thirds of GST recorded as a receivable in prior years (2011-2013) has been determined to be unrecoverable and was expensed in 2014.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands)	
	2014	**2013**
General administration costs and process improvement costs		
Alberta Pensions Services Corporation (APS)	$ 30,913	$ 26,918
Alberta Local Authorities Pension Plan Corporation (LAPP Corp.)	2,083	2,074
Actuarial fees	219	387
	33,215	29,379
Member service expenses per member	$ 140	$ 129

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)				
	2014				2013
	Base Salary (a)	Other Cash Benefits (b)	Other Non-Cash Benefits (c)	Total	Total
Corporation Board Chair [d]	$ -	$ 18	$ -	$ 18	$ 34
Corporation Board Members (excluding Chair) [d]	-	100	-	100	96
President & Chief Executive Officer [e]	114	4	36	154	326
Vice-Presidents:					
Investments [f]	152	70	7	229	197
Pension Policy and Funding	134	25	35	194	182
Stakeholder Relations	141	25	39	205	194

(a) Base salary includes regular base pay.

(b) Other cash benefits include incentive pay, lump sum payments, vacation payouts and car allowance honoraria.

(c) Other non-cash benefits include the Corporation's share of all employees' benefits and contributions or payments made on their behalf including pension, health care, dental coverage, professional memberships and group life insurance.

(d) Remuneration paid for the services of the Chair and 13 board members is classified under Board Meeting Fees and is paid in accordance with the fee structure approved by the President of Treasury Board and Minister of Finance.

(e) This position was vacant for six months in 2014.

(f) This position assumed the position of Interim CEO for six months in 2014.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $199,499 (2013: $178,889) or $840 (2013: $787) per member and 0.65% (2013: 0.67%) 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 $30,418,700 at December 31, 2014 (2013: $25,101,400).

NOTE 14 CAPITAL CONTINUED

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 totaling 7.40% of pensionable earnings shared equally between employers and employees until December 31, 2026. The special payments have been included in the rates in effect at December 31, 2014 (see Note 1b).

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2014 presentation.

NOTE 16 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance, based on information provided by APS, LAPP Corp., AIMCo and the Plan's actuary, and after consultation with the Board.

MANAGEMENT EMPLOYEES PENSION PLAN

Financial Statements

Year Ended December 31, 2014

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Management Employees Pension Plan, which comprise the statement of financial position as at December 31, 2014, 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, 2014, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 20, 2015

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2014

	($ thousands)	
	2014	**2013**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 3,882,850	$ 3,460,621
Contributions receivable		
Employers	567	560
Employees	338	327
Accounts receivable	1,749	2,482
Total Assets	3,885,504	3,463,990
Liabilities		
Accounts payable	1,906	365
Total Liabilities	1,906	365
Net assets available for benefits	$ 3,883,598	$ 3,463,625
Pension obligation and surplus		
Pension obligation (Note 5)	$ 3,807,793	$3,413,168
Surplus (Note 6)	75,805	50,457
Pension obligation and surplus	$ 3,883,598	$ 3,463,625

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2014

	($ thousands)	
	2014	**2013**
Increase in Assets		
Contributions (Note 7)	$ 203,409	$ 174,493
Investment income (Note 8)	417,624	478,612
Transfers from other plans, net	10,360	16,853
	631,393	669,958
Decrease in Assets		
Benefit payments (Note 10)	182,436	170,465
Investment expenses (Note 11)	26,490	19,820
Administrative expenses (Note 12)	2,494	2,398
	211,420	192,683
Increase in net assets	419,973	477,275
Net assets available for benefits at beginning of year	3,463,625	2,986,350
Net assets available for benefits at end of year	$ 3,883,598	$ 3,463,625

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2014

	($ thousands)	
	2014	**2013**
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 233,577	$ 205,529
Benefits earned	113,210	116,637
Net increase (decrease) due to actuarial assumption changes (Note 5a)	219,914	(34,802)
	566,701	287,364
Decrease in pension obligation		
Benefits, transfers and interest	172,076	153,612
Net experience gains (Note 5b)	-	10,357
	172,076	163,969
Net increase in pension obligation	394,625	123,395
Pension obligation at beginning of year	3,413,168	3,289,773
Pension obligation at end of year (Note 5)	$ 3,807,793	$ 3,413,168

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2014

(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, 2014 were 12.80% (2013: 11.16%) of the capped salary for employees and 21.85% (2013: 19.14%) for employers. The capped salary is set to ensure the benefit accrual is not greater than the defined benefit limit under the Income Tax Act.

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 to ensure the benefit accrual is not greater than the defined benefit 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.

Vested members are entitled to an unreduced pension on service after 1991 if they 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 combined pensionable service receive a refund of their contributions plus interest. The refunds are accounted for as benefit payments on the statement of changes in net assets available for benefits.

Members who terminate with at least five years of combined pensionable 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, with the commuted value being subject to locking-in provisions. Any optional service purchased wholly by the member is not included in the commuted value and is paid as contributions with interest. If the remaining member contributions fund more than 50% of the benefit, that excess is paid as a cash refund.

g) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, 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 Plan does not report the financial instruments of the pools on its statement of financial position.

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

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

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

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

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

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

c) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 8 and includes the following items recorded in the Plan's accounts:

i. Income distributions from the pools.

ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts, including transaction costs, charged to the Plan by AIMCo (see Note 11). Investment expenses are recorded on an accrual basis.

e) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds and real estate investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds and real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumptions or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

g) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

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

	($ thousands)				
	Fair Value Hierarchy [(a)]			**2014**	**2013**
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Money market and fixed income					
Deposits and short-term securities	$ -	$ 20,834	$ -	$ 20,834	$ 21,855
Bonds, mortgages and private debt	-	328,776	240,316	569,092	443,150
	-	349,610	240,316	589,926	465,005
Equities					
Canadian	395,947	140,447	-	536,394	483,126
Foreign	977,124	197,764	435,014	1,609,902	1,492,839
Private	-	-	219,333	219,333	196,929
	1,373,071	338,211	654,347	2,365,629	2,172,894
Inflation sensitive					
Real estate	-	-	260,763	260,763	231,810
Infrastructure	-	-	202,411	202,411	148,732
Private debt	-	-	-	-	38,597
Real return bonds	-	391,254	-	391,254	359,575
	-	391,254	463,174	854,428	778,714
Strategic opportunities and tactical allocation *	-	31,971	40,896	72,867	44,008
Total investments	$ 1,373,071	$ 1,111,046	$ 1,398,733	$ 3,882,850	$ 3,460,621

* This asset class is not listed in the SIP&G as it relates to investments made on an opportunistic basis (see Note 4).

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 $1,373,071 (2013: $1,299,603).
- ***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 $1,111,046 (2013: $1,230,144). 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 $1,398,733 (2013: $930,874).

Reconciliation of Level 3 Fair Value Measurement

	($ thousands)	
	2014	**2013**
Balance, beginning of year	$ 930,874	$ 702,854
Investment income	91,434	96,260
Purchases of Level 3 pooled fund units	526,034	229,750
Sale of Level 3 pooled fund units	(149,609)	(97,990)
Balance, end of year	$ 1,398,733	$ 930,874

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. Private debt and loans is valued similar to private mortgages.
- ***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. Infrastructure investments are valued similar to private equity investments. Real return bonds are valued similar to public interest bearing securities.
- ***Strategic opportunities and tactical allocations***: The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets.
- ***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 IP approved by the Board. The purpose of the IP is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2014 ($ thousands)	2014 %	2013 ($ thousands)	2013 %
Money market and fixed income	10 - 40%	$ 589,926	15.2	$ 465,005	13.4
Equities	40 - 70%	2,365,629	60.9	2,172,894	62.8
Inflation sensitive	15 - 40%	854,428	22.0	778,714	22.5
Strategic opportunities and tactical allocation	(a)	72,867	1.9	44,008	1.3
		$ 3,882,850	100.0	$ 3,460,621	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above.

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, 2014:

Credit rating	2014	2013
Investment Grade (AAA to BBB-)	83.4%	86.9%
Speculative Grade (BB+ or lower)	0.2%	0.1%
Unrated	16.4%	13.0%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

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

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2014, the Plan's share of securities loaned under this program is $190 million (2013: $148 million) and collateral held totals $199 million (2013: $154 million). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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 46% of the Plan's investments, or $1,778 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (26%) and the Euro (4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 4.6% (2013: 4.9%).

The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2014:

	($ millions)			
	2014		**2013**	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 1,004	$ (100)	$ 935	$ (94)
Euro	140	(14)	185	(18)
British pound	126	(13)	114	(11)
Japanese yen	109	(11)	107	(11)
Swiss franc	52	(5)	51	(5)
Australian dollar	47	(5)	38	(4)
Other foreign currencies	300	(30)	257	(26)
Total foreign currency investments	$ 1,778	$ (178)	$ 1,687	$ (169)

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% (2013: 2.1%).

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 7.0% (2013: 6.2%). 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 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	**2014**	**2013**
Contracts in favourable position (current credit exposure)	33	$ 18,362	$ 48,198
Contracts in unfavourable position	14	(11,665)	(25,942)
Net fair value of derivative contracts	47	$ 6,697	$ 22,256

(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 $18,362 (2013: $48,198) 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	**2014**	**2013**
Structured equity replication derivatives	$ 15,422	$ 27,150
Foreign currency derivatives	(7,417)	(4,994)
Interest rate derivatives	(1,551)	394
Credit risk derivatives	242	(294)
Net fair value of derivative contracts	$ 6,696	$ 22,256

(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.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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

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

(v) Deposits: At December 31, 2014 deposits in futures contracts margin accounts totalled $31,769 (2013: $23,058) and deposits as collateral for derivative contracts totalled $4,093 (2013: $6,773).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2012 by Aon Hewitt and was then extrapolated to December 31, 2014.

The actuarial assumptions used in determining the value of the pension obligation of $3,807,793 (2013: $3,413,168) 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:

	2014	2013
	%	
Discount rate	6.40	6.90
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

* 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, 2015. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2016.

b) NET EXPERIENCE GAINS

Net experience gains of $nil (2013: $10,357) reflect the results of the valuation as at December 31, 2012 extrapolated to December 31, 2014.

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, 2014:

	($ 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	285,900	1.7
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	28,100	0.6
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	520,900	4.7

* The current service cost of accruing benefits (including 0.4% allowance for administration expenses) as a percentage of pensionable earnings as at December 31, 2012 valuation was 21.7%.

NOTE 6 SURPLUS

	($ thousands)	
	2014	**2013**
Surplus at beginning of year	$ 50,457	$ (303,423)
Increase in net assets available for benefits	419,973	477,275
Net increase in pension obligation	(394,625)	(123,395)
Surplus at end of year	$ 75,805	$ 50,457

NOTE 7 CONTRIBUTIONS

	($ thousands)	
	2014	**2013**
Current service		
Employers	$ 126,851	$ 107,843
Employees	74,314	62,887
Past service		
Employers	646	1,258
Employees	1,598	2,505
	$ 203,409	$ 174,493

NOTE 8 INVESTMENT INCOME

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

	($ thousands)			
	Income	Changes in Fair Value	2014 Total	2013 Total
Money market and fixed income	$ 30,753	$ 14,438	$ 45,191	$ 3,320
Equities				
Canadian	56,330	4,540	60,870	65,065
Foreign	222,868	(6,301)	216,567	395,474
Private	22,334	(2,245)	20,089	14,277
	301,532	(4,006)	297,526	474,816
Inflation sensitive				
Real estate	11,003	11,195	22,198	26,904
Infrastructure	5,536	3,761	9,297	12,360
Private debt	-	-	-	3,973
Real return bonds	20,915	28,826	49,741	(45,410)
	37,454	43,782	81,236	(2,173)
Strategic opportunities and tactical allocation	(7,854)	1,525	(6,329)	2,649
	$ 361,885	$ 55,739	$ 417,624	$ 478,612

The change in fair value includes realized gains and losses on disposal of pool units totaling $74,606 and unrealized losses on pool units totalling $(18,867).

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which 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:

	2014	2013	2012	2011	2010
	in per cent				
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	12.0	14.9	9.8	1.5	10.7
Value (lost) added by investment manager	(0.7)	-	2.5	0.9	(0.5)
Total return on investments [(a)]	**11.3**	**14.9**	**12.3**	**2.4**	**10.2**
Other sources [(b)]	0.8	1.1	1.0	0.4	0.9
Per cent change in net assets [(c)]	**12.1**	**16.0**	**13.3**	**2.8**	**11.1**
Per cent change in pension obligation [(c)]	**11.6**	**3.7**	**4.3**	**6.5**	**6.1**
Per cent of pension obligation supported by net assets	**102**	**101**	**91**	**84**	**87**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 10.1% (PBR: 9.7%), ten years is 7.4% (PBR: 7.4%) and twenty years is 8.3% (PBR: 8.2%). The benchmark return reported for 2013 has been restated to conform with changes made by AIMCo subsequent to the completion of the 2013 financial statements. As a result the benchmark return changed from 15.1% to 14.9%.

(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)	
	2014	**2013**
Retirement benefits	$ 161,427	$ 151,775
Disability benefits	315	339
Termination benefits	14,885	15,062
Death benefits	5,809	3,289
	$ 182,436	$ 170,465

NOTE 11 INVESTMENT EXPENSES

	($ thousands)	
	2014	**2013**
Amounts charged by AIMCo for:		
Investment costs [(a)]	$ 19,318	$ 15,215
Performance based fees [(a)]	5,253	4,553
GST [(b)]	1,867	-
	26,438	19,768
Amounts charged by Treasury Board and Finance for :		
Investment accounting and Plan reporting	52	52
Total investment expenses	$ 26,490	$ 19,820
Increase in expenses [(a)]	33.7%	41.2%
Increase in average investments under management	13.9%	14.7%
Investment expenses as a percent of:		
Dollar earned	6.3%	4.1%
Dollar invested	0.7%	0.6%
Investment expenses per member	$ 2,422	$ 1,908

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

The per cent increase in investment costs and performance based fees is 24.2% (2013: 41.2%).

(b) Two-thirds of GST paid in 2014 and two-thirds of GST recorded as a receivable in prior years (2011-2013) has been determined to be unrecoverable and was expensed in 2014.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands)	
	2014	**2013**
General administration costs	$ 2,136	$ 1,874
Board costs	93	136
Actuarial fees	97	164
Other professional fees	168	224
	2,494	2,398
Member service expenses per member	$ 228	$ 231

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 $28,984 (2013: $22,218) or $2,650 (2013: $2,139) per member and 0.75% (2013: 0.64%) of net assets under administration.

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's IP approved by the Board.

The Plan's asset values are determined on the fair value basis for accounting purposes. However, for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $3,541,981 at December 31, 2014 (2013: $3,180,568).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency determined by the December 31, 2012 actuarial funding valuation is being funded by special payments currently totalling 12.3% of pensionable earnings shared between employees and employers until December 31, 2014. Thereafter, the special payments will decrease successively to 10.2% until December 31, 2016; to 5.4% until December 31, 2017; to 5.0% until December 31, 2024 and to 2.9% until December 31, 2027.

The special payments have been included in the rates in effect at December 31, 2014 (see Note 1b).

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2014 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.

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PROVINCIAL JUDGES AND MASTERS IN CHAMBERS REGISTERED AND UNREGISTERED PENSION PLANS

Financial Statements

Year Ended March 31, 2015

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, 2015, and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Provincial Judges and Masters in Chambers Registered Pension Plan and the Provincial Judges and Masters in Chambers Unregistered Pension Plan as at March 31, 2015, and the changes in the plans' net assets available for benefits and changes in the plans' pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 5, 2015

Edmonton, Alberta

Statements of Financial Position

As at March 31, 2015

	Registered Plan Note 1a ($ thousands)		Unregistered Plan Note 1a ($ thousands)	
	2015	**2014**	**2015**	**2014**
Net Assets Available for Benefits				
Assets				
Cash and cash equivalents (Note 3)	$ -	$ -	$ 640	$ 922
Investments (Note 4)	135,779	123,642		-
Contributions receivable				
Employer	-	84	-	44
Employee	-	45	-	44
GST receivable	27	63	-	-
Other receivable	3	-	1	-
Income tax refundable	-	-	5,870	5,403
Due from Reserve Fund (Note 6)	-	-	154,499	133,699
Total assets	135,809	123,834	161,010	140,112
Liabilities				
Accounts payable	34	29	470	116
Total Liabilities	34	29	470	116
Net assets available for benefits	$ 135,775	$ 123,805	$ 160,540	$ 139,996
Pension obligation and (deficit)				
Pension Obligation (Note 7)	133,769	125,436	177,422	153,441
Surplus (Deficit) (Note 8)	2,006	(1,631)	(16,882)	(13,445)
Pension obligation and (deficit)	$ 135,775	$ 123,805	$ 160,540	$ 139,996

The accompanying notes are part of these financial statements.

Statements of Changes in Net Assets Available for Benefits

Year ended March 31, 2015

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2015	**2014**	**2015**	**2014**
Increase in assets				
Contributions (Note 9)	$ 4,396	$ 4,430	$ 2,272	$ 2,352
Investment income (Note 10)	16,207	16,522	32	38
Transfers from the Reserve Fund	-	-	3,300	2,600
Increase in due from Reserve Fund	-	-	20,800	21,372
	20,603	20,952	26,404	26,362
Decrease in assets				
Benefit payments (Note 12)	7,754	7,410	5,713	4,971
Investment expenses (Note 13)	745	596	26	23
Administrative expenses (Note 14)	134	95	121	104
	8,633	8,101	5,860	5,098
Increase in net assets	11,970	12,851	20,544	21,264
Net assets available for benefits at beginning of year	123,805	110,954	139,996	118,732
Net assets available for benefits at end of year	$ 135,775	$ 123,805	$ 160,540	$ 139,996

The accompanying notes are part of these financial statements.

Statements of Changes in Pension Obligation

Year ended March 31, 2015

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2015	**2014**	**2015**	**2014**
Increase in pension obligation				
Interest accrued on benefits	$ 7,524	$ 6,541	$ 8,751	$ 7,324
Benefits earned	3,842	3,492	8,525	8,146
Increase due to actuarial assumption changes	5,670	13,201	13,700	15,092
	17,036	23,234	30,976	30,562
Decrease in pension obligation				
Benefits, transfers and interest	7,754	7,410	5,713	4,971
Decrease due to actuarial assumption changes	-	2,792	-	4,260
Net experience gains	949	588	1,282	419
	8,703	10,790	6,995	9,650
Net increase in pension obligation	8,333	12,444	23,981	20,912
Pension obligation at beginning of year	125,436	112,992	153,441	132,529
Pension obligation at end of year (Note 7)	$ 133,769	$ 125,436	$ 177,422	$ 153,441

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2015

(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, 2015 are 7.00% of *capped salary* for members and 13.12% of *capped salary for* the Province. In addition, annual payments by the Province of $1,006 (2014: 1,007) 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.

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

The Unregistered Plan contribution rates in effect at March 31, 2015 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 rate payable by members and is set by the President of Treasury Board and Minister of Finance, taking into account recommendations of the plan's actuary. If assets held in the Unregistered Plan are insufficient to pay for benefits as they become due, the amount due is payable by the Province.

The current service costs funded by the Province to the Reserve Fund are contributed at a rate of 31.10% of excess pensionable salary. In addition, annual payments by the Province to the Reserve Fund of $1,784 (2014: 1,784) 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 Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, 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 Registered 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 pool units. The Registered Plan reports its share of the financial risks in Note 5.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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

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

Investments in pool 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

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 10 and includes the following items recorded in the Plan's accounts:

i. Income distributions from the pools.

ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Registered Plan to earn investment income (see Note 13). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

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, 2015, securities held by the CCITF have a time weighted rate of return of 1.2% per annum (2014: 1.2% 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 Registered 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 Registered 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 Registered Plan, and units of the pools, within the ranges approved for each asset class (see Note 5).

($ thousands)

	Fair Value Hierarchy [a]			2015	2014
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Fixed income securities					
Deposits and short-term securities	$ -	$ 879	$ -	$ 879	$ 1,133
Bonds, mortgages and private debt	-	46,093	5,382	51,475	48,307
	-	46,972	5,382	52,354	49,440
Equities					
Canadian	15,095	5,273	-	20,368	19,567
Global	26,887	3,619	11,982	42,488	43,152
	41,982	8,892	11,982	62,856	62,719
Inflation sensitive					
Real estate	-	-	14,649	14,649	6,426
Infrastructure	-	-	4,352	4,352	3,838
	-	-	19,001	19,001	10,264
Strategic opportunities *	-	-	1,568	1,568	1,219
Total investments	$ 41,982	$ 55,864	$ 37,933	$ 135,779	$ 123,642

* This asset class is not listed in the SIP&G as it relates to investments made on an opportunistic basis (see Note 5).

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 $41,982 (2014: $39,279).
- ***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 $55,864 (2014: $60,023). 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 $37,933 (2014: $24,340).

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

	($ thousands)	
	2015	**2014**
Balance, beginning of year	$ 24,340	$ 18,940
Investment income	3,655	2,579
Purchases of Level 3 pooled fund units	13,689	5,328
Sale of Level 3 pooled fund units	(3,751)	(2,507)
Balance, end of year	$ 37,933	$ 24,340

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

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

- ***Fixed income securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Private debt and loans is valued similar to private mortgages. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers.
- ***Inflation sensitive:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of infrastructure is estimated by managers or general partners of infrastructure 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. More established investments are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Strategic opportunities:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pools (see Note 5f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

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

NOTE 5 INVESTMENT RISK MANAGEMENT

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

The investment policies and procedures of the Registered Plan are clearly outlined in the SIP&G. The purpose of the SIP&G is to ensure the Registered Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Investment Committee manages the Registered Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5b).

Actuarial liabilities of the Registered Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Investment Committee has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2015 ($ thousands)	2015 %	2014 ($ thousands)	2014 %
Fixed income securities	30 - 45%	$ 52,354	38.5	$ 49,440	40.0
Equities	30 - 50%	62,856	46.3	62,719	50.7
Inflation sensitive	15 - 35%	19,001	14.0	10,264	8.3
Strategic opportunities	(a)	1,568	1.2	1,219	1.0
		$ 135,779	100.0	$ 123,642	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 5% of the fair value of the Registered Plan's investments in strategic opportunities that are outside of the asset classes listed above.

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, 2015:

Credit rating	2015	2014
Investment Grade (AAA to BBB-)	92.0%	94.4%
Speculative Grade (BB+ or lower)	0.6%	0.5%
Unrated	7.4%	5.1%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Registered Plan is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 5f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2015, the Registered Plan's share of securities loaned under this program is $3.1 million (March 31, 2014: $3.4 million) and collateral held totals $3.2 million (March 31, 2014: $3.6 million). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Registered Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 31% of the Registered Plan's investments, or $41 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (16%) and the Euro (3%).

NOTE 5 INVESTMENT RISK MANAGEMENT CONTINUED

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 Registered Plan would be approximately 3.1% (2014: 3.5%).

The following table summarizes the Registered Plan's exposure to foreign currency investments held in the pools at March 31, 2015:

($ millions)

	2015		2014	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 22	$ (2.2)	$ 24	$ (2.4)
Euro	4	(0.4)	6	(0.6)
Japanese yen	3	(0.3)	3	(0.3)
British pound	3	(0.3)	4	(0.4)
Hong Kong dollar	1	(0.1)	-	-
Other foreign currencies	8	(0.8)	6	(0.6)
Total foreign currency investments	$ 41	$ (4.1)	$ 43	$ (4.3)

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 Registered Plan would be approximately 2.7% (2014: 2.2%) of total investments.

d) Price Risk

Price risk relates to the possibility that pool 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 Registered Plan would be approximately 5.1% (2014: 5.1%). 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 Registered Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Registered 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 pool 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	**2015**	**2014**
Contracts in favourable position (current credit exposure)	20	$ 270	$ 652
Contracts in unfavourable position	20	(892)	(404)
Net fair value of derivative contracts	40	$ (622)	$ 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 $270 (2014: $652) 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 am0ount 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	**2015**	**2014**
Structured equity replication derivatives	$ (9)	$ 272
Interest rate derivatives	(456)	160
Foreign currency derivatives	(275)	(155)
Credit risk derivatives	118	(29)
Net fair value of derivative contracts	$ (622)	$ 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.

(v) Deposits: At March 31, 2015 deposits in futures contracts margin accounts totalled $385 (2014: $599) and deposits as collateral for derivative contracts totalled $11 (2014: $9).

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)	
	2015	**2014**
Interest-bearing securities	$ 69,280	$ 58,826
Public equities	69,577	68,900
Alternatives	14,921	5,683
Strategic opportunities	721	290
	$ 154,499	$ 133,699

During the year, net assets of the Reserve Fund increased by $20,800 (2014: $21,372), comprised of employer contributions of $6,716 (2014: $7,568), investment income of $18,051 (2014: $16,879) less investment expenses of $667 (2014: $475) and transfers of $3,300 (2014: $2,600).

NOTE 7 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

Actuarial valuations of both plans were carried out as at March 31, 2014 by Aon Hewitt and the results were then extrapolated to March 31, 2015. The next valuations of the plans will be carried out as at March 31, 2017. 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 2018.

The Registered Plan

The actuarial assumptions used in determining the value of the pension obligation of $133,769 (2014: $125,436) 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:

	2015 %	2014 %
Discount rate	5.60	6.00
Inflation rate	2.25	2.25
Salary escalation rate	3.50	3.50
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

The Unregistered Plan

The major assumptions used in the actuarial extrapolation to March 31, 2015 to determine the pension obligation of $177,422 (2014: 153,441) 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 4.9% per annum (2014: 5.5%).

NET EXPERIENCE GAINS (LOSSES)

The Registered Plan net experience gain of $949 (2014: gain of $588) reflect the results of the valuation as at March 31, 2014 extrapolated to March 31, 2015.

The Unregistered Plan net experience gain of $1,282 (2014: gain of $419) reflect the results of the valuation as at March 31, 2014 extrapolated to March 31, 2015.

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, 2015:

	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%	$11.60	2.7%
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0%	$0.0	0.0%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	$16.1	5.3%

* 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, 2015:

	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%	$19.5	7.1%
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0%	$7.5	6.7%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	$27.0	13.3%

* As a % of excess pensionable earnings

NOTE 8 SURPLUS (DEFICIT)

	Registered Plan *($ thousands)*		Unregistered Plan *($ thousands)*	
	2015	**2014**	**2015**	**2014**
Deficit at beginning of year	$ (1,631)	$ (2,038)	$ (13,445)	$ (13,797)
Increase in net assets available for benefits	11,970	12,851	20,544	21,264
Net increase in pension obligation	(8,333)	(12,444)	(23,981)	(20,912)
Surplus (Deficit) at end of year	$ 2,006	$ (1,631)	$ (16,882)	$ (13,445)

NOTE 9 CONTRIBUTIONS

	Registered Plan *($ thousands)*		Unregistered Plan *($ thousands)*	
	2015	**2014**	**2015**	**2014**
Current service				
Employer	$ 2,211	$ 2,262	$ 1,136	$ 1,176
Employees	1,179	1,161	1,136	1,176
Province of Alberta	1,006	1,007	-	-
	$ 4,396	$ 4,430	$ 2,272	$ 2,352

NOTE 10 INVESTMENT INCOME

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

	($ thousands)			
	Income	Change in Fair Value	2015 Total	2014 Total
Fixed income securities	$ 2,690	$ 2,150	4,840	$ 1,310
Equities				
Canadian	1,753	(252)	1,501	3,194
Foreign	6,335	1,717	8,052	11,090
	8,088	1,465	9,553	14,284
Inflation sensitive				
Real estate	344	548	892	714
Real return bonds	-	-	-	(29)
Infrastructure	98	507	605	156
Absolute return strategies	442	1,055	1,497	841
Strategic opportunities	48	269	317	87
	$ 11,268	$ 4,939	$ 16,207	$ 16,522

The change in fair value includes realized gains and losses on disposal of pool units totaling $2,197 and unrealized gains and losses on pool units totaling $2,742.

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

The Unregistered Plan had interest income of $32 (2014: $38).

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:

	2015	2014	2013	2012	2011
	in per cent				
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	13.2	13.4	8.8	5.2	9.4
Value added return by investment manager	(0.5)	1.1	1.9	0.9	0.3
Total return on investments [(a)]	**12.7**	**14.5**	**10.7**	**6.1**	**9.7**
Other sources [(b)]	(3.0)	(2.9)	(2.8)	(2.5)	(1.4)
Per cent change in net assets [(c)]	**9.7**	**11.6**	**7.9**	**3.6**	**8.3**
Per cent change in pension obligation [(c)]	**6.6**	**11.0**	**9.1**	**10.2**	**0.8**
Per cent of pension obligation supported by net assets	**101**	**99**	**98**	**99**	**105**

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 10.7% (PBR: 10.0%), ten years is 7.5% (PBR: 7.3%) and since inception is 7.9% (PBR: 7.7%).

(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:

	2015	2014	2013	2012	2011
	in per cent				
Per cent change in net assets [a]	**14.7**	**17.9**	**13.7**	**14.2**	**13.8**
Per cent change in pension obligation [a]	**15.6**	**15.8**	**21.1**	**31.5**	**1.7**
Per cent of pension obligation supported by net assets	**90**	**91**	**90**	**95**	**110**

(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)	
	2015	**2014**	**2015**	**2014**
Retirement benefits	$ 7,354	$ 6,996	$ 5,466	$ 4,690
Death benefits	400	414	247	281
	$ 7,754	$ 7,410	$ 5,713	$ 4,971

NOTE 13 INVESTMENT EXPENSES

The Registered Plan has investment expenses of:

	($ thousands)	
	2015	**2014**
Amount charged by AIMCo for:		
Investment costs [a]	$ 491	$ 404
Performance based fees [a]	170	161
GST [b]	53	-
	714	565
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	31	31
Total investment expenses	$ 745	$ 596
Increase (decrease) in expenses	25.0%	56.4%
Increase in average investments under management	11.1%	10.1%
Investment expense as a percent of:		
Dollar earned	4.6%	3.6%
Dollar invested	0.6%	0.5%
Investment expenses per member	$ 2,642	$ 2,144

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

The per cent increase in investment costs and performance based fees is 17.0% (2014: 56.4%).

(b) Two-thirds of GST paid in 2015 and two-thirds of GST recorded as a receivable in prior years (2011-2014) has been determined to be unrecoverable and was expensed in 2015.

The Unregistered Plan investment expenses amounted to $26 (2014: $23) or $99 (2014: $90) per member.

NOTE 14 ADMINISTRATIVE EXPENSES

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2015	**2014**	**2015**	**2014**
General administration costs	$ 114	$ 90	$ 102	$ 104
Actuarial fees	17	2	19	-
Other fees	3	3	-	-
	134	95	121	104
Member service expenses per member	$ 479	$ 342	$ 458	$ 403

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 $880 (2014: $691) or $3,121 (2014: $2,486) per member and 0.65% (2014: 0.56%) of net assets under administration.

Total Unregistered Plan expenses of investment expenses per Note 13 and administrative expenses per Note 14 are $146 (2014: $127) or $557 (2014: $493) per member and 0.09% (2014: 0.09%) 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.

NOTE 16 CAPITAL CONTINUED

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 2015 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, 2015	**March 31, 2014**
Net assets available for benefits - Registered Plan	$ 135,775	$ 123,805
Net assets available for benefits - Unregistered Plan *	160,540	139,996
	296,315	263,801
Pension Obligation - Registered Plan	133,769	125,436
Pension Obligation - Unregistered Plan	177,422	153,441
	311,191	278,877
Deficiency of aggregate assets over aggregate accrued benefits	$ (14,876)	$ (15,076)

* Includes due from Reserve Fund for 2015 $154,499 (2014: $133,699)

Other Information

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PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

Financial Statements

Year Ended December 31, 2014

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Public Service Management (Closed Membership) Pension Plan, which comprise the statement of financial position as at December 31, 2014, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Public Service Management (Closed Membership) Pension Plan as at December 31, 2014, and changes in its net assets available for benefits and changes in its pension obligation, for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 20, 2015

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2014

	($ thousands)	
	2014	**2013**
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 5)	$ 9,015	$ 10,080
Accounts receivable	181	131
Total Assets	9,196	10,211
Net assets available for benefits	$ 9,196	$ 10,211
Pension obligation and deficit		
Pension obligation (Note 3)	$ 610,628	$ 635,228
Deficit (Note 4)	(601,432)	(625,017)
Pension obligation and deficit	$ 9,196	$ 10,211

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2014

	($ thousands)	
	2014	**2013**
Increase in assets		
Contributions from the Province of Alberta	$ 53,000	$ 54,600
Investment income	141	143
	53,141	54,743
Decrease in net assets		
Benefit payments (Note 6)	53,843	54,955
Administration expenses (Note 7)	313	298
	54,156	55,253
Decrease in net assets	(1,015)	(510)
Net assets available for benefits at beginning of year	10,211	10,721
Net assets available for benefits at end of year	$ 9,196	$ 10,211

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2014

	($ thousands)	
	2014	**2013**
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 24,332	$ 24,459
Net increase due to actuarial assumption changes (Note 3a)	4,911	62,735
	29,243	87,194
Decrease in pension obligation		
Benefits paid	53,843	54,955
	53,843	54,955
Net (decrease) increase in pension obligation	(24,600)	32,239
Pension obligation at beginning of year	635,228	602,989
Pension obligation at end of year (Note 3)	$ 610,628	$ 635,228

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2014

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Public Service Management (Closed Membership) Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act,* Revised Statutes of Alberta 2000, Chapter P-41. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a defined benefit pension plan for eligible retired management employees of the Province of Alberta and certain provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were retired or were entitled to receive deferred pensions or had attained 35 years of service before August 1, 1992 continue as members of this Plan. The Plan is a registered pension plan as defined in the *Income Tax Act.* The Plan's registration number is 1006923. The President of Treasury Board and Minister of Finance is the legal trustee for the Plan and Treasury Board and Finance is management of the Plan.

b) PLAN FUNDING

The Plan is funded by investment income and money appropriated to the Plan, if any, by the Legislative Assembly of the Province of Alberta.

The Plan's actuary performs an actuarial valuation of the Plan at least once every three years.

c) RETIREMENT BENEFITS

The Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. The maximum service allowable under the Plan is 35 years.

Members are entitled to receive a pension if they terminated before August 1, 1992 and attained age 55 with at least five years of service. In addition, those members who had achieved 35 years of service at August 1, 1992 and subsequently terminated are also entitled to a pension.

d) COST-OF-LIVING ADJUSTMENTS

Pensions payable by the Plan are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

e) GUARANTEE

The Province of Alberta guarantees payment of all benefits arising under the Plan. After all assets in the Plan are exhausted, the Province of Alberta pays all benefits under the Plan.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF CASH AND CASH EQUIVALENTS

Short-term securities included in cash and cash equivalents are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The Plan's cut-off policy for valuation of investments and investment income is based on valuations provided by AIMCo at the close of the 4th business day following the year end.

c) INVESTMENT TRANSACTIONS, INCOME RECOGNITION AND TRANSACTION COSTS

Investment income is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or liability. Transaction costs are expensed, and include fees and commissions paid to agents, advisors and brokers.

d) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

e) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the magnitude of the calculation of the Plan's actuarial value of the pension obligation. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Plan's actuarial value of the pension obligation, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts. Differences between actual results and expectations are disclosed as changes in actuarial assumptions and net experience gains or losses in the note describing changes in the pension obligation (see Note 3a).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

f) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2011 by Aon Hewitt and was then extrapolated to December 31, 2014.

The actuarial assumptions used in determining the value of the pension obligation of $610,628 (2013: $635,228) 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:

	2014	2013
	%	%
Inflation rate	2.25	2.25
Discount rate	3.90	4.00
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

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 in 2015.

b) 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, 2014:

	($ thousands)	
	Changes in Assumptions	Increase in Plan Deficiency
	%	$
Inflation rate increase holding the discount rate assumption constant	1.0	$ 32,753
Discount rate decrease holding the inflation rate assumption constant	(1.0)	58,641

NOTE 4 DEFICIT

	($ thousands)	
	2014	**2013**
Deficit at beginning of year	$ (625,017)	$ (592,268)
Decrease in net assets available for benefits	(1,015)	(510)
Net decrease (increase) in pension obligation	24,600	(32,239)
Deficit at end of year	$ (601,432)	$ (625,017)

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, 2014, securities held by the Fund have a time weighted rate of return of 1.2% per annum (2013: 1.2% per annum).

NOTE 6 BENEFIT PAYMENTS

	($ thousands)	
	2014	**2013**
Retirement benefits	$ 52,129	$ 53,117
Disability benefits	277	309
Termination benefits	(30)	96
Death benefits	1,467	1,433
	$ 53,843	$ 54,955

NOTE 7 ADMINISTRATION EXPENSES

	($ thousands)	
	2014	**2013**
General administration costs	$ 288	$ 274
Investment management costs	16	17
Actuarial fees	9	7
	$ 313	$ 298

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 $157 (2013: $143) 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, 2014

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, 2014, 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, 2014, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 20, 2015

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2014

	($ thousands)	
	2014	**2013**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 9,772,305	$ 8,542,287
Contributions receivable		
Employers	6,008	5,372
Employees	6,038	5,391
Accounts receivable	9,616	9,712
Total Assets	9,793,967	8,562,762
Liabilities		
Accounts payable	6,844	4,184
Total Liabilities	6,844	4,184
Net assets available for benefits	$ 9,787,123	$ 8,558,578
Pension obligation and deficit		
Pension obligation (Note 5)	$ 10,590,422	$ 9,813,256
Deficit (Note 6)	(803,299)	(1,254,678)
Pension obligation and deficit	$ 9,787,123	$ 8,558,578

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2014

	($ thousands)	
	2014	**2013**
Increase in assets		
Contributions (Note 7)	$ 654,327	$ 633,784
Investment income (Note 8)	1,094,850	1,108,743
Transfers from other plans	11,232	14,945
	1,760,409	1,757,472
Decrease in assets		
Benefit payments (Note 10)	449,813	413,846
Transfers to other plans	21,816	30,717
Investment expenses (Note 11)	48,235	43,550
Administrative expenses (Note 12)	12,000	10,618
	531,864	498,731
Increase in net assets	1,228,545	1,258,741
Net assets available for benefits at beginning of year	8,558,578	7,299,837
Net assets available for benefits at end of year	$ 9,787,123	$ 8,558,578

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2014

	($ thousands)	
	2014	**2013**
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 636,521	$ 571,240
Benefits earned	430,383	405,862
Net increase due to actuarial assumption changes (Note 5a)	263,920	223,892
	1,330,824	1,200,994
Decrease in pension obligation		
Benefits, transfers and interest	471,629	444,563
Net experience gains (losses) (Note 5b)	82,029	(111,847)
	553,658	332,716
Net increase in pension obligation	777,166	868,278
Pension obligation at beginning of year	9,813,256	8,944,978
Pension obligation at end of year (Note 5)	$10,590,422	$ 9,813,256

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2014

(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'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 at December 31, 2014 are unchanged at 11.70% (2013: 11.70%) of pensionable salary up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 16.72% (2013: 16.72%) of the excess for employees, with matching contributions by employers.

The contribution rates were reviewed by the Board in 2012 and are to be reviewed at least once every three years based on recommendations of the Plan's actuary.

c) RETIREMENT BENEFITS

The Plan provides a pension of 1.4% for each year of pensionable service based on average salary of the highest five consecutive years up to the YMPE and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the *Income Tax Act*. The maximum service allowable under the Plan is 35 years. Pensions are payable to vested 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 combined pensionable 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.

d) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with at least two years of combined pensionable service and who are not immediately entitled to a pension may receive the commuted value for all years of membership, with the commuted value being subject to locking-in provisions. Any optional service purchased wholly by the member is not included in the commuted value and is paid as contributions with interest. If the remaining member contributions fund more than 50% of the commuted value, that excess is paid as a cash refund under the 50% excess rule. Alternatively, they may elect to receive a deferred pension which is also subject to the 50% excess rule. Members who terminate with less than two years of combined pensionable service receive a refund of their contributions and interest. The refunds are accounted for as benefit payments on the statement of changes in net assets available for benefits.

e) DISABILITY BENEFITS

Unreduced pensions may be payable to members who become totally disabled and have at least two years of service. Reduced pensions may be payable to members who become partially disabled and have at least two years of service.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability benefits.

f) DEATH BENEFITS

Death benefits are payable on the death of a member prior to retirement. If the member has at least two years of service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where service is less than two years, a lump sum payment must be chosen.

g) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, 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 Plan does not report the financial instruments of the pools on its statement of financial position.

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

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

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

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

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

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

c) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 8 and includes the following items recorded in the Plan's accounts:

i. Income distributions from the pools.

ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

d) INVESTMENT EXPENSES

Investment expenses are 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)]			2014	2013
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Fixed income					
Money market	$ -	$ 53,585	$ -	$ 53,585	$ 54,922
Liability matching assets	-	1,489,634	-	1,489,634	1,386,014
Other fixed income	-	1,083,425	535,697	1,619,122	1,158,615
	-	2,626,644	535,697	3,162,341	2,599,551
Equities					
Canadian	843,384	299,169	-	1,142,553	1,019,865
Global developed	2,004,823	435,003	496,818	2,936,644	2,988,304
Emerging market	443,454	54,600	-	498,054	426,588
Private	-	-	270,190	270,190	215,453
	3,291,661	788,772	767,008	4,847,441	4,650,210
Alternatives					
Real estate	-	-	1,047,773	1,047,773	663,622
Infrastructure	-	-	505,410	505,410	434,605
Timberland	-	-	144,444	144,444	144,326
	-	-	1,697,627	1,697,627	1,242,553
Strategic opportunities *	-	-	64,896	64,896	49,973
Total investments	$3,291,661	$ 3,415,416	$3,065,228	$ 9,772,305	$ 8,542,287

* This asset class is not listed in the SIP&G as it relates to investments made on an opportunistic basis (see Note 4).

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 $3,291,661 (2013: $2,894,762).
- ***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 $3,415,416 (2013: $3,419,967). 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 $3,065,228 (2013: $2,227,558).

Reconciliation of Level 3 Fair Value Measurements:

	($ thousands)	
	2014	**2013**
Balance, beginning of year	$ 2,227,558	$ 1,517,237
Investment income	180,315	268,753
Purchases of Level 3 pooled fund units	861,750	684,533
Sale of Level 3 pooled fund units	(204,395)	(242,965)
Balance, end of year	$ 3,065,228	$ 2,227,558

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. Private debt and loans is valued similar to private mortgages.
- ***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. Infrastructure investments are valued similar to private equity investments.
- ***Strategic opportunities:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures.

NOTE 3 INVESTMENTS CONTINUED

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

NOTE 4 INVESTMENT RISK MANAGEMENT

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

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

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2014 ($ thousands)	2014 %	2013 ($ thousands)	2013 %
Money market	0 - 3%	$ 53,585	0.5	$ 54,922	0.6
Liability matching assets	12 - 25%	1,489,634	15.2	1,386,014	16.2
Other fixed income	6 - 12%	1,619,122	16.6	1,158,615	13.6
Equities	41 - 55%	4,847,441	49.6	4,650,210	54.4
Alternatives	20 - 30%	1,697,627	17.4	1,242,553	14.6
Strategic opportunities	(a)	64,896	0.7	49,973	0.6
		$ 9,772,305	100.0	$ 8,542,287	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 3% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above.

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, 2014:

Credit rating	2014	2013
Investment Grade (AAA to BBB-)	87.4%	89.1%
Speculative Grade (BB+ or lower)	0.3%	0.3%
Unrated	12.3%	10.6%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

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

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2014, the Plan's share of securities loaned under this program is $522 million (2013: $421 million) and collateral held totals $550 million (2013: $443 million). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 39% of the Plan's investments, or $3,803 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (20%) and the Euro (4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 3.9% of total investments (2013: 4.3%). The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2014:

	($ millions)			
	2014		**2013**	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 1,979	$ (198)	$ 1,923	$ (192)
Euro	359	(36)	394	(39)
British pound	260	(26)	244	(25)
Japanese yen	249	(25)	227	(23)
Swiss franc	109	(11)	110	(11)
Australian dollar	95	(9)	113	(11)
Other foreign currencies	752	(75)	620	(62)
Total foreign currency investments	$ 3,803	$ (380)	$ 3,631	$ (363)

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 3.1% of total investments (2013: 2.8%).

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 5.4% of total investments (2013: 5.5%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4f).

f) Use of Derivative Financial Instruments in Pooled Investment Funds

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

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	**2014**	**2013**
Contracts in favourable position (current credit exposure)	30	$ 40,909	$ 100,913
Contracts in unfavourable position	16	(22,570)	(52,171)
Net fair value of derivative contracts	46	$ 18,339	$ 48,742

(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 $40,909 (2013: $100,913) 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	**2014**	**2013**
Structured equity replication derivatives	$ 32,708	$ 56,886
Foreign currency derivatives	(10,621)	(9,601)
Interest rate derivatives	(5,923)	2,140
Credit risk derivatives	2,175	(683)
Net fair value of derivative contracts	$ 18,339	$ 48,742

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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

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

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

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

(v) Deposits: At December 31, 2014 deposits in futures contracts margin accounts totalled $42,146 (2013: $49,332) and deposits as collateral for derivative contracts totalled $nil (2013: $1,409).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2013 by Aon Hewitt and results were then extrapolated to December 31, 2014.

The actuarial assumptions used in determining the value of the pension obligation of $10,590,422 (2013: $9,813,256) 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:

	2014	2013
	%	
Discount rate	6.20	6.50
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

* 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, 2014. 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 2015.

b) NET EXPERIENCE GAINS (LOSSES)

Net experience gains of $82,029 (2013: losses $111,847) reflect the results of the valuation as at December 31, 2013 extrapolated to December 31, 2014.

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, 2014:

	($ 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	695,000	1.6
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	282,000	0.93
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	1,450,000	2.61

* The current service cost as a percentage of pensionable earnings is 16.85% at December 31, 2014.

NOTE 6 DEFICIT

	($ thousands)	
	2014	**2013**
Deficit at beginning of year	$ (1,254,678)	$ (1,645,141)
Increase in net assets available for benefits	1,228,545	1,258,741
Net increase in pension obligation	(777,166)	(868,278)
Deficit at end of year	$ (803,299)	$ (1,254,678)

NOTE 7 CONTRIBUTIONS

	($ thousands)	
	2014	**2013**
Current service		
Employers	$ 324,966	$ 314,692
Employees	324,718	313,669
Past service		
Employers	1,168	1,138
Employees	3,475	4,285
	$ 654,327	$ 633,784

NOTE 8 INVESTMENT INCOME

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

	($ thousands)			
	Income	**Change in Fair Value**	**2014 Total**	2013 Total
Money market, liability matching and other fixed income	$ 167,830	$ 193,206	$ 361,036	$ (101,598)
Equities				
Canadian	119,547	8,898	128,445	137,474
Foreign	522,571	(54,953)	467,618	905,788
Private	22,316	12,428	34,744	18,262
	664,434	(33,627)	630,807	1,061,524
Alternatives				
Real estate	39,433	29,848	69,281	72,753
Infrastructure	11,062	17,281	28,343	35,680
Timberland	(3,731)	255	(3,476)	34,830
	46,764	47,384	94,148	143,263
Strategic opportunities	847	8,012	8,859	5,554
	$ 879,875	$ 214,975	$1,094,850	$1,108,743

The change in fair value includes realized gains and losses on disposal of pool units totaling $46,595 and unrealized gains and losses on pool units totaling $168,380.

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which 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:

	2014	2013	2012	2011	2010
	in per cent				
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	12.5	12.6	9.2	2.7	10.4
Value added return (loss) by investment manager	(0.3)	1.5	2.2	0.9	(0.7)
Total return on investments [(a)]	**12.2**	**14.1**	**11.4**	**3.6**	**9.7**
Other sources [(b)]	2.1	3.1	1.2	1.5	2.7
Per cent change in net assets [(c)]	**14.3**	**17.2**	**12.6**	**5.1**	**12.4**
Per cent change in pension obligation [(c)]	**7.9**	**9.7**	**8.1**	**0.4**	**14.1**
Per cent of pension obligation supported by net assets	**92**	**87**	**82**	**78**	**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 10.1% (PBR: 9.5%), ten years is 6.9% (PBR: 6.7%) and 20 years is 7.9% (PBR: 7.8%). The benchmark return reported for 2013 has been restated to conform with changes made by AIMCo subsequent to the completion of the 2013 financial statements. As a result, the benchmark return changed from 12.7% to 12.6%.

(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)	
	2014	**2013**
Retirement benefits	$ 319,609	$ 291,828
Disability benefits	1,911	2,066
Termination benefits	107,067	92,145
Death benefits	21,226	27,807
	$ 449,813	$ 413,846

NOTE 11 INVESTMENT EXPENSES

	($ thousands)	
Amounts charged by AIMCo for:	**2014**	**2013**
Investment costs [(a)]	$ 36,366	$ 33,277
Performance based fees [(a)]	7,593	10,221
GST [(b)]	4,224	-
	48,183	43,498
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	52	52
Total investment expenses	$ 48,235	$ 43,550
Increase in expenses [(a)]	10.8%	37.6%
Increase in average investments under management	15.7%	15.1%
Investment expense as a percent of:		
Dollar earned	4.4%	3.9%
Dollar invested	0.5%	0.6%
Investment expenses per member	$ 586	$ 549

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

The per cent increase in investment costs and performance based fees is 1.1% (2013: 37.6%).

(b) Two-thirds of GST paid in 2014 and two-thirds of GST recorded as a receivable in prior years (2011-2013) has been determined to be unrecoverable and was expensed in 2014.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands)	
	2014	**2013**
General administration costs	$ 11,575	$ 10,210
Board costs	127	85
Actuarial fees	149	129
Other professional fees	149	194
	12,000	10,618
Member service expenses per member	$ 146	$ 134

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 $60,235 (2013: $54,168) or $732 (2013: $683) per member and 0.62% (2013: 0.63%) 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 $9,002,000 at December 31, 2014 (2013: $7,988,000). In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency determined by the December 31, 2013 actuarial funding valuation is being funded by special payments shared equally between employees and employers in the following amounts:

2.76% of pensionable earnings until December 31, 2017, plus
0.16% of pensionable earnings until December 31, 2020, plus
3.76% of pensionable earnings until December 31, 2023, plus
0.26% of pensionable earnings until December 31, 2025 plus
2.40% of pensionable earnings from January 1, 2013 until December 31, 2026

The special payments have been included in the rates shown in Note 1b.

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2014 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.

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SPECIAL FORCES PENSION PLAN

Financial Statements

Year Ended December 31, 2014

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance
and the Special Forces Pension Board

Report on the Financial Statements

I have audited the accompanying financial statements of the Special Forces Pension Plan, which comprise the statement of financial position as at December 31, 2014, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Special Forces Pension Plan as at December 31, 2014, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 20, 2015

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2014

	($ thousands)	
	2014	**2013**
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 2,276,016	$ 2,019,975
Contributions receivable		
Employers	2,418	2,450
Employees	2,238	2,278
Province of Alberta	411	373
Accounts receivable	828	1,455
Total Assets	2,281,911	2,026,531
Liabilities		
Accounts payable	619	420
Liability for investment purchases	318	-
Total Liabilities	937	420
Net assets available for benefits	$ 2,280,974	$ 2,026,111
Pension obligation and deficit		
Pension obligation (Note 5)	$ 2,471,973	$ 2,246,581
Deficit (Note 6)	(190,999)	(220,470)
Pension obligation and deficit	$ 2,280,974	$ 2,026,111

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2014

($ thousands)

	2014			2013
	Plan Fund	**Indexing Fund**	**Total**	**Total**
Increase in assets				
Contributions (Note 7)	$ 112,711	$ 5,979	$ 118,690	$ 115,277
Investment income (Note 8)	249,173	7,196	256,369	269,014
	361,884	13,175	375,059	384,291
Decrease in assets				
Benefit payments (Note 10)	104,737	-	104,737	95,371
Transfers to other plans	-	-	-	110
Investment expenses (Note 11)	12,794	333	13,127	10,134
Administrative expenses (Note 12)	2,332	-	2,332	2,007
	119,863	333	120,196	107,622
Increase in net assets	242,021	12,842	254,863	276,669
Net assets available for benefits at beginning of year	1,970,109	56,002	2,026,111	1,749,442
Net assets available for benefits at end of year	$ 2,212,130	$ 68,844	$ 2,280,974	$ 2,026,111

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2014

($ thousands)

	2014			2013
	Pre-1992	**Post-1991**	**Total**	**Total**
Increase in pension obligation				
Interest accrued on opening pension obligation	$ 53,999	$ 98,956	$ 152,955	$ 141,851
Benefits earned	-	72,640	72,640	79,243
Net increase (decrease) due to actuarial assumptions changes (Note 5a)	31,596	108,037	139,633	(125,471)
	85,595	279,633	365,228	95,623
Decrease in pension obligation				
Benefits, transfers and interest	60,330	46,356	106,686	97,336
Net experience gains (Note 5c)	12,560	20,590	33,150	-
	72,890	66,946	139,836	97,336
Net increase (decrease) in pension obligation	12,705	212,687	225,392	(1,713)
Pension obligation at beginning of year	805,950	1,440,631	2,246,581	2,248,294
Pension obligation at end of year (Note 5)	$ 818,655	$ 1,653,318	$ 2,471,973	$ 2,246,581

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2014

(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'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, 2013.

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, 2014 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, 2014 for current service and post-1991 actuarial deficiency were 13.05% of pensionable salary for employers and 11.95% for employees. Of this, contribution rates towards current service were 10.26% of pensionable salary for employers and 9.16% for employees. Contributions towards the post-1991 actuarial deficiency were 2.79% of pensionable salary each for both employers and employees.

The total contribution rates in effect at December 31, 2014 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 below) 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, 2014 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 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 salary above YMPE, subject to the maximum pension benefit limit allowed under the Income Tax Act. For members who retire before age 65, the pension will include a bridge benefit. This bridge is provided up to age 65, The bridge benefit is 0.6% for each year of pensionable service based on the average of the highest five consecutive years up to the YMPE.

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. 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.

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 pensionable 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, with the commuted value being subject to locking-in provisions. Any optional service purchased wholly by the member is not included in the commuted value and is paid as contributions with interest. If the remaining member contributions fund more than 50% of the benefit, that excess is paid as a cash refund. Alternatively, they may elect to receive a deferred pension.

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

Members who terminate with less than five years of pensionable service receive a refund of contributions and interest. The refunds are accounted for as benefit payments on the statement of changes in net assets available for benefits.

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 *Public Sector Pension Plans 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, 2014, COLA at 30% (January 2013: 30%) of the Alberta Consumer Price Index was applied to the portion of Plan pensions in pay, and deferred pensions, relating to pensionable service after December 31, 2000.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, 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 Plan does not report the financial instruments of the pools on its statement of financial position.

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

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

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

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

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

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

c) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 8 and includes the following items recorded in the Plan's accounts:

i. Income distributions from the pools.

ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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)]			**2014**	**2013**
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest-bearing securities					
Cash and short-term securities	$ -	$ 16,807	$ -	$ 16,807	$ 21,575
Bonds, mortgages and private debt and loans	-	476,034	88,648	564,682	480,867
	-	492,841	88,648	581,489	502,442
Equities					
Canadian	273,708	97,084	-	370,792	363,297
Global developed	406,238	88,876	187,594	682,708	671,344
Private	-	-	75,685	75,685	75,214
Emerging markets	84,208	10,368	-	94,576	81,762
Global small cap equity	67,603	-	-	67,603	-
	831,757	196,328	263,279	1,291,364	1,191,617
Inflation sensitive					
Real estate	-	-	181,072	181,072	135,966
Infrastructure	-	-	67,151	67,151	91,594
Real return bonds	-	74,996	-	74,996	35,292
Timberland	-	-	37,465	37,465	37,434
	-	74,996	285,688	360,684	300,286
Strategic opportunities and tactical allocations *	-	18,682	23,797	42,479	25,630
Total investments	$ 831,757	$ 782,847	$ 661,412	$ 2,276,016	$ 2,019,975

* This asset class is not listed in the SIP&G as it relates to investments made on an opportunistic basis (see Note 4).

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 $831,757 (2013: $730,861).
- ***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 $782,847 (2013: $806,927). 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 $661,412 (2013: $482,187).

Reconciliation of Level 3 Fair Value Measurements:

	($ thousands)	
	2014	**2013**
Balance, beginning of year	$ 482,187	$ 403,437
Investment income	43,911	58,052
Purchases of Level 3 pooled fund units	202,235	82,826
Sale of Level 3 pooled fund units	(66,921)	(62,128)
Balance, end of year	$ 661,412	$ 482,187

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. Private debt and loans is valued similar to private mortgages.
- ***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. Infrastructure investments are valued similar to private equity investments.
- ***Strategic opportunities and tactical allocations:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets.

- ***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).

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. 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	Long-term Policy Weight	Actual Asset Mix December 31, 2014 ($ thousands)	%	December 31, 2013 ($ thousands)	%
Interest-bearing securities					
Money market (cash and short-term securities)	1%	$ 16,807	0.7	$ 21,575	1.1
Fixed income (bonds and mortgages)	24%	564,682	24.8	480,867	23.8
Equities	50%	1,291,364	56.7	1,191,617	59.0
Inflation sensitive	25%	360,684	15.9	300,286	14.9
Strategic opportunities and tactical allocations	(a)	42,479	1.9	25,630	1.2
		$2,276,016	100.0	$2,019,975	100.0

a) In accordance with the SIP&G, AIMCo may invest up to 5% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above.

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, 2014:

Credit rating	2014	2013
Investment Grade (AAA to BBB-)	90.1%	89.5%
Speculative Grade (BB+ or lower)	0.2%	0.4%
Unrated	9.7%	10.1%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or

higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded.

The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2014, the Plan's share of securities loaned under this program is $135 million (2013: $107 million) and collateral held totals $143 million (2013: $113 million). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 39% of the Plan's investments, or $880 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (22%) and the Euro (3%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 3.9% (2013: 4.1%).

The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2014:

	($ millions)			
	2014		**2013**	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 490	$ (49)	$ 453	$ (45)
Euro	66	(7)	90	(9)
Japanese yen	53	(5)	52	(5)
British pound	61	(6)	56	(6)
Australian dollar	24	(2)	26	(3)
Swiss franc	25	(3)	25	(3)
Other foreign currencies	161	(16)	134	(13)
Total foreign currency investments	$ 880	$ (88)	$ 836	$ (84)

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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 2.9% (2013: 2.4%).

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% (2013: 5.8%). 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	**2014**	**2013**
Contracts in favourable position (current credit exposure)	34	$ 11,087	$ 26,125
Contracts in unfavourable position	14	(5,964)	(13,435)
Net fair value of derivative contracts	48	$ 5,123	$ 12,690

(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 $11,087 (2013: $26,125) 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	**2014**	**2013**
Structured equity replication derivatives	$ 8,224	$ 15,031
Foreign currency derivatives	(2,188)	(2,632)
Interest rate derivatives	(1,158)	439
Credit risk derivatives	245	(148)
Net fair value of derivative contracts	$ 5,123	$ 12,690

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

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

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

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

(v) Deposits: At December 31, 2014 deposits in futures contracts margin accounts totalled $16,605 (2013: $12,801) and deposits as collateral for derivative contracts totalled $2,392 (2013: $3,961).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2013 by Mercer (Canada) Limited and was then extrapolated to December 31, 2014.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $2,471,973 (2013: $2,246,581) 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.

NOTE 5 PENSION OBLIGATION CONTINUED

It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2014	2013
	%	
Discount rate	6.30	6.70
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

* In addition to age specific merit and promotion increase assumptions.

An actuarial valuation of the Plan as at December 31, 2016 will be carried out. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2017.

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, 2014:

	($ 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	145,654	0.8
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	98,105	2.3
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	415,157	5.5

* The current service cost as a % of pensionable earnings as determined by the December 31, 2014 extrapolation is 19.93%.

** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

c) NET EXPERIENCE GAINS

Net experience gains of $ 33,150 (2013: $nil) reflect the results of the valuation as at December 31, 2013 extrapolated to December 31, 2014.

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)			
	2014			2013
	Pre-1992	Post-1991	Total	Total
Deficit at beginning of year	$ (207,714)	$ (12,756)	$ (220,470)	$ (498,852)
Increase in Plan Fund net assets available for benefits	21,080	220,941	242,021	264,737
Increase in Indexing Fund net assets	-	12,842	12,842	11,932
Net (increase) decrease in pension obligation	(12,705)	(212,687)	(225,392)	1,713
Deficit at end of year	$ (199,339)	$ 8,340	$ (190,999)	$ (220,470)

	($ thousands)			
	2014			2013
	Pre-1992	Post-1991	Total	Total
Plan opening net assets available for benefits	$ 598,236	$ 1,427,875	$ 2,026,111	$ 1,749,442
Increase in Plan net assets available for benefits	21,080	233,783	254,863	276,669
Plan closing net assets available for benefits	$ 619,316	$ 1,661,658	$ 2,280,974	$ 2,026,111

This Plan deficiency is for accounting purposes and may differ from the Plan Fund deficiency for funding purposes (Note 16).

NOTE 7 CONTRIBUTIONS

	($ thousands)	
	2014	2013
Current service		
Employers	$ 41,076	$ 40,014
Employees	36,690	35,793
Unfunded liability		
Employers	16,922	16,507
Employees	16,922	16,507
Province of Alberta	5,001	4,877
Past service		
Employers	173	204
Employees	1,564	1,138
Transfers from other plans	342	237
	$ 118,690	$ 115,277

NOTE 8 INVESTMENT INCOME

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

	($ thousands)			
	Income	Change in Fair Value	2014 Total	2013 Total
Interest-bearing securities	$ 34,043	$ 39,545	$ 73,588	$ (9,332)
Equities				
Canadian	39,837	3,472	43,309	48,971
Foreign	115,869	(5,746)	110,123	194,369
Private	11,247	(1,367)	9,880	6,620
	166,953	(3,641)	163,312	249,960
Inflation Sensitive				
Real estate	6,909	6,967	13,876	15,788
Real return bonds	2,312	2,426	4,738	(5,022)
Infrastructure	762	4,709	5,471	7,043
Timberland	(968)	66	(902)	9,034
	9,015	14,168	23,183	26,843
Strategic opportunities and tactical allocations	(4,591)	877	(3,714)	1,543
	$ 205,420	$ 50,949	$ 256,369	$ 269,014

The change in fair value includes realized gains and losses on disposal of pool units totaling $38,637 and unrealized gains on pool units totalling $12,312.

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which 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:

	2014	2013	2012	2011	2010
	in per cent				
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	12.2	13.3	9.3	2.2	10.5
Value added return (loss) by investment manager	(0.2)	1.2	2.3	0.8	(0.3)
Total return on investments [(a)]	**12.0**	**14.5**	**11.6**	**3.0**	**10.2**
Other sources [(b)]	0.6	1.3	1.3	0.8	0.6
Per cent change in net assets [(c)]	**12.6**	**15.8**	**12.9**	**3.8**	**10.8**
Per cent change in pension obligation [(c)]	**10.0**	**-**	**5.8**	**3.9**	**18.7**
Per cent of pension obligation supported by net assets	**92**	**90**	**78**	**73**	**73**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 10.2% (PBR: 9.5%), ten years is 7.1% (PBR: 6.9%) and twenty years is 8.0% (PBR: 7.9%). The benchmark return reported for 2013 has been restated to conform with changes made by AIMCo subsequent to the completion of the 2013 financial statements. As a result the benchmark return changed from 13.4% to 13.3%.

(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)	
	2014	**2013**
Retirement benefits	$ 93,212	$ 87,912
Disability benefits	341	371
Termination benefits	10,075	5,098
Death benefits	1,109	1,990
	$ 104,737	$ 95,371

NOTE 11 INVESTMENT EXPENSES

	($ thousands)	
	2014	**2013**
Amount charged by AIMCo for:		
Investment costs [a]	$ 9,628	$ 7,880
Performance based fees [a]	2,399	2,176
GST [b]	1,022	-
	13,049	$ 10,056
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	78	78
Total investment expenses	$ 13,127	$ 10,134
Increase in expenses [a]	29.5%	36.1%
Increase in average investments under management	14.1%	14.5%
Investment expense as a percent of:		
Dollar earned	5.1%	3.8%
Dollar invested	0.6%	0.5%
Investment expenses per member	$ 1,909	$ 1,524

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

The per cent increase in investment costs and performance based fees is 19.6% (2013: 36.1%).

(b) Two-thirds of GST paid in 2014 and two-thirds of GST recorded as a receivable in prior years (2011-2013) has been determined to be unrecoverable and expensed in 2014.

NOTE 12 ADMINISTRATIVE EXPENSES

General administration costs including Plan board costs were paid to Alberta Pensions

	($ thousands)	
	2014	2013
General administration costs	$ 1,606	$ 1,563
Board costs	120	117
Actuarial fees	358	165
Other professional fees	248	162
	$ 2,332	$ 2,007
Member service expenses per member	$ 339	$ 302

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 $15,459 (2013: $12,141) or $2,248 (2013: $1,826) per member and 0.68% (2013: 0.60%) 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

	2014	2013
The following amounts were paid:		
Remuneration		
Chair	$ 23,902	$ 15,678
Members	31,393	32,991
Travel, training and conference expenses		
Chair	4,493	6,034
Members	32,186	44,964

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 *Public Sector Pension Plans 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 2014 there was no transfer (2013: nil)

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 $2,155,516 at December 31, 2014 (2013: $1,902,397), comprising of $581,945 (2013: $558,536) Pre-1992 and $1,573,571 (2013: $1,343,861) 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, 2014 (see Note 1b).

Effective January 1, 2011 awards of COLA at 30% of the Alberta Consumer Price Index will be applied to the portion of Plan pensions in pay, and deferred pensions, relating to pensionable service after December 31, 2000.

NOTE 17 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2014 presentation.

NOTE 18 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance, based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.

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SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Financial Statements

Year Ended December 31, 2014

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Supplementary Retirement Plan for Public Service Managers, which comprise the statement of financial position as at December 31, 2014, 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, 2014, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher, FCA]

Auditor General

April 27, 2015

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2014

	($ thousands)	
	2014	**2013**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 20,504	$ 19,101
Refundable income tax (Note 1f and Note 5)	29,521	27,555
Contributions receivable		
Employers	36	16
Employees	36	16
Other receivables	2	4
Due from Alberta Pensions Services Corporation	389	238
Due from SRP Reserve Fund (Note 6)	90,426	77,965
Total Assets	140,914	124,895
Liabilities		
Income tax payable	349	334
Other payables	-	1
Total Liabilities	349	335
Net assets available for benefits	140,565	124,560
Pension obligation and deficit		
Pension obligation (Note 7)	157,768	136,944
Deficit (Note 8)	(17,203)	(12,384)
Pension obligation and deficit	$ 140,565	$ 124,560

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2014

	($ thousands)	
	2014	**2013**
Increase in assets		
Contributions (Note 9)	$ 7,932	$ 6,669
Increase in SRP Reserve Fund (Note 6)	12,461	19,083
Investment income (loss) (Note 10)	1,973	(284)
	22,366	25,468
Decrease in assets		
Benefit payments (Note 11)	4,267	3,636
Transfers to the Reserve Fund	1,450	-
Investment expenses (Note 12)	52	46
Administrative expenses (Note 13)	592	549
	6,361	4,231
Increase in net assets	16,005	21,237
Net assets available for benefits at beginning of year	124,560	103,323
Net assets available for benefits at end of year	$ 140,565	$ 124,560

Statement of Changes in Pension Obligation

Year ended December 31, 2014

	($ thousands)	
	2014	**2013**
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 6,605	$ 6,374
Net increase (decrease) due to actuarial assumption changes (Note 7a)	7,046	(27,871)
Benefits earned	11,440	9,603
	25,091	(11,894)
Decrease in pension obligation		
Benefits paid	4,267	3,636
Net experience gains (Note 7b)	-	2,719
	4,267	6,355
Net increase (decrease) in pension obligation	20,824	(18,249)
Pension obligation at beginning of year	136,944	155,193
Pension obligation at end of year (Note 7)	$ 157,768	$ 136,944

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

December 31, 2014

(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 MEPP salary cap. 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 cannot subsequently start participating 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, 2014 were 12.80% (2013: 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 MEPP salary cap 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.

Vested members are entitled to an unreduced pension on service if they 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

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, 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 Plan does not report the financial instruments of the pools on its statement of financial position.

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

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

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

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

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

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

c) INVESTMENT INCOME

a) Investment income is recorded on an accrual basis.

b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 10 and includes the following items recorded in the Plan's accounts:

i. Income distributions from the pools.

ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost 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]			2014	2013
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest bearing securities					
Cash and short-term securities	$ -	$ 961	$ -	$ 961	$ 615
Bonds	-	17,863	-	17,863	15,377
Real return bonds	-	1,680	-	1,680	3,109
Total Investment	$ -	$ 20,504	$ -	$ 20,504	$ 19,101

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 (2013: $ 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 $20,504 (2013: $19,101). 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 (2013: $ 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. 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.

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

Credit rating	2014	2013
Investment Grade (AAA to BBB-)	99.2%	96.9%
Speculative Grade (BB+ or lower)	0.8%	0.5%
Unrated	0.0%	2.6%
	100.0%	**100.0%**

ii) Counterparty default risk - derivative contracts

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

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2014, the Plan's share of securities loaned under this program is $670 thousand (2013: $921 thousand) and collateral held totals $701 thousand (2013: $956 thousand). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other

investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 6.7% (2013: 6.8%).

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	**2014**	**2013**
Contracts in favourable position (current credit exposure)	9	$ 71	$ 96
Contracts in unfavourable position	10	(77)	(35)
Net fair value of derivative contracts	19	$ (6)	$ 61

(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 $71 (2013: $96) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Types of derivatives used in pools	Plan's Indirect Share ($ thousands) 2014	2013
Interest rate derivatives	$ (27)	$ 91
Foreign currency derivatives	(7)	(16)
Credit risk derivatives	28	(14)
Net fair value of derivative contracts	$ (6)	$ 61

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

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

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

(iv) Deposits: At December 31, 2014 deposits in futures contracts margin accounts totalled $17 (2013: $14).

NOTE 5 REFUNDABLE INCOME TAX

	($ thousands) 2014	2013
Refundable income tax at beginning of year	$ 27,555	$ 25,241
Tax on employees and employers contributions received	3,951	3,334
Tax on net investment income received plus adjustments of prior year taxes less tax refunds on benefits and refunds payments, net	(1,985)	(1,020)
Refundable income tax at end of year	$ 29,521	$ 27,555

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. On April 1, 2014 the employer contribution rate decreased from 22.6% to 2.4% of pensionable salary of eligible employees in excess of the *maximum pensionable salary limit* under the *Income Tax Act*. On April 1, 2015 the employer contribution rate will increase from 2.4% to 9.9%.

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, 2014, the SRP Reserve Fund had net assets with fair value totalling $90,426 (2013: $77,965), comprising of $90,403 (2013: $77,664) in investments and $23 (2013: $301) in receivables. The increase during the year of $12,461 (2013: $19,083) is attributed to contributions from employers of $2,187 (2013: $6,827), investment gain of $8,824 (2013: $12,256) and transfer of funds from the Plan to the SRP Reserve Fund of $1,450 (2013 $nil).

NOTE 7 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2012 by Aon Hewitt and results were then extrapolated to December 31, 2014.

The actuarial assumptions used in determining the value of the pension obligation of $157,768 (2013: $136,944) 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:

	2014	2013
	%	
Discount rate on an after-tax basis	4.65	4.70
Inflation rate	2.25	2.25
Discount rate	6.20	6.30
Salary escalation rate *	3.50	3.50
Pension cost-of-living increase as a percentage of Alberta Consumer Price Index	60.0	60.0
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

* 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, 2015. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2017.

b) NET EXPERIENCE GAINS

Net experience gains of $nil (2013: $2,719) reflect the results of the valuation as at December 31, 2012 extrapolated to December 31, 2014.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

NOTE 7 PENSION OBLIGATION CONTINUED

The following is a summary of the sensitivities of the Plan's net assets and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2014:

	($ 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	13,404	962
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	32,757	6,773
Discount rate decrease holding inflation rate and salary escalation assumptions constant*	(1.0)	30,415	3,064

* Sensitivities includes investment return of assets held by the SRP Reserve Fund (Note 6).

NOTE 8 DEFICIT

	($ thousands)	
	2014	**2013**
Deficit at beginning of year	$ (12,384)	$ (51,870)
Increase in net assets available for benefits	16,005	21,237
Net (increase) decrease in pension obligation	(20,824)	18,249
Deficit at end of year	$ (17,203)	$ (12,384)

NOTE 9 CONTRIBUTIONS

	($ thousands)	
	2014	**2013**
Employers	$ 3,965	$ 3,339
Employees	3,967	3,330
	$ 7,932	$ 6,669

NOTE 10 INVESTMENT INCOME (LOSS)

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

	($ thousands)			
	Income	**Change in Fair Value**	**2014 Total**	**2013 Total**
Interest-bearing securities	$ 1,067	$ 906	$ 1,973	$ (284)

Investment income (loss) 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)	
	2014	**2013**
Retirement benefits	$ 3,450	$ 2,956
Termination benefits	458	636
Death benefits	359	44
	$ 4,267	$ 3,636

NOTE 12 INVESTMENT EXPENSES

	($ thousands)	
	2014	**2013**
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 24	$ 21
GST [(b)]	3	-
	27	21
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	25	25
Total investment expenses	$ 52	$ 46
Increase in expenses	13.0%	31.3%
Increase in average investments under management	3.0%	2.1%
Investment expense as a percent of:		
Dollar earned	2.6%	-16.2%
Dollar invested	0.3%	0.2%
Investment expenses per member	$ 26	$ 25

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs.

(b) Two-thirds of GST recorded as receivable in prior years has been determined to be unrecoverable and was expensed in 2014.

NOTE 13 ADMINISTRATION EXPENSES

Administration expenses of $592 (2013: $549) were charged to the Plan on a cost recovery basis.

	($ thousands)	
	2014	**2013**
General administration costs	$ 571	$ 506
Actuarial fees	20	40
Other professional fees	1	3
	$ 592	$ 549
Member service expenses per member	$ 296	$ 296

NOTE 13 ADMINISTRATION EXPENSES CONTINUED

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 $644 (2013: $595) or $322 (2013: $321) per member and 0.46% (2013: 0.48%) 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 2014 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 and Performance Indicators Methodology

Table of Contents

Performance Measures and Performance Indicators
(Methodology, Sources and Notes)

Alberta's credit rating (blended credit rating for domestic debt)
(Measure 1.a)

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
2014	AAA	AA-	AAA	AAA

Ratio of amounts added to the net tax revenue to costs of administration (as a measure of efficiency)
(Measure 1.b)

METHODOLOGY

The measure is calculated by dividing the additional revenue obtained through administrative effort by Tax and Revenue Administration's operating budget.

SOURCE

Data comprises a summary of revenue obtained through the revision of returns and claims, the collection of overdue accounts and recoveries due to audit activity. Data is generated through existing ORACLE and IMAGIS system reports and ad hoc reporting created for the purpose. Administrative costs are obtained through the Government of Alberta IMAGIS expense tracking system.

NOTES

The ratios for 2012-13, 2013-14 and 2014-15 were higher than previous years' results. This is due to significant recoveries made by applying reassessments in Alberta similar to those used by the Canada Revenue Agency at the federal level. 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, a revised ratio of 13:1 for 2013-14 and a revised ratio of 17.6:1 for 2014-15.

The Alberta Heritage Savings Trust Fund five-year annualized rate of return
(Measure 1.c)

METHODOLOGY

The performance measurement system employed by Alberta Investment Management Corporation (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.

Alberta savings ($ millions) — the Alberta Heritage Savings Trust Fund book value
(Indicator 1.1.i)

METHODOLOGY

The Alberta Heritage Savings Trust Fund book value is calculated by TBF after accounting for investments in the Fund and the Fund's expenses in the year in question, and the previous year's book value of the Fund.

SOURCE

The Alberta Heritage Savings Trust Fund is found on the Statement of Financial Position in the Alberta Heritage Savings Trust Fund Financial Statements, contained in the TBF Annual Report which is audited by the Auditor General.

Alberta savings ($ millions) — the Contingency Account balance
(Indicator 1.1.ii)

METHODOLOGY

The Contingency Account balance is calculated by Alberta Treasury Board and Finance after accounting for all of the Government of Alberta's revenues and expenses in the year in question.

SOURCE

The Contingency Account balance is taken from the Executive Summary in the Government of Alberta Annual Report. The information is found on the Balance Sheet table.

ATB Financial return on average risk weighted assets
(Measure 2)

METHODOLOGY

Net Income / Average Risk Weighted Assets

SOURCE

Net income - as per annual report

Average Risk Weighted Assets - per internal reporting systems

Sustainable operating spending growth (operating spending relative to the rate of population growth plus CPI)
(Measure 3)

METHODOLOGY

1. Growth in operating expense is calculated based on data taken from the Executive Summary in the Government of Alberta Annual Report.
2. Population growth is calculated by taking the annual change in population at the mid-point of the fiscal year (October 1).
3. Inflation is the year over year growth in the average of the Alberta Consumer Price Index over the fiscal year (April to March).

SOURCE

Growth in operating expense, population and inflation are calculated by Alberta Treasury Board and Finance.

NOTES

In 2014-15, Endowment Fund / Account expense was reported separately from Operating Expense. In previous years this expense was reported as part of Operating Expense and will be reported as such in 2015-16. For comparability, Endowment Fund / Account expense is included in the 2014-15 result for Operating Expense growth.

Financial reporting — percentage of unqualified independent auditor's reports on Government of Alberta financial statements
(Indicator 3.1)

METHODOLOGY

Percentage calculated on actual unqualified statements divided by the total number of audited statements each fiscal year.

SOURCE

Independent auditor's reports issued by the Auditor General for each audited financial statement.

NOTES

Obtaining an unqualified report from the Auditor General signifies that financial information is fairly stated in accordance with public sector accounting standards providing confidence in the quality of information concerning the province's financial performance.

Alberta Public Service leadership index
(Measure 4.a)

METHODOLOGY

In October 2013, all permanent and non-permanent Government of Alberta employees were invited to participate in the Corporate Employee Survey. All data was collected online at a survey website. A total of 16,204 Government of Alberta employees participated in the survey, for an overall participation rate of 58 per cent.

SOURCE

Alberta Public Service employee agreement data was gathered through an annual Corporate Employee Survey by an independent survey organization.

NOTES

No new results available as the survey was not administered in 2014-15. Index was new in the 2012-13 survey. 2013-14 results are not comparable to 2012-13 due to the addition of non-permanent employees to the survey methodology.

Employee agreement that their organization supports their work related learning and development
(Measure 4.b)

METHODOLOGY

In October 2013, all permanent and non-permanent Government of Alberta employees were invited to participate in the Corporate Employee Survey. All data was collected online at a survey website. A total of 16,204 Government of Alberta employees participated in the survey, for an overall participation rate of 58 per cent.

SOURCE

Alberta Public Service employee agreement data was gathered through an annual Corporate Employee Survey by an independent survey organization.

NOTES

No new results available as the survey was not administered in 2014-15. Moved from a sample to census survey, only online format in 2012-13. Data not comparable to previous years. 2013-14 results are not comparable to 2012-13 due to the addition of non-permanent employees to the survey methodology.

Percentage of Alberta Public Service employees who are somewhat or highly engaged
(Measure 4.c)

METHODOLOGY

In October 2013, all permanent and non-permanent Government of Alberta employees were invited to participate in the Corporate Employee Survey. All data was collected online at a survey website. A total of 16,204 Government of Alberta employees participated in the survey, for an overall participation rate of 58 per cent.

SOURCE

Alberta Public Service employee agreement data was gathered through an annual Corporate Employee Survey by an independent survey organization.

NOTES

No new results available as the survey was not administered in 2014-15. Moved from a sample to census survey, only online format in 2012-13. Data not comparable to previous years. 2013-14 results are not comparable to 2012-13 due to the addition of non-permanent employees to the survey methodology.

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